

# PREMIER TRAINING

## Home Study Courses



## VAT Split 20%

**PREMIER TRAINING**  
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## Guide to calculating VAT when only the gross figure is known

A common error when given a gross (VAT inclusive) value is to calculate the VAT as 20% of this figure.

This is incorrect!!!

The VAT is calculated on the net value (the figure before VAT) and is a much lower amount than the result you get from the calculation above.

The good news is with a little thought we can devise a very easy way to work out the correct amount.

- 1) Let's say we have goods valued at £10.00 excluding VAT.
- 2) The VAT is  $20\% \times £10.00$  which is £2.00.
- 3) The gross figure (the amount the customer will pay) is £10.00 plus £2.00 = £12.00.
- 4) For every '12' of gross value, the VAT is therefore '2'.
- 5) This means that we can calculate the VAT content of any gross figure by dividing it by 12 and multiplying by 2.
- 6) Test it on some figures:

Price including VAT is £24.00

$24/12 = 2$       and       $2 \times 2 = 4$       so the VAT amount is £4.00

Now calculate the net value       $24 - 4 = 20$       so the net amount is £20.00

Final check:       $£20.00 \times 20\% = £4.00$        $£20.00 + £4.00 = £24.00$

### Final thought:

Whilst the VAT rate is 20% you can simplify this further from 20/120 to 1/6 which means you can just divide the gross by 6 to find the VAT.

Likewise you can calculate the VAT to be added to a net amount by simply dividing by 5 as 20% is of course 1/5<sup>th</sup>.