How VAT Works

Value added tax through a supply chain.

Accounting & Finance

VAT through a chain.

1. **Supplier sells at 100 + tax**
   Charges output tax, pays it to the authority.

2. **Manufacturer reclaims input tax**
   Recovers the tax paid on the purchase.

3. **Manufacturer sells at 200 + tax**
   Charges output tax on the higher price.

4. **Pays the difference**
   Output tax less input tax — tax on the value added.

5. **Consumer cannot reclaim**
   The chain ends and the full tax rests there.

Educational reference. Registration thresholds, rates and exemptions vary by jurisdiction and change frequently.