VAT PRINCIPLES

Current vat rate	20%

SALES VAT known as OUTPUT VAT (because the goods/services are going out from your business)

1) You charge vat the prevailing rate on top of your fee.
   E.g. Your fee is £100+vat ≡ £20, so you charge the customer/client £120.

   You should show your vat separately .
   You must show your VAT number on all receipts and invoices

Example	Fee	£100	
	VAT	£20	
	Total	£120	You receive this amount from the customer

   In essence you are the middle-man collecting VAT on behalf of HMRC

PURCHASE VAT known as INPUT VAT (because the goods/services are coming into your business)

2) You pay for good/services where vat has been charged, so you can reclaim these costs.
   In essence we offset these vat charges against your sales vat collected and pay the net amount to HMRC

Example of how we work VAT, comparing VAT registration vs. Non-VAT registration.

Scenario: You have made a sale of £100 and incurred costs of £48 (which is £40+ £8vat).

Results

Someone who is not VAT registered

Sale	£100
Costs	£48
Net profit	£52

Someone who is VAT registered

	GROSS	VAT	NET
Sale	£120	£20	£100
Costs	£48	£8	£40
Total	£72	£12	£60
Bank account	£72		
Pay to HMRC		£12	
Net profit left			£60

Conclusion

As long as you can charge your fee plus VAT, you make more profit which is equivalent to the input VAT.

Trap

If you register for vat but cannot increase the price/fee by the VAT due to market forces, you will have to asorb the VAT from your sales, which will result in making less money.

Example using the same scenario above

	GROSS	VAT	NET
Sale	£100	£17	£83
Costs	£48	£8	£40
Total	£52	£9	£43
Bank account	£52		
Pay to HMRC		£9	
Net profit left			£43