

# XERO VAT RATES ON PURCHASES



Whitepaper

The following is an overview of how to account for the various VAT rates on purchases of goods and services in Xero.

## 20% (VAT ON EXPENSES)

Select "20% (VAT on Expenses)" for purchases that are standard rated. As a general rule you should refer to your invoice to confirm the amount of VAT charged. If there is no VAT number and no VAT amount split out it is likely there is no VAT to recover.



## 5% (VAT ON EXPENSES)

Select "5% (VAT on Expenses)" for purchases that have a reduced rate of VAT. It is worth noting that Fuel for business use is usually standard-rated (i.e. at 20%) but supplies of certain small quantities of fuel and power (known as de minimis) are always treated as being made for domestic use, even when the supply is to a business customer. In this scenario supplies within the limits should be taxed at the reduced rate (i.e. at 5%).

## NO VAT



Select "No VAT" for purchases that are outside the scope of the UK VAT system. These purchases will not appear on your VAT return. Examples include salaries, payments to HMRC and deposits etc.

## ZERO-RATED EXPENSES

Select "Zero Rated Expenses" for purchases that are still VAT-taxable and will appear on your VAT return, but the rate of VAT charged is 0%. Examples of zero-rated goods include books, newspapers, milk and coffee etc.



## EXEMPT EXPENSES

Select "Exempt Expenses" for purchases that are exempt from VAT so are not taxable. Exempt purchases differ from zero-rated purchases; in both cases VAT is not added to the purchase price, but zero-rated purchases are taxable for VAT at 0%. Examples of exempt expenses include insurance, finance and subscriptions to some membership organisations etc.

## EC ACQUISITIONS (20%)



Select "EC Acquisitions (20%)" for purchases of goods from another EU country. As the purchase is a business to business supply you should not be charged UK or overseas VAT. However, on your VAT return you are required to treat the purchase as if you had both bought and sold the item in the UK (i.e. populating box 6 and 7 on your VAT return with both entries netting each other off). Selecting "EC Acquisitions (20%)" will ensure that boxes 6, 7 and 9 (value of acquisitions of goods from EC member states) are correctly populated.

## REVERSE CHARGE EXPENSES (20%)



Select "Reverse Charge Expenses (20%)" for purchase of services from any other overseas country. The treatment is broadly the same as for the purchase of goods from another EU country. You shouldn't be charged any UK or overseas VAT as it is a business to business supply

but on your VAT return you should treat the purchase as if you had both bought and sold the service in the UK (this is called the reverse charge mechanism).

## VAT ON IMPORTS



Purchase of goods from outside the EU should attract a UK VAT charge as part of the import process. You can reclaim this through your VAT return in the normal way so long as you have the necessary documentation (VAT form C79). However, select "VAT on Imports" when you receive a VAT only invoice from a customs or freight agent for VAT that they charge you after you have paid for imported goods that didn't have VAT charged originally. For further details see the [Xero guide here](#).



HMRC provide a more detailed [guide online here](#). However, please do not hesitate to get in touch if you would like us to clarify the VAT treatment on any purchase.

If you're interested in finding out more about VAT Rates on Purchases give us a call on **01483 802895** or email us on [enquiries@chadsan.com](mailto:enquiries@chadsan.com).