

VAT

Registration Overview

All businesses (sole trader, partnerships and companies) with a sales turnover exceeding £73,000 p.a. (2011/12) are required to register for VAT and to charge VAT on all supplies. Businesses with a turnover lower than £73,000 can register for VAT if they wish.

VAT is collected by the business on behalf of the government. VAT applies to sales and purchases but costs such as wages and bank interest are outside the scope of VAT. When calculating profit sales and costs should be shown net of VAT.

In the UK VAT, from the 4th January 2011 is a standard rate of 20%, and is generally chargeable on all supplies. The rate of VAT on purchases is more likely to vary with most items being taxed at 20% but with many others being supplied at 0%. Only the VAT charged by the supplier can be reclaimed.

VAT is generally accounted for quarterly and paid 30 days after the end of the quarter. An additional 7 days is allowed if the payment is made electronically.

There are 4 commonly used VAT schemes:

1. The standard scheme where VAT due is calculated as the difference between VAT on sales invoices (output tax) and VAT on purchases invoices (input tax). Tax is calculated based on the transaction date.
2. Cash accounting is similar to the standard scheme but instead of the calculation being based on invoice date it is based on the date paid (for both receipts and payments).
3. The Flat Rate scheme is a simpler calculation based on a fixed % of sales. The % applied varies depending on the industry sector. A 1% discount from the flat rate for the sector can be applied during the first year of trading. New rates apply from the 4th Jan 2011.
4. The Annual Accounting scheme where 9 equal monthly payments are made, with a 10th balancing payment or receipt.

Businesses may register for VAT even if they are below the £73,000 threshold. Common reasons for choosing to do this include:

1. Wishing to appear as a larger more established business.
2. Businesses whose customers are all VAT registered. Since these customers can reclaim the tax paid there is no downside to sales but the business benefits from being able to reclaim VAT on purchases.
3. Consultancies and other businesses with few vatable costs may find that they benefit by registering for the flat rate scheme.

There are a number of rates of VAT chargeable: -

Standard rate	i.e. Most Goods	20%
Reduced rate	i.e. Domestic fuel	5%
Zero Rated	i.e. Fruit and Veg	0%
Exempt	i.e. Finance and Insurance	
Outside the Scope	i.e. Non-EU transactions	

Registration for VAT can be done by phone, online or by completing and returning the VAT1 Form available online at

http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?nfpb=true&pageLabel=pageVAT_Forms&id=HMCE_PROD1_026385&propertyType=document

Further details of the schemes mentioned are available as separate documents

Where there are any doubts about a business and its VAT position HMRC must be contacted and asked for clarification or a ruling [VAT Rulings](#)

Further information may be obtained from the National Advice Line 0845 010 9000 Mon-Fri 8.00am-8.00pm.

Or online at <http://www.hmrc.gov.uk>