



UK VAT Compliance Automation: An Imperative to Stay Compliant

Tax Automation: How Does it Work?

Value Added Tax (VAT) compliance automation in the UK is an essential aspect of a business's financial management system. It helps businesses in the UK comply with tax regulations, avoid penalties and ensure that they are remitting the correct amount of VAT to HM Revenue & Customs (HMRC), the tax authority in the UK.

Since the introduction of Making Tax Digital (MTD) for VAT in the UK by HMRC in 2019, the need for end-to-end UK VAT compliance processes to be automated has never been greater.

In this guide, we will provide a detailed overview of the VAT automation system in the UK and the policies businesses must comply with.

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What is VAT?

VAT is an Indirect Tax on the effective value added by a business to goods and services during each stage of the supply chain. VAT is collected at every step from production through to sale of the goods or services to the end customers in a supply chain.

VAT is typically added to the sale price of goods and services to customers. The business are also allowed to reclaim back VAT incurred on their purchases from their VAT suppliers to effectively net off VAT paid from the VAT collected. The net VAT is then remitted to (or in some cases requested as refund from) HMRC.

VAT Rates

The standard VAT rate in the UK is 20%. However, there are also reduced rates, zero-rated and exempt VAT categories. Reduced VAT rates are applied to certain goods and services, such as energy-saving materials and children's car seats which attract a lower VAT rate of 5%. Zero-rated VAT categories include items such as food, books, and newspapers, which are taxable for VAT purposes but effectively attract a 0% rate of VAT. Finally, there are some goods and services that fall in the exempt category and are not subject to VAT such as postage stamps and insurance services.

VAT Registration Threshold

The VAT threshold for mandatory registration in the UK is currently £85,000. This means that businesses with a taxable turnover below this amount may not be required to register for VAT or charge VAT on their sales. Businesses with a taxable turnover above the threshold are required to register for VAT and charge VAT on their sales, unless they deal with categories of goods or services deemed exempt or outside the scope of VAT all together.

HMRC can impose penalties for non-compliance with VAT regulations, including failure to register for VAT, late submission of VAT returns, and underpayment of VAT. The penalties are varied and based on assessments carried out by HMRC.



VAT Registration Process

The UK VAT registration process can be completed online through the HMRC website. Once a business has registered for VAT, it is obligated to charge VAT appropriately on its sales and remit its net VAT to HMRC. The VAT collected and paid must be reported on the UK VAT Return, which is typically submitted to HMRC every three months (although some businesses may choose to submit monthly returns, subject to HMRC approvals).

VAT Return Submissions

VAT Returns are typically submitted to HMRC every three months. The VAT return includes details of the VAT charged on sales and the VAT paid on its purchases eligible for reclaim. The VAT return can also include adjustments, such as bad debts, that may affect the value of VAT owed to HMRC. As per MTD mandated for VAT, the VAT return must be submitted online through the HMRC website using an Application Programming Interface (API) enabled software.

VAT Compliance

Businesses must comply with various VAT regulations such as:

- **Registering for VAT when the taxable turnover is nearing or as soon as it exceeds the VAT registration threshold**
- **Charging the appropriate VAT rate on its sales**
- **Keeping accurate records of sales and purchases**
- **Submitting VAT returns on time**
- **Remitting the correct amount of net VAT to HMRC**

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VAT Compliance Automation

Tax automation is the process of automating the tasks involved in managing taxes, such as preparing tax returns, tracking expenses and calculating tax liability. Tax automation solutions can help businesses to streamline their tax management processes and reduce the risk of errors and penalties.

Advantages of Automation



Increased Efficiency

Tax automation software can automate many of the manual tasks involved in tax management, reducing the time and effort required to complete them.



Improved Accuracy

Tax automation software can help to reduce the risk of errors in tax calculations and record-keeping, improving the accuracy of tax submissions.



Increased Visibility

Tax automation software provides businesses with real-time access to their tax data and records, enabling them to track their VAT liability and make informed decisions.



Compliance

Tax automation software can help businesses to comply with VAT regulations by ensuring that they are charging the correct VAT rate, keeping accurate records, and submitting VAT Returns on time.



Cost Savings

Tax automation can reduce the time and effort required to complete tax management tasks, leading to cost savings for businesses.

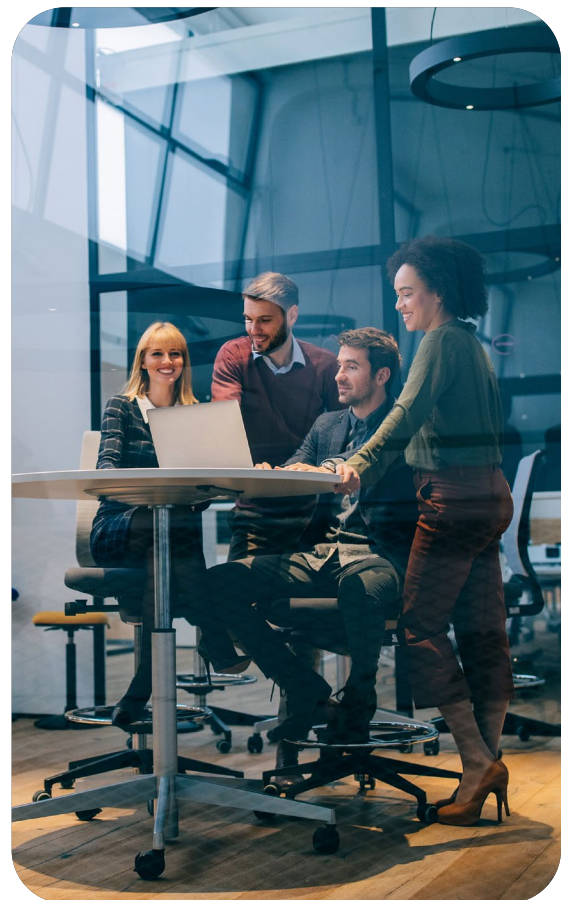
How Automation Works

Tax automation solutions – a tax engine can be integrated with a business's accounting and financial management systems. The tax engine automatically extracts data from these systems, including sales invoices, purchase invoices, and bank transactions, and use this data to calculate the VAT liability. The solution can also generate VAT Returns and submit them to HMRC electronically.

Choosing an Automation Solution for UK VAT Compliance

When choosing a tax automation solution in the UK, it is important to consider the following factors:

- **Compatibility:** The software must be compatible with the business's existing accounting and financial management systems as well as with HMRC for API enabled reporting.
- **User-friendly interface:** The software must have a user-friendly interface that is easy to use and navigate.
- **Real-time reporting:** The software must provide real-time access to tax data and records, enabling businesses to track their VAT liability.
- **Compliance:** The software must ensure that businesses are compliant with VAT regulations and any changes in rules/rates.
- **Customer support:** The software must have reliable customer support, available to assist businesses with any questions or issues.



In conclusion, VAT and tax automation in the UK is an important aspect of a business's financial management system. Businesses must comply with VAT regulations to avoid penalties, and tax automation solutions can help them to streamline their tax management processes and reduce the risk of errors and penalties. When choosing a tax automation solution, it is important to consider factors such as compatibility, user-friendliness, real-time reporting, compliance, and customer support.

How Vertex Can Help

Vertex Tax Compliance is a robust solution that accelerates commerce while remaining compliant with local regulations. Allowing businesses to automate VAT reporting to boost productivity and organisational flexibility.

Multinational organisations can promote business expansion with Vertex VAT Compliance's help without adding to the load of the VAT process. The solution enhances data quality, automates multi-country VAT reports and returns and keeps the company abreast of legislative changes. Additionally, it backs the global push for digitalization, particularly UK-MTD (Making Tax Digital).

Vertex Tax Compliance provides a thorough audit trail of tax data modifications and users for enhanced security and quicker audit preparation. Utilise role-based access to enhance control and safeguard data quality.

Learn more on [Vertex VAT Compliance](#).

About Vertex

Vertex, Inc. is a leading global provider of indirect tax software and solutions. The company's mission is to deliver the most trusted tax technology enabling global businesses to transact, comply, and grow with confidence. Vertex provides solutions that can be tailored to specific industries for major lines of indirect tax, including sales and consumer use, value added, and payroll. Headquartered in North America, and with offices in South America and Europe, Vertex employs over 1,400 professionals and serves companies across the globe.

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