

## CHAPTER 4

### LIABILITY OF THE SUPPLY

#### 4.1 Introduction

This chapter looks at how to work out whether a supply is chargeable to VAT and, if it is, how much VAT to charge on that supply.

Effectively, there are three types of supply.

The first type of supply is a **taxable supply** which is the sort of supply that VAT will apply to.

The second type of supply is an **exempt supply** - there is no VAT on an exempt supply.

The final type of supply is called "**outside the scope**", and these supplies are completely ignored when looking at the VAT legislation.

#### 4.2 Taxable supplies

There are three types of taxable supply.

The first type of taxable supply is "standard-rated" because the standard rate of VAT (17½%) will apply to this supply.

The second type of taxable supply is a supply taxable at the **lower rate of VAT, which is currently 5%**.

The final type of supply that is taxable is the "zero-rated" taxable supply which is taxable at the **zero rate of VAT**.

In the VAT legislation there is a list of zero-rated supplies in Schedule 8 VATA 1994.

There is a list of lower rate supplies in Schedule 7A of VATA 1994.

There is a list of exempt supplies in Schedule 9 of VATA 1994.

Nowhere in the legislation is there a definitive list of standard-rated taxable supplies.

[VATA 1994,  
Sch 8](#)  
[VATA 1994,  
Sch 9](#)

### 4.3 Method of determining liability

Assume a business supplies widgets. How should it treat that supply of goods for VAT purposes?

Firstly one looks at Schedule 8 of VATA 1994. **Schedule 8** outlines all the **zero-rated** supplies made for VAT legislation purposes.

If the business cannot find the supply listed in Schedule 8, the next step is to look at Schedule 9. **Schedule 9** lists all the **exempt** supplies.

If the widget is neither zero-rated nor exempt, we then look to see if the supply is subject to VAT at the **lower rate** under **Schedule 7A**. There are specific items which are charged to VAT at the lower rate (see below).

[VATA 1994,  
Sch 7A](#)

Lastly we decide if the supply of widgets is **outside the scope of VAT**. Again there are specific supplies that are outside the scope of VAT (for example, transferring a business as a going concern).

Thus if the item is not zero-rated, not exempt, not charged at the lower rate and not outside the scope of VAT, then what is left is a standard-rated taxable supply.

That is what the widget must be. As there is no list of standard-rated taxable supplies in the legislation - basically one gets there by default.

Step	
1	Schedule 8 (zero-rated)
↓	↓
2	Schedule 9 (exempt)
↓	↓
3	Schedule 7A (lower-rated)
↓	↓
4	Outside the scope (specific supplies)
↓	↓
5	Standard-rated

### 4.4 Lower Rate (5%)

The lower rate of VAT is currently 5%, and the supplies that are subject to the lower rate are outlined in **Schedule 7A** of VATA 1994.

These supplies include the supply of fuel for domestic use (for example, gas and electricity supplied to people's homes).

[VATA 1994,  
Sch 7A Groups  
1, 4 to 5](#)

Also covered by the lower rate is the supply of ladies' sanitary products, contraceptive products and the supply of children's car seats and car seat bases.

FA 2007 introduced the reduced 5% rate to smoking cessation products (gums, patches, inhalators etc) for one year only to take effect from 1 July 2007. The 2008 budget extended the lower rate to supplies made from 1 July 2008 and this continues today.

Where dwellings are being renovated, having been empty for at least two years or more and those dwellings are basically a single household, then the lower rate of VAT also applies to the renovation.

[VATA 1994,  
Sch 7A Group  
7](#)

Also on the list for lower rate VAT is the conversion of a residential property into a different number of dwellings. This would cover the conversion of a house into flats.

[VATA 1994,  
Sch 7A Group  
6](#)

Similarly, converting a non-residential property into a dwelling or a number of dwellings (eg, converting a barn into a house) is also charged at 5%.

#### 4.5 Outside the Scope of VAT

The sorts of items that are completely outside the scope of VAT include;

- salaries and wages;
- tips and gratuities given to staff;
- intra-group transactions if there is a VAT group registration in force; and
- the sale or purchase of a business as a going concern.