

## VAT

### Completing the VAT1 Return – Complete Overview UK supplies & purchases only

The VAT1 return consists of 9 boxes, 3 of which are concerned with foreign transactions (boxes 2, 8 and 9).

For businesses trading solely in the UK only boxes 1, 3 4, 5, 6 & 7 need to be completed. The other boxes should be returned with “None”

BOX 1 VAT on Sales. Calculated as:

1. Standard – VAT on net sales invoices raised in the period.
2. Cash Accounting – VAT on net sales invoices paid in the period.
3. Flat rate – the fixed % (based on industry sector) of the gross sales invoices raised in the period

Other Vat-able outputs include:

- Sale of goods to staff such as staff shop/canteen/payment for use of pool cars etc
- Sale of business assets or capital equipment, (i.e. a van where VAT has previously been claimed at purchase)
- Fuel used for private motoring Notice 700/64 Motoring Expenses
- Gifts of goods >£15 (excluding VAT)
- The full value of goods sold with part exchange
- Commission received in return for selling on behalf of another business (exclude financial/insurance as exempt)
- Goods/Services taken for private use (owner and family)
- Supplies of goods to **unregistered** customers in other EU countries. Notice 725 The Single Market
- Any adjustments to VAT (less than £10000) from the previous period.
- VAT must be deducted on credit notes issued by the business.
- Self billing received should NOT have the input VAT deducted.

BOX 3 Where UK supplies only, this will be the same as Box 1

BOX 4 VAT on Purchases calculated as:

1. Standard VAT – VAT on purchase invoices received in the period.
2. Cash Accounting – VAT on purchase invoices paid in the period.
3. Flat rate – no entry should be made in Box 3.

VAT on purchases includes the total input taxes that are to be reclaimed for the period and

- Cannot include purchases where there is not a proper VAT invoice, including self billing statements, pro-forma invoices
- Cannot be claimed on private use for items
- Cannot be reclaimed on the purchase of most business cars  
Notice 700/64 Motoring Expenses there are a few exceptions.
- Cannot be claimed on business entertainment
- Cannot be claimed when the business receives self billing invoices, the VAT shown is treated as output tax and NOT deducted as input tax.
- Cannot be claimed when the business issues self billed invoices and the supplier is NOT VAT registered.
- Partial exemption will require only part of the input tax to be reclaimed.
- Credit notes issued by suppliers must be included.
- Errors less than £10000 on input tax can be included in this box from the previous period.
- Negative figures must be written with brackets. (this only occurs when there are a large number of credits note)
- There are special tax cases for motor cars, building contractors, tour operators, and second hand dealers.

BOX 5      This box is the difference between Box 3 and 4, and if the figure is a refund it must be in brackets (negative figure)

BOX 6      Total value of sales.

1. Standard – the total of NET sales invoices raised in the period.
2. Cash – the total of NET sales invoices paid in the period.
3. Flat rate – the total GROSS sales value of invoices raised in the period.

Whilst most businesses charge VAT at the standard rate on all sales some items may be exempt or zero rated items. These should also be included in Box 6.

Income which is outside the scope of VAT should be excluded because it is not a consideration for supply e.g. bank interest received.

BOX7      Total value of purchase

1. Standard – the total of NET purchase invoices received in the period.
2. Cash – the total of NET purchase invoices paid in the period.
3. Flat rate – no entry should be made in Box 7.

The same principles to inclusion of items applies

- Zero rated purchases should be included
- Exempt rated purchases should be included
- Any other Business inputs should be included

## Outside the Scope of VAT

Whilst most business supplies and purchases are within the scope of VAT there are many common transactions which are simply outside the scope of VAT and do not therefore appear on any part of the return. Common transactions that are outside the scope of VAT include:

- Transactions involving owners' loan accounts or capital
- Wages and Salaries
- Insurance claims
- Dividends
- MOTs
- Motor vehicle licence duty
- Rates
- PAYE and National Insurance payments

BOXES 2, 8 and 9 These boxes will be "None" if no EU transactions have occurred.

Checks can be made on the VAT1 entries.

For companies registered under the standard or cash accounting scheme then the figure in Box 1 should be 20% (from 04/01/11) of Box 6 if all outputs are standard rated (normal).

## FAQ's

1. Business mileage – VAT can be reclaimed on a proportion of business mileage expensed by employees for the use of private cars. The Inland Revenue allows employees to charge 45p per mile for the use of private cars for business travel. This rate is intended to reimburse employees for both fuel and depreciation on their car. VAT can only be reclaimed on the fuel element of this. The fuel benefit portion varies depending on the make and model of the car and there are complex rules for calculating this which should be used. As a general rule of thumb though VAT may be reclaimed on 15p per mile and the remaining 28p is assumed to be zero rated. After 10,000 business miles the rate drops to 25p. VAT can be reclaimed on 15p and approximately 10p is zero rated. Valid VAT receipts for fuel must be retained for VAT to be reclaimed on the mileage.