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UNDERSTANDING VAT

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VAT (Valued Added Tax) is a tax on the supply of goods and services. It is charged at varying rates which, especially for caterers, often leads to errors, fines and penalties imposed by HMRC. In this guide, James, Stanley and Co. and The Catering Accounting Co. has provided information, useful hints and tips to be aware of when tackling VAT as a food business.

5 COMMON MISTAKES

When to register for VAT

Currently HMRC has a total VAT taxable turnover threshold of £90,000 for the last 12 months. Should your turnover exceed this limit over a 12-month period you are required to register for VAT. Please refer to the HMRC website: <https://www.gov.uk/register-for-vat> as these thresholds do change.

Not checking your 12-month turnover

You must review your historic 12-month turnover on a daily basis. One common mistake is that business owners only check their turnover when it comes to the financial year end, realising at that point the business should have registered for VAT months ago and then having to make a retrospective VAT registration, incurring fines and penalties.

Failing to register because you supply zero rated products/services

There is an important distinction between exempt and zero-rated supplies, with one of the main differences being that zero rated products/services are still classified as VAT taxable supplies, it's just that a 0% rate has been applied. You must therefore include zero-rated sales when ascertaining if your business has met the annual VAT threshold for VAT registration.

Incorrect VAT reclaims on costs/expenses

VAT is not charged on all costs and expenses you pay for. Make sure you account for each cost individually, by reviewing the supplier receipt or bill to see if VAT is listed and can actually be reclaimed by your business. <https://www.gov.uk/charge-reclaim-record-vat/reclaim-vat-business-expenses>.

Not keeping paperwork

Even if you know a particular cost or expense you paid included VAT, you can only reclaim that VAT if you keep the bill or receipt to support your claim.

WHAT VAT % DO I USE?

Applying the correct VAT rate(s) to your particular supplies has to be worked out on a case-by-case basis. Every business is different and therefore you should not make conclusions based on what other businesses have done. Here is a step-by-step approach to follow as a guide:

(1) Are your supplies “in the ordinary course of catering”?

Usually this involves a significant element of service as well; supplies made in restaurants/cafes, contract events, re-heating pre-cooked food etc.

If YES – then charge VAT @ 20%. If NO go onto the next step.

(2) Is it “eat in” (on your premises)

This includes tables and chairs you have provided adjacent to the premises.

If YES – then charge VAT @ 20%. If NO go onto the next step.

(3) Is it hot takeaway food?

If YES – then charge VAT @ 20%. If NO go onto the next step.

(4) Is it 20% VAT rate by default?

Examples of some items that fall into this category are; confectionary, alcohol, crisps etc.

If YES – then charge VAT @ 20%. If NO then go onto final step.

(5) Is it 0% (zero-rated) VAT rate by default?

Examples of some items include; cold takeaway food, cakes etc.

If YES – likely to be zero rated for VAT.



TIPS AND HINTS

VAT health check

For many businesses, every VAT return completed encompasses 99% of the same recurring income and costs. With that said, it is vital to get it right from the start otherwise any errors will just recur each VAT return completed. Asking your accountant to complete a VAT health check on that first VAT return gives you that reassurance looking forward that everything will be correct.

Claiming VAT on pre-registration costs

In certain cases, it is possible for businesses to reclaim input VAT on costs incurred pre-VAT registration, such as: stock (if still held at VAT registration date), certain services, fixed assets. There are time limits with regards to how far back you can claim for these items, for further information HMRC provide the following guidance <https://www.gov.uk/hmrc-internal-manuals/vat-input-tax/vit32000>.



Be aware of HMRC fines and penalties

HMRC impose strict penalties on both late submission of VAT returns and late payment. HMRC recently employed a "penalty points" structure of which multiple failings increase penalties levied on the business on each occasion. For further information please refer to <https://www.gov.uk/guidance/penalty-points-and-penalties-if-you-submit-your-vat-return-late>.

You can voluntarily register for VAT

For businesses with a high level of capital expenditure to get started, often these bills include VAT. For this reason, some businesses take the decision to voluntarily register for VAT in order to reclaim that VAT.

SUMMARY

Referring to one guide online it is claimed that during the 2021-22 tax year HMRC issued over 66,000 penalty notices to businesses for VAT inaccuracies resulting in over £159 million. For caterers, the specific complexities surrounding VAT, often having to determine your VAT position on a case-by-case basis makes it an incredibly difficult process to get right. Key tip, get it right from the start by getting advice from an accountant pre-VAT registration to provide you with that knowledge and reassurance that you have got it right.

About The Catering Accounting Company

'At The Catering Accounting Company, we know your business means more to you than simply numbers. Our commitment is to provide the recipe to maximise your business's potential, whether it is improving cash-flow, increasing profits or implementing effective tax planning. Whether you are food producer, distributor or retailer our team is dedicated to take away all the stress and hassle of your finances and enable the numbers to add real value for you and your catering business.

We offer a fixed transparent pricing policy, so you know exactly what to budget each month for our costs and most importantly what you get for your money. As an award-winning firm we are proud to be recommended by the Nationwide Caterers Association.'

To find out about how The Catering Accounting Company could support you, get in touch by email info@catering-accounting.co.uk or call 0121 706 8585

Get in touch with our team and we'd love to have a chat.

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