
Definition and Description of Value-added Tax (VAT)

A value-added tax (VAT) is a type of consumption tax that is placed on a product whenever value is added at a stage of production and at the point of retail sale. The amount of VAT that the user pays is on the cost of the product, less any of the costs of materials used in the product that have already been taxed. VAT came into force in 1973, introduced by Lord Barber, the chancellor under Sir Edward Heath, and started off as a simple 10 per cent tax on nearly all goods bought from a business. Since then it has swollen in size, complexity and popularity.

Paddy Behan, a partner at Vantis accountancy firm and considered to be of the country's leading VAT specialists, said: "It is hugely efficient tax, it's a great tax from a revenue raising exercise. It has swept the world. More than 130 countries have now adopted it from Belgium to Burkina Faso. One of the few holding out is America, but academics are talking about Obama introducing it over there."

VAT was originally a French idea, started in the 1950s. Britain introduced it as part of its condition of joining the European Economic Community. All countries joining the EEC had to replace their indirect taxes with the VAT. It replaced the Purchase Tax, which was a fairly complex system that had many different rates. In the early days it was a relatively low level of no more than 10 per cent, with the exception of petrol and – briefly – electrical appliances, which were deemed in the days before Britain struck North Sea oil to be luxuries. They were subject to a 25 per cent rate. However, Heath's Government, when in opposition, had always promised that key essential items would not be subject to VAT, such as books. Value-added tax (VAT) is a consumption tax, meaning that it is a tax on the purchase of a product or a service. It is a form of taxation that focuses on how much an individual consumes opposed to how much that individual contributes to the economy (income tax).

Value-added tax is paid by residents of a country. Both consumers and businesses are liable to pay VAT when purchasing services or products. When a manufacturer creates a product, it is liable to pay value-added tax on the components purchased in order to create goods. The VAT that the consumer pays when the product comes on the market applies to the cost of the product, minus the cost of the components which have already been taxed.

The UAE residents will have to pay 5 per cent value-added tax (VAT) on food, water and power and higher education from next year, analyst said. Businesses will be responsible for carefully documenting their business income and costs and associated VAT charges. Registered businesses and traders will charge VAT to all of their customers at the prevailing rate and incur VAT on goods / services that they buy from suppliers. The difference between these sums is

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reclaimed or paid to the government.

Supplies subject to the zero rate are listed in Article 45 of the Federal Decree-Law no. (8) of 2017 on Value Added Tax, such as:

- Exports of goods and services. International transport of goods and passengers.
- Certain means of transport, such as trains, trams, vessels, airplanes.
- First sale/rent of residential buildings.
- Aircraft or vessels designated for rescue and assistance by air or sea.
- Certain investment precious metals.
- Certain healthcare services and related goods and services.
- Certain educational services and related goods and services.

Your business is partly exempt if your business has incurred VAT on purchases that relate to exempt supplies. This is known as exempt input tax. Generally, you won't be able to reclaim exempt input tax. However, provided the amount of exempt input tax is below a certain amount, it can be recovered in full.

You can't reclaim VAT you pay on goods and services that aren't for business purposes. If your business is partly exempt and you buy goods or services that you use partly for business and partly for non-business purposes you must split the VAT accordingly. You then use your partial exemption method to work out how much of the business VAT you can reclaim.

If you make both taxable and exempt supplies, you must keep a separate record of your exempt sales and details of how you've worked out how much VAT to reclaim. If you sell, lease or let commercial land or property, you can choose to waive the exemption and to charge VAT at the standard rate. This is known as 'opting to tax land and buildings'. VAT incurred in making taxable supplies can be reclaimed.

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