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VAT factsheet

Value Added Tax (VAT) represents a tax that you must charge when supplying goods or services that are not either exempt, or outside the scope of VAT. In this factsheet we look in more detail at when you must register, what is exempt or outside the scope, what happens when you are registered, and the different schemes that you may be able to operate. It can be a very complicated tax which can make it seem intimidating, but it is worth noting that for the vast majority of cases and transactions it is straightforward.

When must I register for VAT?

Provided that all the supplies of goods and services you are making do not fall into either exempt or outside the scope, you will have to register for VAT when turnover in any 12 month rolling period exceeds £90,000. However as long as you are making (or are intending to make) supplies which are not exempt or outside the scope, then you can voluntarily register for VAT before reaching the £90,000 turnover level.

At Veritons we have registered many businesses for VAT, so if you wish to take the stress out of the process please do not hesitate to contact us on 01634 887281 or info@veritons.co.uk

What are exempt or outside the scope transactions?

If your business is only supplying goods or services which are exempt or outside the scope of VAT, then you will not be able to register. Below we detail some examples of what is exempt or outside the scope:

Examples of goods/services exempt from VAT
- Insurance
- Postage stamps
- Health services
- Education and training
- Fundraising events by charities

Examples of "outside the scope" of VAT
- Goods you sell as a hobby
- Donations to a charity

HMRC have a very good website which provides further detail and enable you to check:

https://www.gov.uk/charge-reclaim-record-vat/when-not-to-charge-vat

How do I register for VAT?

You can register for VAT online through the Government Gateway for your business (it's very easy to set up a Gateway if you haven't already got one). A link to register for VAT is https://www.gov.uk/register-for-vat/how-register-for-vat

What happens after I have registered for VAT?

It is worth noting that HMRC are taking a long time (we have seen up to 12 weeks) to process VAT registrations, but once they have it will be backdated to the registration date you put on your application.

Until you have your VAT registration number you are not allowed to charge VAT to your customers, but if the supplies of goods and services you are making are dated after the registration date on the form you will have to pay VAT across to HMRC on these supplies. In such cases, instead of having to invoice for the VAT later you can issue the invoice including VAT – **but do not list it as VAT**. For example, you have applied for VAT registration from 1 October but you do not have a valid VAT registration number yet and you want to issue an invoice for £100. What you should do is invoice for £120, which is the £100 + VAT, but the invoice must simply show the sale as £120. On this invoice you can include wording to the effect "*VAT registration has been applied for but at the time of this invoice is pending. An amount equal to the VAT has been charged on this invoice, however a valid VAT invoice will follow once registration is granted. You should not reclaim VAT until you receive our valid VAT invoice*".

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Pre registration VAT on purchases

Your business will be able to reclaim the VAT on valid business purchases from its effective date of VAT registration. However, to assist businesses you can also reclaim VAT on some purchases made before VAT registration, these include:

- The VAT on goods that remain on hand at the date of registration but purchased up to 4 years earlier. These goods on hand would include stock or fixed assets (eg plant and machinery).
- The VAT on services provided to the business up to six months before VAT registration.

The VAT on such purchases can be reclaimed on the business' first VAT return, but will often require a manual entry on the bookkeeping software to achieve this.

How are VAT returns completed and submitted to HMRC

All VAT registered businesses must now submit their VAT returns under what is called Making Tax Digital (MTD). To do so requires MTD compliant software, which all leading bookkeeping packages such as Quickbooks, Xero, Sage and Freeagent have the ability to do. So if you are already VAT registered or planning to be, you should make this a consideration when choosing a bookkeeping software. The software will populate the VAT return based on the bookkeeping processed.

The most common frequency for VAT returns is quarterly, but there is the option for monthly or annual. Monthly returns will normally be chosen by those businesses who will usually be receiving VAT refunds like farmers or residential housing developers, and annual will usually be businesses without much input VAT (VAT reclaimed on purchases). It is worth noting that on the annual scheme you have to make instalment payments of VAT throughout the year.

VAT schemes

Below we cover the most common schemes available to VAT registered businesses.

Flat Rate Scheme

Under this scheme, rather than separately recover the VAT on your business purchases, you simply pay a reduced percentage of VAT on your sales. You still charge 20% VAT to your customers, but HMRC will provide you with a reduced percentage to use against that sale. This reduced percentage will be based on the industry you operate in.

For example, you make a sale of £1,000 + VAT so charge the customer a total of £1,200. You are registered under the Flat Rate Scheme and HMRC have said for your industry the relevant percentage is 14%. Therefore on your VAT return you will take the £1,200 gross sale, and apply 14% to this meaning VAT declared of £168. Under the Flat Rate Scheme you cannot reclaim VAT on purchases, but under the above example HMRC have given you the equivalent of £32 in lieu of this, being the £200 collected less the £168 declared. Additional points to note are:

- Your turnover, exclusive of VAT, cannot exceed £150,000 in order to be eligible for the scheme. If you are on the Flat Rate Scheme and exceed this you must leave the scheme.
- You cannot reclaim VAT on your purchases except for certain capital assets over £2,000.

Cash Accounting Scheme

The Cash Accounting Scheme means you only pay VAT on sales when the customer has paid you, and only reclaim VAT on purchases where you have paid the supplier. The items will hit your VAT returns when they are paid, not when they are invoiced. This provides a cash flow advantage to the business as you are not paying VAT on sales invoices where the customer has not paid you.

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For example, you invoice a customer £10,000 + VAT on 30 March, and your VAT quarter runs to 31 March. This customer does not pay you until 15 May. If you are under the Cash Accounting Scheme it means this VAT will not be included on your VAT return to 31 March as they had not paid at that date, and it will instead fall on to the next VAT return for the quarter ended 30 June. The advantage is any VAT from your 31 March return will have to be paid to HMRC by 7 May, so if you were not under the Cash Accounting Scheme you would have to pay the relevant VAT to HMRC before you had received it from the customer.

Items to note on the Cash Accounting Scheme are:

- You do not have to notify HMRC that you are applying the Cash Accounting basis, but in order to join your VAT exclusive turnover over the previous 12 months must be £1.35 million or less.
- You must leave the scheme when your VAT exclusive turnover exceeds £1.6 million.
- Payment terms on your sales invoices cannot exceed 6 months, and your sales cannot be made on credit arrangements such as lease purchase or hire purchase.

Invoice basis

The is the “default” VAT scheme and means you declare VAT on your sales based on the invoice date (or tax point if different but we won’t complicate that here), and reclaim VAT on your purchases based on the invoice date.

If your business’ turnover is over £1.6 million you will have to be declaring VAT on this basis. If you have previously been operating the Cash Accounting basis and have to move across to the invoice basis then it means you will be declaring VAT both on what you have received / paid, and what you are yet to collect / pay. This can be a real strain on cashflow and so to ease the transition HMRC allow you to pay the additional VAT (basically the VAT on your outstanding customer and supplier invoices) over a period of 6 months. The only time they will not allow this is if your turnover has exceeded £1.35 million in the last three months alone. Another potentially painful aspect of being on the invoice basis is that you can be paying VAT over to HMRC on sales where the customer has not paid. Bad debt relief can be claimed, but only when the invoice is at least 6 months old and you have written it off the outstanding amount in your records.

Therefore careful monitoring of your business turnover should be occurring when you are nearing the £1.6 million limit in any rolling 12 month period and are not already applying the invoice basis.

In this factsheet we have covered the VAT basics, which cover the vast majority of instances and businesses, but the devil is in the detail and it is a potentially complicated tax, therefore we would advocate that if you are in any doubt to contact your advisor.

At Veritons we have clients across a vast range of industries and have gained considerable experience in VAT as a result. If you would like to discuss your position why not book a free initial consultation at https://veritons.co.uk/contact-us/