



## Useful information on Value Added Tax (VAT)

VAT (or Value Added Tax to give its full name) was introduced in the UK in 1973 and is the third largest source of government revenue after income tax and National Insurance. VAT is levied on the sale of goods and services by UK businesses.

The standard rate of VAT is currently 20% and this rate has been in place since 4 January 2011. This rate covers most goods and services.

The other rates are:

- Reduced rate of 5%, which covers some goods and services, such as domestic fuel or children's car seats.
- Zero rate, examples of which are children's clothes and some foods.
- Some items are exempt from VAT altogether, such as postage stamps and insurance. No VAT is charged on anything that is outside the scope of the UK VAT system.

VAT is charged by a business at the point of sale of goods and services. The threshold for a business to register for VAT is when the VAT taxable turnover exceeds £85,000 (April 2017). (Taxable turnover is the total value of everything sold that is not exempt from VAT. There are, however, different thresholds for buying and selling from other EU countries).

To register for VAT, a business will need to contact HMRC if the business goes over the VAT threshold in a rolling 12 month period. In fact, a business should monitor its turnover regularly to check whether it will go over the threshold. It is generally possible to register with HMRC and it is possible to appoint an agent such as Cashtrak to submit VAT returns on behalf of the business.

The de-registration level for a business is less than £83,000 (April 2017).

## VAT thresholds

Circumstances	Threshold
VAT registration	More than £85,000
Registration for distance selling into the UK	More than £70,000
Registration for bringing goods into the UK from the EU	More than £85,000
Deregistration threshold	Less than £83,000
Completing simplified EC Sales List	£106,500 or less and supplies to EU countries of £11,000 or less

## VAT accounting scheme thresholds

VAT accounting scheme	Threshold to join scheme	Threshold to leave scheme
Flat rate scheme	£150,000 or less	More than £230,000
Cash accounting scheme	£1.35 million or less	More than £1.6 million
Annual accounting scheme	£1.35 million or less	More than £1.6 million

These are various VAT schemes and on the following pages are further examples.

## The VAT Accrual Scheme

This is commonly used. The return is calculated on the difference between the sales and purchase invoices within the relevant period. The return does not take account of whether the sales and purchase invoices have been paid or are still outstanding. A return is submitted to HMRC every quarter.

## The Flat Rate Scheme:

With this scheme, a business will pay a fixed amount of VAT. The business will retain the difference between what it pays to HMRC and what it invoices its customers for. However, no VAT can be claimed on the business's purchases. There is an exception to this, where it is possible to reclaim VAT on a single purchase of capital expenditure, where the amount of the purchase, including VAT, is over £2,000.

The threshold for joining this scheme is £150,000 and is over £230,000 to leave. The scheme cannot be rejoined until 12 months after leaving.

There are incentives for the first year of registration.

## Cash Accounting Scheme:

With this scheme, VAT is not included on the sales of a business until the customer pays the invoice. With regard to the purchases, the VAT on these cannot be reclaimed until the purchases have been paid. Cash Accounting is ideal for those with slow payers.

The joining threshold for this scheme is £1.35 million and the threshold for leaving the scheme is £1.6 million.

## Annual Accounting Scheme:

If this scheme is used, the business will make advance VAT payments to HMRC. These payments are based on the VAT due for the previous year or on an estimated return for a new business.

Only one VAT return is submitted each year and this will include the balance of the VAT due. If the VAT has been overpaid, then it will be necessary to apply for a refund.

The turnover would need to be £1.35 million for joining the scheme and over £1.6 million to leave.



A VAT return can be submitted online and is due one calendar month and seven days after the end of the last quarter, (a quarter is known as the accounting period). The payment also needs to reach HMRC within this timeframe.

There are various penalties for late submission of a VAT return, the severity of which depends on the amount of previous late submissions and the turnover of the business.

*If you have any queries or would like any further information please do feel free to contact us:*

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*"Cashtrak have saved our Company money, the service is excellent, and I would highly recommend them to any company to use."*