


Bookkeeping Basics: Value Added Tax (VAT)

Value Added Tax or 'VAT' is a key feature of bookkeeping for most farm businesses. This guide is for VAT registered businesses and explains VAT and what you need to do.

What is VAT?	VAT is an indirect tax on consumer spending and charged on most goods and services supplied in the UK. The business supplying the goods charges VAT and passes this to HMRC. It is not a tax on business—the VAT paid by a business can normally be reclaimed. VAT cycles through the different stages of a produce or service before coming to rest with the final consumer. However some types of goods, e.g. agricultural produce, do not have VAT added to the final price.	The VAT registration threshold in 2020/21 is £85,000. If your taxable turnover exceeds this you must register for VAT. Agricultural businesses whose taxable turnover is less than this can still register voluntarily.
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Output VAT is the VAT you charge on goods or services your business sells, and which you pass to HMRC.	Input VAT is the VAT you have paid on goods or services your business purchases and which you will reclaim from HMRC.
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VAT Rates	Goods or services bought or sold by a farm business can be categorised for VAT in 5 possible ways:	Farmers generally produce food items which are 'zero rated' i.e. VAT is not charged on them, however they are still entitled to reclaim VAT on the cost of producing those goods. Farmers are often 'net reclaimers' of VAT, this means that they claim back more VAT from HMRC than they pay. Some farmers—those who have other sources of income such as contracting or diversification, may need to pay over more VAT than they reclaim.															
<table border="1" style="width: 100%; text-align: center;"> <thead> <tr> <th>Standard Rate</th> <th>Reduced Rate</th> <th>Zero Rate</th> <th>Exempt</th> <th>Outside the Scope</th> </tr> </thead> <tbody> <tr> <td>Currently 20%</td> <td>Currently 5%</td> <td>0%</td> <td>0%</td> <td>0%</td> </tr> <tr> <td>Any taxable supply which is not charged at the zero or reduced rates, e.g. contracting services.</td> <td>A reduced rate of VAT is payable on some supplies, e.g. domestic heating & electricity costs.</td> <td>Most agricultural products are zero-rated for VAT, e.g. milk, meat, livestock, eggs, crops.</td> <td>The law says some services or goods are exempt from VAT, including insurance and bank interest.</td> <td>Some farm income comes from subsidies and grants—this is entirely outside the scope of VAT.</td> </tr> </tbody> </table>	Standard Rate	Reduced Rate	Zero Rate	Exempt	Outside the Scope	Currently 20%	Currently 5%	0%	0%	0%	Any taxable supply which is not charged at the zero or reduced rates, e.g. contracting services.	A reduced rate of VAT is payable on some supplies, e.g. domestic heating & electricity costs.	Most agricultural products are zero-rated for VAT, e.g. milk, meat, livestock, eggs, crops.	The law says some services or goods are exempt from VAT, including insurance and bank interest.	Some farm income comes from subsidies and grants—this is entirely outside the scope of VAT.		
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The VAT Return	VAT registered business submit a regular VAT return. Most submit monthly or quarterly depending on their circumstances. Where taxable turnover exceeds the VAT registration threshold (£85,000 for tax year 2020/21) you must register for Making Tax Digital, and you should keep your records digitally, submitting VAT returns digitally direct from the accounting software. Smaller businesses don't need to use MTD and can submit their VAT return using Government Gateway.	
		Taxable turnover includes standard rated, reduced rated & zero rated supplies. It does not include agricultural subsidy income.

This guide does not constitute advice. For advice about your business contact your accountant.



VAT Rates in a Farm Business



Accounting software can make life easier, most systems let you set the default VAT rate for individual nominal accounts/contacts and some can remember how you processed a similar transaction. It's important to use the correct VAT code, even where you do not charge/pay VAT on a transaction, as zero rate/exempt income & expenditure should still appear in Box 6 & 7 of the VAT return.

Standard Rate

- Plant & machinery e.g. tractors, implements.
- Services, e.g. crop contracting, silage contracting, shearing, mart commission, levies.
- Care of animals where there is an element of service included e.g. cattle B&B and some sheep wintering.
- Veterinary services, vaccines, drugs, dosing products.
- AI services and semen.
- Bedding, e.g. sawdust, wood fines.
- Business fuel depending on quantity—standard rate applies to any order of >2,300 litres of fuel, or >33 kWh electricity per day).
- Farm cars/vehicles are more complex. VAT may have been charged on a business car but **no** VAT can be reclaimed. Different rules apply to 'commercial' vehicles, e.g. double cab pickups and some 4x4s. Always check with your accountant before reclaiming VAT on a vehicle.

Zero Rate

- Livestock—liveweight or deadweight.
- Crops, e.g. cereals, potatoes, vegetables, grass (i.e. seasonal grazing licenses).
- Feedstuffs, e.g. silage, hay, straw, root crops, cereals, blends and compounds, minerals.



VAT rules are complex and it's risky to guess or assume a VAT rate just because you know the rate of a similar item or service. If in doubt check!

Reduced Rate

- Domestic fuel including electricity, gas, heating oil.
- Business fuel where the quantity ordered is less than 2,300 litres.
- Business electricity where the usage is less than 33 kWh per day.

The supplier will apply the correct VAT rate so always go by the invoice.

Exempt

- Insurance
- Postage (stamps)
- MOTs
- Bank and loan charges
- Interest
- Rent*

*Usually exempt but not always—some landlords do charge VAT. Always check the invoice.

Outside the Scope

Agricultural subsidies do not come from a 'taxable person' and therefore are outside the scope of VAT and do not appear anywhere on the VAT return.

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