

## VAT Rates

### Exempt

Exempt supplies mean that there is

- NO VAT charged to the customer
- The supplier cannot recover input VAT

Most businesses will be partially exempt where some of the supplies will be standard or zero rated and some exempt.

Exempt supplies do not form part of the taxable turnover, and should not be included in the VAT return calculation.

A registered taxable person cannot charge output tax, or reclaim input tax on goods or services relating to exempt supplies.

Zero-rated supplies allow for input tax to be recovered, and the difference between the two classifications is crucial to the right to claim input tax back from Customs.

There are 15 groups within VAT Act 1994, schedule 9:

|          |   |
|----------|---|
| Group 1  | Land  |
| Group 2  | Insurance   |
| Group 3  | Postal services   |
| Group 4  | Betting, gaming and lotteries                               |
| Group 5  | Finance   |
| Group 6  | Education   |
| Group 7  | Health and welfare  |
| Group 8  | Burial and cremation (not pets)                             |
| Group 9  | Subscriptions to trade unions and professional bodies       |
| Group 10 | Sports, sports competitions and physical education          |
| Group 11 | Works of art, etc   |
| Group 12 | Fundraising events by charities and other qualifying bodies |
| Group 13 | Cultural services, etc                                      |
| Group 14 | Supplies of goods where input tax cannot be recovered       |
| Group 15 | Investment gold   |

There are standard rate exceptions in most of these groups.

## Business and domestic premises

Exemption covers sales, leases and tenancies of houses and other domestic accommodation, and of shops, offices, factories and other buildings; and sales and leases of land.

An area to be aware of is the option for landlords to standard rate instead of exempt the rent, lease and sale of commercial and industrial land and premises, which may be exercised from 1 August 1989.

The Option to Tax is critical when a business property is being sold with the business as a going concern.

Since the March 2004 budget all Transfers of Going Concerns (TGOc) could be affected if the property has been opted to tax. If this is the case, and the vendor has opted to tax, then the purchaser must also opt to tax, and be VAT registered prior to the purchase going through. This intent must also be in writing to the vendor, otherwise the sale becomes standard rated.

This is often difficult when purchasing rented properties or businesses at auction, where the HMCE must be contacted prior to the auction.

Failure to meet these new requirements means that in future the sale of a business property maybe taxable.

The VAT office recommends that each individual case is checked rather than assuming exempt rating.

Advice can be found at

National Advice Line

0845 101 9000                      8.00am to 8.00pm Monday to Friday

When ringing always use an Enquiry Log ([VAT Enquiry Log](#)) and ask for the details logged to be sent as a paper copy for the files.

Alternatively details can be found at

<http://www.hmrc.gov.uk/vat/forms-rates/rates/goods-services.htm>