

# Basic Principles of VAT

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“Value added tax (VAT) is a consumption tax added to a product's sale price. It represents a tax on the "value" added to the product throughout its production process.”

- **NET** - The value before VAT has been added.
- **VAT** - The value added tax.
- **Gross** - The value after VAT has been added. This is the figure that you will see in shops.

When you consider that 50% of your employee expenses are subject to VAT, and that a manual system could miss 20% of that recoverable VAT through process inefficiencies - this is a potentially considerable loss to your organisation. Plenty of companies simply don't claim VAT on staff expenses for fear of getting it wrong. Similarly, could your business be inadvertently over-claiming VAT on staff expenses, putting you at risk of a HMRC investigation?

Assure Expenses provides the means to automate and standardise VAT calculations for your organisations expense claims. This allows you to reclaim the maximum possible VAT while remaining compliant with HMRC regulations. VAT calculations can be customised for different types of expenses such as meals, mileage and standard items to ensure that your calculations for reclaimable VAT are correct.

You can configure Assure Expenses to automate VAT calculations for standard, reduced or zero rate expense items. Additionally you will be able to track changes to standard VAT rates within the UK. The current VAT rates for the UK are shown below:

- Standard Rate = 20%
- Reduced Rate = 5%
- Zero Rate
- Tax exempt

There are certain rules which apply to when VAT can be reclaimed and who by. These are listed below:

- VAT can only be reclaimed by businesses, not consumers. So if Organisation A buys a product from Organisation B and are charged VAT, they can claim it back.
- Both organisations must be VAT registered.
- You must have proof VAT was charged. In most cases this will come from a VAT receipt/invoice, however, the requirements of what information will need to be provided will change depending upon the total value of the receipt. For more information on this view [Requirements for a VAT Invoice](#).

The documentation which follows this introduction will cover calculations and configurations for standard expenses, meal expenses and mileage expenses. The term "**standard expense**", used within this documentation, refers to an expense which uses the **current standard VAT rate** within the UK and one which is not related to meals or mileage.

For more information about VAT calculations for standard, meal and mileage expenses, view [How VAT is Calculated](#).

If you would like to configure VAT on standard, meal and mileage expenses, view [Configure VAT on an Expense Item](#).

In regard to the Mileage VAT calculations, legislation was introduced previously which stated that in order to claim back VAT on the fuel portion of a mileage expense, there must be proof of sufficient VAT available on accompanying fuel receipts. Further information about this legislation and how Assure Expenses helps to automate the process is explained in [Allocating Mileage VAT to a Fuel Receipt](#).

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