

VAT

Advantages and Disadvantage of Registration

The current threshold for turnover at which a sole trader, partnership or limited company MUST register for VAT is £73,000 (2011/12) The threshold is generally increased each fiscal year at the budget in March.

Registration is mandatory, and failure to do so may result in severe fines penalties and interest charges.

For some businesses that trade below the VAT threshold it can still be advantageous to register for VAT.

Advantages

- Input tax is recoverable on all expenses “wholly, necessarily* and exclusively” for the business.
- Registration for VAT automatically means that the company is sufficiently big enough to trade at a turnover of £73,000, which may give a small company an impression of being larger.
- If all the clients are VAT registered then the addition of VAT to invoices does not impact on business as the VAT is passed on.
- When sales reach the trading turnover that is required for VAT registration the business is already registered, removing the requirement to keep a constant watch on monthly turnover.
- The business can trade and accept larger contracts without risking their VAT status.
- The business does not restrict its growth to keep below the threshold.

Disadvantages

- Additional paperwork and regulations
- Quarterly commitment to file a return
- Sales to non-VAT registered customers are all instantly 20% more expensive than non registered competitors

Many of the disadvantages can be overcome with schemes like the Flat Rate Scheme and filing online

If the sales turnover is below the trading threshold, then it is a decision made purely on the balance of advantages and disadvantages.

* Necessary is considered to be subjective and cannot be the sole reason for recovery of VAT.