

VAT – The basics

You must register for VAT with HM Revenue and Customs (HMRC) if your business' VAT taxable turnover is more than £83,000.

You can register voluntarily if it's below this, unless everything you sell is exempt.

When you register, you'll be sent a VAT registration certificate. This confirms:

- Your VAT number
- When to submit your first VAT Return and payment
- Your 'effective date of registration' - this is the date you went over the threshold, or the date you asked to register if it was voluntary

Your VAT responsibilities

From the effective date of registration you must:

- Charge the right amount of VAT (VAT rate depends on the supply)
- Pay any VAT due to HMRC
- Submit VAT Returns**
- Keep VAT records and a VAT account

You can also reclaim the VAT you've paid on certain purchases made before you registered.

**You usually submit a VAT Return to HM Revenue and Customs (HMRC) every 3 months. This period of time is known as your 'accounting period.' The VAT Return records things for the accounting period like:

- your total sales and purchases
- the amount of VAT you owe
- the amount of VAT you can reclaim
- what your VAT refund from HMRC is

You must submit a VAT Return even if you have no VAT to pay or reclaim.

VAT Schemes

There are several VAT schemes in place to choose from. Which one is the most effective and beneficial will vary depending on your business. (Speak to an accountant if you're unsure).

Annual Accounting

Usually, VAT-registered businesses submit their VAT Returns and payments to HM Revenue and Customs 4 times a year.

With the Annual Accounting Scheme you:

- Make advance VAT payments towards your VAT bill - based on your last return (or estimated if you're new to VAT)
- Submit 1 VAT Return a year

When you submit your VAT Return you either:

- Make a final payment - the difference between your advance payments and actual VAT bill
- Apply for a refund - if you've overpaid your VAT bill

The scheme wouldn't 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). You can join the scheme if your estimated VAT taxable turnover is £1.35 million or less.

Flat rate scheme

The amount of VAT a business pays or claims back from HM Revenue and Customs (HMRC) is usually the difference between the VAT charged by the business to customers and the VAT the business pays on their own purchases.

With the Flat Rate Scheme:

- you pay a fixed rate of VAT to HMRC
- You keep the difference between what you charge your customers and pay to HMRC
- You can't reclaim the VAT on your purchases - except for certain capital assets over £2,000

To join the scheme your VAT turnover must be £150,000 or less (excluding VAT), and you must apply to HMRC.

Cash Accounting (popular with small businesses)

Usually, the amount of VAT you pay HM Revenue and Customs (HMRC) is the difference between your sales invoices and purchase invoices. You have to report these figures and pay any money to HMRC even if the invoices haven't been paid.

With the Cash Accounting Scheme you:

- Pay VAT on your sales when your customers pay you
- Reclaim VAT on your purchases when you have paid your supplier

To join the scheme your VAT taxable turnover must be £1.35 million or less.