



Basics of VAT

PREPARE FOR BUSINESS, PREPARE FOR SUCCESS

Basics of Value Added Tax (VAT)

You are ready to start your business, or have just started operating your business, but do you need to register for VAT? When is the best time to do this? Don't worry as all of this information is covered below.

COMPULSORY VAT REGISTRATION THRESHOLD

You must register for VAT if your turnover exceeds £85,000* in the previous 12 months. If your turnover is below the compulsory registration threshold, you can voluntarily register at any time.

HOW DOES VAT WORK?

VAT is added to sales invoices, and purchase invoices will have VAT added if the supplier is VAT registered. VAT invoices must have all the required information on them eg, the VAT registration number. Most items are VATable at the standard rate (currently 20%) but some items are chargeable at the reduced rate of 5% or are zero rated (0%).

VAT RETURNS

The basic system is that, every three months you must submit a VAT return to HM Revenue & Customs (HMRC). Output tax (on sales) and input tax (on purchases) are netted and the difference - usually with outputs exceeding inputs - paid to HMRC. Where inputs exceed outputs, HMRC will make a repayment.

You must submit your returns online and can make online payments or you can pay by cheque at a bank or building society.



* Please check the current VAT threshold at gov.uk/vat-registration as it changes every year.

OTHER SCHEMES

Cash accounting (or receipts and payments system)

- Uses receipts from customers and payments to suppliers rather than invoices.
- Helpful if cash flow is a problem and bad debts an issue.
- Can be used until your VAT taxable turnover exceeds £1.35m.

Annual accounting scheme

- Make nine monthly or three quarterly instalments based on an estimate of VAT paid in the previous year or estimated liability.
- You must complete one VAT return every year.
- You must still keep the required records in case you have a VAT inspection.
- This isn't suitable for businesses that regularly reclaim VAT as you only get one repayment a year, or if your turnover is decreasing as interim payments will be higher than they need be.

Flat rate scheme

- You don't have to record and calculate VAT on each transaction.
- Pay as a flat rate percentage of turnover as VAT is based on sector figures.
- Percentage is less than the standard VAT rate because it is net of input tax.

VAT schemes for retailers - if you sell to the general public, there are several schemes you might use.

If you need further help with VAT issues, a free initial discussion with an ICAEW Chartered Accountant is a good place to start. Visit businessadvice.service.com

OTHER USEFUL WEBSITES

VAT cash accounting scheme

gov.uk/vat-cash-accounting-scheme

Annual accounting scheme

gov.uk/vat-annual-accounting-scheme

Flat rate scheme

gov.uk/vat-flat-rate-scheme



**More information is
on the HMRC website:
gov.uk/business-tax/vat**



Prepare for business, prepare for success

The ICAEW Business Advice Service (BAS) provides professional advice for start-ups and owner-run businesses.

As well as practical help online in the form of white papers, short PDFs and blog articles, we enable businesses to receive an initial consultation at no charge from an ICAEW Chartered Accountant.

ICAEW connects over 147,000 chartered accountants worldwide, providing this community of professionals with the power to build and sustain strong economies. Training, developing and supporting accountants throughout their career, we ensure that they have the expertise and values to meet the needs of tomorrow's businesses.

Our profession is right at the heart of the decisions that will define the future, and we contribute by sharing our knowledge, insight and capabilities with others. That way, we can be sure that we are building robust, accountable and fair economies across the globe.

ICAEW is a member of Chartered Accountants Worldwide (CAW), which brings together 11 chartered accountancy bodies, representing over 1.6m members and students globally.

www.charteredaccountantsworldwide.com
www.globalaccountingalliance.com



This leaflet is part of a series.

To find out about the others available visit businessadvice.service.com/guides