



ICAEW Business Advice Service

prepare for success

Basics of VAT



Basics of Value Added Tax (VAT)

You are ready to start your business, or have just started operating your business, but do you need to register for VAT? When is the best time to do this? Don't worry as all of this information is covered below.

Compulsory VAT registration threshold

You must register for VAT if your turnover exceeds £82,000* in the previous 12 months. If your turnover is below the compulsory registration threshold, you can voluntarily register at any time.

How does VAT work?

VAT is added to sales invoices, and purchase invoices will have VAT added if the supplier is VAT registered. VAT invoices must have all the required information on them eg, the VAT registration number. Most items are VATable at the standard rate (currently 20%) but some items are chargeable at the reduced rate of 5% or are zero rated (0%).

VAT returns

The basic system is that, every three months you must submit a VAT return to HM Revenue & Customs (HMRC). Output tax (on sales) and input tax (on purchases) are netted and the difference – usually with outputs exceeding inputs – paid to HMRC. Where inputs exceed outputs, HMRC will make a repayment.

You must submit your returns online and can make online payments or you can pay by cheque at a bank or building society.

* Please check the current VAT threshold at gov.uk/vat-registration as it changes every year.

Other schemes

Cash accounting (or receipts and payments system)

- Uses receipts from customers and payments to suppliers rather than invoices.
- Helpful if cash flow is a problem and bad debts an issue.
- Can be used until your VAT taxable turnover exceeds £1.6m.

Annual accounting scheme

- Make nine monthly or three quarterly instalments based on an estimate of VAT paid in the previous year or estimated liability.
- You must complete one VAT return every year.
- You must still keep the required records in case you have a VAT inspection.
- This isn't suitable for businesses that regularly reclaim VAT as you only get one repayment a year, or if your turnover is decreasing as interim payments will be higher than they need be.

Flat rate scheme

- You don't have to record and calculate VAT on each transaction.
- Pay as a flat rate percentage of turnover as VAT is based on sector figures.
- Percentage is less than the standard VAT rate because it is net of input tax.

VAT schemes for retailers – if you sell to the general public, there are several schemes you might use.

If you need further help with VAT issues, a free initial discussion with an ICAEW Chartered Accountant is a good place to start. Visit businessadvice.service.com

>> Other useful websites

- VAT cash accounting scheme
gov.uk/vat-cash-accounting-scheme
- Annual accounting scheme
gov.uk/vat-annual-accounting-scheme
- Flat rate scheme
gov.uk/vat-flat-rate-scheme

More information is on the HMRC website: gov.uk/business-tax/vat

Prepare for business, prepare for success.

ICAEW Business Advice Service

The ICAEW Business Advice Service (BAS) provides professional advice for start-ups and owner-run businesses.

As well as practical help online in the form of white papers, short PDFs and blog articles, we enable businesses to receive an initial consultation at no charge from an ICAEW Chartered Accountant.

ICAEW is a world leading professional membership organisation that promotes, develops and supports over 144,000 chartered accountants worldwide. We provide qualifications and professional development, share our knowledge, insight and technical expertise, and protect the quality and integrity of the accountancy and finance profession.

ICAEW Chartered Accountants are the biggest source of business advice, reaching over 1.5m businesses from more than 20,000 offices across the UK.



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