

In this article, we'll answer what the VAT expense categories mean and the impact on your VAT return

[Expenses](#)[VAT](#)

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If you're VAT registered, when you complete your bookkeeping, you'll need to also outline the VAT rate that each of your expenses fall under. For expenses where 20% VAT has been charged, this is quite straight-forward, as 'standard-rated' can be selected and the VAT will automatically calculate within Mighty.

However, when there's no VAT on the expense, you may be asking yourself the following questions:

- Is this classed as zero-rated, exempt or no VAT?
- What do these mean?
- Does it matter what I classify these as?

Within this article, we'll answer all of these questions for you.

Zero-Rated Expenses:

What are zero-rated VAT expenses?

Zero-rated can be quite confusing, as technically, zero-rated expenses *do* have VAT on them, but it's just at 0%. The most common examples of these are:

- Public transport costs, such as trains or buses (note: taxis, including Ubers, often charge VAT)
- Books, newspapers and other printed publications

As such, in Mighty we try to make it easier for you, so when an expense is categorised to 'travel' for example, we'll automatically suggest 'zero-rated' for VAT. However, you should take care, as not *all* travel is zero-rated, such as Uber or many taxi services.

How are they included in a standard VAT return?

As these costs are zero-rated, they will have zero impact on the VAT that you pay back to HMRC (i.e. they won't be included in box 4 on your VAT return). However, the total amount spent on these costs will appear in box 7.

Exempt Expenses:

What are VAT-exempt expenses?

These are costs that are exempt from VAT altogether and as such have no VAT on them. Common examples include:

- Most insurances and financial services
- Postage and stamps
- Bank charges and fees

As such, if you categorise an expense as any of the above expense categories within Mighty, we'll automatically suggest exempt as the category for VAT.

How are they included in a standard VAT return?

Like zero-rated expenses, these costs will have no impact on the VAT that you pay HMRC as they won't be included in box 4 or box 7 of your VAT return.

No VAT / Outside the Scope:

What are outside the scope for VAT expenses?

'Outside the cope' means that the cost is completely outside the scope for the UK's VAT system, which means VAT isn't applicable. Common examples of these include:

- Taxes
- Wages and pension contributions
- Fines and penalties

Due to this, when you categorise a cost in Mighty to any of the above categories, we'll automatically suggest outside the scope as the category. Overseas costs can also be outside the scope of VAT too, so care is needed when reviewing whether VAT has been charged.

How are outside the scope costs included in a standard VAT return?

As these costs are deemed to be completely outside the scope of the UK VAT system, these figures won't appear anywhere on your VAT return.

Reverse Charge:

What are reverse charge expenses?

Some overseas suppliers, such as those providing software or online subscriptions, don't charge UK VAT to UK businesses (e.g. Google, Facebook Ads etc.). In these cases, HMRC asks for you to account for the VAT yourself through something called the reverse charge. This doesn't mean you owe anything extra, it's simply a reporting adjustment which Mighty will handle automatically on your VAT return when you select Reverse Charge as the VAT rate.

How are reverse charge costs included in a standard VAT return?

When you record a reverse charge expense, the VAT is shown on your VAT return in the following way:

- The notional VAT is added to both Box 1 (VAT due on sales) and Box 4 (VAT reclaimed)
- The expense total itself appears in Box 7 (purchases)

The Box 1 and Box 4 figures cancel each other out, so there's no extra VAT to pay, it's just HMRC's way of tracking overseas purchases correctly.

This is probably the most confusing of all the categories, so we do have a full article dedicated to this (linked [here](#)) if you wanted more information.

Does it matter what I categorise these expenses as?

In short, the answer to this is yes. On the standard VAT scheme, whilst none of these expenses impact the VAT that you reclaim/offset (i.e. box 4), they do have different impacts on your box 7 figure. As a summary, see below:

VAT Classification	Box 1 Impact:	Box 4 Impact:	Box 7 Impact
Zero-rated expenses	None	None	The full cost is added
Exempt expenses	None	None	None
Outside the scope expenses	None	None	None
Reverse charge expenses	Notional VAT is recorded	Notional VAT is recorded	The full cost is added

If you have any questions with expenses, VAT or anything else, please contact our support team (support@mightyaccounting.com) and we'll be happy to help.

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