



VAT Registration

VAT is a tax that is charged on goods and services that are provided in the UK. It is also charged on some goods and services which are imported from the EU. There are special rules for the provision of some services.

For the purposes of VAT a taxable person is anyone who has or is intending to make taxable supplies and can be:

- a company
- an individual
- a partnership
- a club or association
- a charity

A taxable person must register for VAT if your taxable turnover exceeds a figure of £85,000 in the last twelve months or the next thirty days.

You can apply for voluntary registration which would result in the ability to reclaim input VAT. This could result in a re-payment if output tax was at a zero rate.

Deregistration requires a taxable turnover of £79,000 by reference to the next twelve months. The VAT system is policed by HMRC with heavy penalties for breaches of the legislation. Ignorance is not an acceptable excuse for not complying with the rules.

Scope

A transaction is within the scope of VAT if:

- there is a supply of goods or services
- made in the UK
- by a taxable person
- in the course or furtherance of business.

Inputs and outputs

Businesses charge VAT on their sales. This is known as output VAT and the sales are referred to as outputs. Similarly VAT is charged on most goods and services purchased by the business. This is known as input VAT. The output VAT is being collected from the customer by the business on behalf of HMRC and must be regularly paid over to them. However the input VAT suffered on the goods and services purchased can be deducted from the amount of output tax owed. Please note that certain categories of input tax can never be reclaimed.

Supplies

Taxable supplies are mainly either standard rated (20%) or zero rated (0%). The standard rate was 17.5% prior to 4 January 2011. There is in addition a reduced rate of 5% which applies to a small number of certain specific taxable supplies. There are certain supplies that are not taxable and these



are known as exempt supplies. There is an important distinction between exempt and zero rated supplies.

- If your business is making only exempt supplies you cannot register for VAT and therefore cannot recover any input tax.

Administration

Once registered you must make a quarterly return to HMRC showing amounts of output tax to be accounted for and of deductible input tax together with other statistical information. All businesses have to file their returns online. Returns must be completed within one month of the end of the period it covers, although generally an extra seven calendar days are allowed for online forms.

Vat Schemes

There are three schemes for small businesses, the VAT flat rate scheme, the VAT cash accounting scheme and the annual accounting scheme.

Vat Flat Rate Scheme

The flat rate scheme for small businesses is intended to reduce the administration burden when operating VAT. Under the scheme a set percentage is applied to the turnover of the business as a one off calculation. The percentage is determined according to the trade sector of your business and range from 4% to 14.5%. In addition to the rate applicable there is a further 1% reduction off the normal rate for businesses in their first year of VAT registration.

The scheme is optional and open to businesses that do not exceed the relevant limits. A business must leave the scheme when income in the last twelve months exceeds £230,000, unless this is due to a one off transaction and income will fall below £191,500 in the following year. A business must also leave the scheme if income is likely to exceed £230,000 in the next 30 days.

To join the scheme you must apply to HMRC and if you are not already registered you must fill in a VAT 1 at the same time. You will receive notification from HMRC if you can join the scheme and notify you of the date of commencement.

This scheme is inappropriate if you regularly receive VAT repayments.

Although you pay VAT at the flat rate percentage under the scheme you will still be required to prepare invoices to VAT registered customers showing the normal rate of VAT.

If your business falls into more than one sector it is the main activity percentage which is used (this is measured by turnover to assess the main activity). This should be reviewed annually.

Treatment of capital Assets under the scheme

The purchase of capital assets over £2,000 (including VAT) may be dealt with outside the scheme. You can claim input VAT on such items through your VAT return.



Transactions within the European Community

Income from the sale of goods is included in your turnover. You must record the VAT on your vat return as normal, however you cannot reclaim the input tax.

VAT Cash Accounting scheme

Accounting for VAT

Output tax is recorded when payment is received.

Cheque – Treated as received on the date the cheque is received or if later the date on the cheque.

Credit/Debit card – Treated as received or paid on the date of the voucher.

Standing order/Direct Debits – Treated as received or paid on the date stated on the bank account.

Part Payments – VAT must be accounted for on part payments using a reasonable, fair apportionment.

The cash book will be the most important record kept for VAT purposes with invoices cross referenced.

Rules

A business can join the scheme if its taxable turnover in the next 12 months will not exceed £1,350,000 providing:

- is up to date with VAT returns
- has paid over all VAT due or agreed a basis for paying outstanding amounts in instalments
- has not been convicted of any VAT offences in the previous year

Advantages

Output tax is not due until payment is received which could assist in cash flow. There is also automatic bad debt relief as no VAT is paid if payment is not received.

Disadvantages

Input tax cannot be reclaimed until the supplier invoices are paid.

VAT Annual Accounting Scheme

The annual accounting scheme was introduced to reduce the administration burden on small businesses.

A business can apply to join the scheme if it expects that taxable supplies in the next 12 months will not exceed £1,350,000. A business must leave the scheme if the annual taxable turnover exceeds £1,600,000. The business can leave voluntarily at any time in writing to HMRC.

Businesses must be up to date with their VAT returns and cannot register as a group of companies. Application is on form 600(AA). HMRC will notify in writing if the application is accepted.



The scheme allows help by allowing small businesses to submit one VAT Return per annum rather than the normal four. Instalments are paid based on the estimated liability for the year. Any balancing payment due is paid with the return.

Paying the VAT

Businesses that have been registered for 12 months or more will pay their VAT in nine monthly instalments of 10% of the previous year's liability. The instalments are payable at the end of months 4-12 of the annual accounting period.

An alternative to the above, businesses may choose to pay their VAT in three quarterly instalments of 25% of the previous year's liability falling due at the end of months 4, 7 and 10.

The balance of the VAT for the year is due with the VAT return two months after the end of the annual accounting period.

If a business has not been registered for 12 months an estimate is made of the VAT liability.

HMRC will advise the amount of the instalments to be paid. Businesses can apply to change the level of instalments if the level of business increases or decreases significantly.

Advantages

The benefits are less paperwork, better budgeting and improved cash flow. The scheme also simplifies calculations where a business uses a retail scheme or is partially exempt.

Disadvantages

Interim payments may be higher than needed because they are based on the previous year.

Important points for Small Businesses

Private and non-business use

In small businesses, personal and business expenditure can be linked.

- Expenditure on domestic accommodation.
- Expenditure for the benefit of company directors/proprietors
- Any other non-business activity.

The related VAT must be apportioned and only the business element reclaimed.

Business Entertainment

VAT cannot be reclaimed on many forms of business entertainment but VAT on employee entertainment is recoverable. The definition of business entertainment is 'hospitality of any kind'.



Business Gifts

The rule on business gifts is that no output tax would be due, provided that the VAT inclusive cost of the gifts does not exceed £50.00 within any 12 month period to the same person. Where the limit is exceeded output tax is due on the full amount. Items which could be affected are:

- long service awards
- Christmas gifts
- prizes or incentives for sales staff

Cars and Motor Expenses

VAT cannot be recovered on the purchase of a motor vehicle, however is recoverable on vans and commercial vehicles.

Where a car is leased only 50% of the VAT is recoverable. Fuel or mileage allowance only the business element can be recovered.

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