

# Indirect Tax

## Learning Area Overview



### Welcome to this learning area overview for Indirect Tax, prepared by AAT.

In this overview we'll explain what Indirect Tax is all about, and how it fits into the bigger picture of the AAT Accounting Qualification.

We'll explore the main topics you can expect to cover, and how the knowledge and skills you'll pick up will be of practical use to you in the workplace.

Finally, we'll explain how this learning area relates to the others you've already studied, and those you'll study in the future.

### What you'll learn in Indirect Tax

Indirect Tax basically deals with value added tax, or VAT for short.

VAT is a tax on the supply of goods and services which is payable at each stage in the chain of production, starting with the initial producer and ending with the final consumer.

A business registered for VAT collects the tax on behalf of Her Majesty's Revenue & Customs (HMRC for short). Output tax is VAT charged on sales, while input tax is VAT paid on purchases.

If a business's output tax exceeds its input tax for a particular period, the excess of the two is paid over to HMRC. On the other hand, if a business's input tax exceeds its output tax in a particular period, the business will be able to reclaim the excess from HMRC.

Most businesses in the UK are registered for VAT, and so they must regularly submit accurate VAT returns.

The content of the Indirect Tax learning area is divided into two parts. First, there's the "knowledge" part – that is, things you need to know. Then there's the "skills" part, which consists of things you need to be able to do. We'll look at each of these in more detail now.

The knowledge part of Indirect Tax concentrates on the principles of VAT and the VAT regulations. You'll learn about where information on VAT can be found, and how businesses are supposed to liaise with HMRC on VAT matters.

You'll also come to understand when VAT registration is compulsory, and when voluntary registration may be beneficial.

You'll develop knowledge about what VAT related information must be shown on business documents, and the various types of VAT classifications for "inputs" and "outputs" – for example, the goods and services that an organisation buys and sells.

Finally in the knowledge part of Indirect Tax, you'll study the different reporting schemes for VAT available to businesses, and the main implications of failing to abide by the VAT regulations.

In the skills part of Indirect Tax, you'll learn how to complete VAT returns and communicate VAT information.

Completing a VAT return accurately and on time requires you to be able to apply knowledge about VAT regulations; to know how to extract relevant information from an accounting system; and to have the ability to use it to calculate VAT.

To demonstrate this skill you'll need to be able to calculate and make adjustments for a range of situations, including accounting for errors on previous returns. The end result of producing an accurate VAT return is finding out either how much VAT the business has to pay over to HMRC, or alternatively how much it can expect to reclaim from HMRC as a rebate.



To effectively communicate VAT information, meanwhile, you'll need to make sure that people in the organisation know about the impact of VAT. This involves informing managers of the effect of VAT payments on cash flow, and advising on the implications of a change of VAT rate.

You'll also need to demonstrate that you know how to access information from HMRC about applying the VAT regulations.

## How Indirect Tax will help you in the workplace

The content of Indirect Tax relates very closely to the activities that many accounting technicians will be doing in the workplace at this stage in their careers.

Completing VAT returns is a task that's carried out by AAT members employed in industrial and commercial organisations, as well as by those members working for an accounting practice, where they'll complete returns on behalf of their clients.

The implications of poorly trained staff making errors in relation to VAT are serious, and can involve large financial penalties.

For that reason, you should consider Indirect Tax an area that's vital to a large number of businesses. As a consequence it's really important that you develop a sound grasp of all of the various aspects of VAT that this learning area covers.



## How Indirect Tax relates to the other learning areas

In addition to Indirect Tax, you'll need to take six other compulsory learning areas to successfully complete level 3. These are:

- Accounts Preparation I
- Accounts Preparation II
- Cash Management
- Costs and Revenues
- Professional Ethics in Accounting and Finance
- Spreadsheets.

Indirect Tax builds on the basic knowledge and skills relating to VAT that you'll have developed after studying Basic Accounting I and Basic Accounting II at level 2. Here you'll have learned how to record simple transactions, including VAT, in the accounting system.

Indirect Tax also links in with the level 3 learning areas Accounts Preparation I and Accounts Preparation II, where you learned to deal with the impact of VAT on the accounts of businesses.

In addition, it also relates to Cash Management at this level, which deals with the whole area of how receipts and payments are managed.

Indirect Tax is one of three learning areas in the AAT Accounting Qualification that concentrate on tax.

The other two are Personal Tax and Business Tax, both of which you can study at level 4. These learning areas don't deal with VAT, but mainly examine Income Tax, Capital Gains Tax and Corporation Tax.

So, you can see that Indirect Tax is a specialised but immensely practical learning area, and provides transferable knowledge and skills that are invaluable to the majority of businesses.