



VAT - 20%, 5%, Exempt, Zero-rated, Reverse-charge *So many codes, but which ones should I be using?...*

With so many codes and abbreviations used in accounting, it can get a tad confusing. And putting your VAT purchases into your accounting software is no different. You will find a different code applies depending on whether it's related to general goods and services, postage, travel, food and drink.... So, we are here to help and break it down for you.

If you get the codes right when you put them into your software it will save you time and unnecessary headaches when it comes to submitting your quarterly tax return.

20% VAT on expenses.

The standard rate of VAT is 20% and applied to most goods and services in the UK. The bulk of your expenses will come under this category, where you have a valid VAT receipt to claim back the VAT you were charged.

5% VAT on expenses

This lower rate applies to services such as fuel and heating.

Exempt Expenses

If there was no VAT charged on your purchase, you will still need to include it in your VAT return. So, make sure that it is categorised as 'Exempt' rather than 'No VAT'. There is a difference. Exempt expenses might include postage, insurance, charitable fundraising events, education and training services, or membership subscriptions.

Zero-rated Expenses

Zero rated do need to appear on your VAT return, you just need to code them correctly, as you didn't pay any VAT and won't anything to reclaim. Zero-rated expenses might be basic foodstuffs, books, public transport. Bear in mind that dining-in will still incur VAT, but buying food or takeaway foods are zero-rated VAT.

You cannot claim VAT on business entertaining, so it would be best to log these as 'zero-rated' expenses. Or better still, if you are using software such as Xero, simply add a custom code called 'Irrecoverable VAT' to keep things simple for yourself.

No VAT

This is different to Zero-rated and does appear on your VAT return. Why? Because it doesn't apply at all and falls outside of the UK VAT System and is therefore out of scope. This would apply to salaries, payments to HMRC, Director's dividends and NI/PAYE contributions.

Reverse Charge Expenses (20%)

Just when you thought you'd got a hold of it...we throw in one last situation to the mix! This one only applies if you buy goods or services from outside of the UK. Companies such as Google Ads and Facebook are based in Ireland, so if you use them each month, this would be relevant to you. You may have used services from abroad to translate your website or bought equipment from Europe. Although the supplier is not charging you VAT, you will need to effectively charge yourself VAT and claim it back. Confusing? Yes, but once you get used to it, it will be fine! This has no effect on your VAT return, but you will need to include it.

Anything else we need to know?

If the supplier is not VAT registered, you can choose the 'zero-rated' category. Or if you are using a system like Xero, you can simply set up a custom code called 'non-VAT registered supplier' to make things easier for yourself.

If you have any further questions about which VAT code to use, you can drop us a line or head to the [HMRC website](#)

*If you want to read more of our blogs
with useful tips and guides to accounting
Head to our website: rosieaccounting.co.uk*