VAT Registration

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A Guide To VAT – Key Facts And Considerations

Understanding VAT (value-added tax) is crucial for any business owner. While most of us are familiar with paying VAT on various goods and services, managing VAT compliance for your business introduces a new level of complexity. Whilst not all businesses are required to register for VAT (depending on whether they meet the criteria), some may find it a viable option. HMRC offer various schemes, so knowing which one is the best for your business is key.

How Does VAT Work?

You must register if either:

- your total taxable turnover for the last 12 months goes over £90,000 (the VAT threshold)
- you expect your taxable turnover to go over £90,000 in the next 30 days

Taxable turnover is the total value of everything you sell that is not VAT exempt or 'out of scope' goods and services, see here for more details on when not to charge VAT. If your taxable turnover is below the threshold then registration is optional.

Voluntarily registering for VAT can enhance your company's professional image and allow you to reclaim VAT on qualifying expenses. However, this will result in increased prices to your customers to account for VAT (though VAT-registered customers can typically reclaim this amount) and requires filing VAT returns.

Deciding whether to voluntarily register for VAT is complex and should be done with guidance from an accountant or financial adviser.

There are 3 rates of VAT (standard 20% , reduced 5% and zero-rated 0%). Generally, you charge VAT on your goods and services to customers and reclaim VAT on your business expenses. Either paying or reclaiming the difference from HMRC. Regardless of whether registration is voluntary or mandatory, you'll need to choose an appropriate VAT accounting scheme.

Standard VAT Scheme

The most common scheme amongst businesses is the standard VAT accounting scheme, which requires keeping detailed records of purchases and sales and submitting quarterly VAT returns to HMRC. Under this scheme, the key consideration is that the VAT is calculated based on invoice date rather than payment date. Meaning you may find yourself paying VAT over to HMRC, even though you have not yet collected it. This can have considerations for your cash flow.

VAT Cach Accounting Scheme

If your companies taxable turnover is £1.35 million or less, using the cash accounting scheme is the right option for you. With VAT being calculated based on the payment date rather than the invoice date, using this scheme has key cash flow advantages for businesses in industries with longer credit terms.

VAT Flat Rate Scheme

The VAT flat rate scheme simplifies VAT calculations by allowing businesses to pay a fixed rate determined by their industry, typically ranging from 4% to 14.5%.

This scheme is only available to businesses with a turnover of £150,000 or less. You get a 1% discount if you're in your first year as a VAT-registered business.

A key trade-off is that you cannot reclaim VAT on your business expenditure (except for certain capital assets over £2,000). Additionally, if your business is classified as a 'limited cost' business, the flat rate increases to 16.5%. A 'limited cost' business spends less than 2% of turnover or £1,000 annually on goods.

VAT Margin Scheme

The VAT margin scheme is for trading items purchased without VAT, such as second-hand goods, art, antiques, and collectors' items. VAT is calculated on difference between what you paid for an item and what you sold it for, rather than the full selling price. You then pay VAT at 16.67% on the difference.

You cannot use the margin scheme for items originally bought with VAT, precious metals, investment gold, and precious stones.

VAT Annual Accounting Scheme

The annual VAT accounting scheme is ideal for businesses that prefer minimal paperwork. While you still need to maintain comprehensive records, you only file a return once a year instead of quarterly. However, you must make interim monthly or quarterly payments based on your last return (or estimated if you're new to VAT), with a final adjustment payment or refund at the end of the year.

You can join the scheme if your estimated VAT taxable turnover is £1.35 million or less. The scheme would not suit your business if you regularly reclaim VAT because you'll only be able to get 1 refund a year (when you submit the VAT Return).

VAT Retail Schemes

VAT retail schemes can make calculating your VAT simpler. Instead of calculating the VAT for each sale you make, you do it once with each VAT return.

Retailers can choose from three specialist schemes designed to simplify VAT calculations:

- **Point of Sale Scheme:** Record VAT at the time of sale.
- **Apportionment Scheme:** Best for those who buy goods for resale.
- **Direct Calculation Scheme:** Suitable if you sell a mix of items at different VAT rates.

These schemes can be combined with the annual or cash accounting schemes, but not with the flat rate scheme.

Businesses with turnover exceeding £130 million must negotiate a bespoke retail scheme with HMRC.

Making Tax Digital (MTD)

VAT-registered businesses with a taxable turnover above the VAT threshold (£90,000) are now required to follow the MTD rules, by keeping digital records and using software to submit their VAT returns.

If you do not use a software to prepare your returns or your software is not MTD compatible, you will need to use a bridging software to submit your returns.

HMRC has a list of [compatible software] on its website.

Submitting VAT Returns To HMRC

If registered, businesses are required to submit VAT returns to HMRC and pay any amounts due a month and 7 days after the quarter end date.

These returns will need to include:

- your total sales and purchases
- the amount of VAT you owe
- the amount of VAT you can reclaim
- the amount of VAT you're owed from HM Revenue and Customs (HMRC) (if you're reclaiming VAT on business expenses)

The records related to VAT and any associated calculations should be retained in the event of a HMRC check.

What Is The Penalty For Submitting VAT Late?

Penalties for late submission are determined using a point system. You will incur a penalty point for each late return you submit until you reach the penalty point threshold.

VAT PERIOD	POINT THRESHOLD
MONTHLY	5
QUARTERLY	4
ANNUALLY	2

When you hit the threshold, you will be fined £200. Additionally you will also be fined £200 for each late submission while you are on the threshold.

Final Thoughts

Managing your VAT accounting is critical and can significantly impact your financial operations. Always seek professional advice to ensure you are compliant with HMRC requirements. Let us guide you through the process.