



My Virtual Financial Controller

Financial Wizardry for the Self Employed

VAT Registration

"On a mission to help women in business"

Accounting, tax & bookkeeping services
for women in business & microbusiness

VAT

VAT Registration

Is your business registered for VAT in the UK? If not, do you know what the requirements are?

When to register for VAT

The VAT registration threshold is currently £81,000. If your turnover (gross sales, before deductions and expenses, excluding any VAT exempt supplies) exceeded the threshold over the previous 12 months, or if you expect it to exceed that amount over the next 30 days, you are required to register for VAT.

You can also register voluntarily. You may want to if:

- You expect to exceed the threshold soon so you can register at a time of your choosing;
- You have significant input VAT on your purchases which you could recover if you were VAT registered, and your customers are predominantly VAT registered so are able to recover the VAT you charge them.

What is a business activity for VAT purposes

HMRC defines a business as a “continuing activity involving getting paid for providing goods or services” including payment in kind or barter. This includes buying goods for resale on a regular basis on online auction sites.

How do you register for VAT

Most applications to register for VAT can be completed online at <https://online.hmrc.gov.uk/registration/>. You can also download forms from the HMRC website, print, complete, and submit them by post.

While your application is processed

It takes around a month for each application to be processed. You have to account for VAT from the date you were required to register, or from the date you requested on your application form if registering voluntarily, **even if you haven't received your VAT registration number and certificate.**

However you are not allowed to charge VAT, or show VAT as a separate item on your invoices, until you receive your VAT registration number.

The best approach is to increase your sales price by the VAT percentage, explain what you are doing to your customers, and then reissue those invoices once you have received your VAT registration number with the VAT is shown as a separate item. Your customers can then reclaim the VAT if they are VAT registered.

Reclaiming the VAT on purchases made before VAT registration

You may be able to reclaim VAT paid on purchases made before you registered for VAT.

- (a) You can reclaim VAT on goods bought up to 4 years before you registered if you still have those goods, and you have a valid VAT invoice or receipt;
- (b) You can reclaim VAT on services bought up to 6 months before you registered unless they related to goods you disposed of before you registered, if you have a valid VAT invoice or receipt.

What do you charge VAT on?

Once VAT registered, you must charge VAT on all supplies of goods and services, unless they are either exempt from VAT or outside of the scope of VAT. Goods and services that are exempt from VAT include:

- Insurance
- Financial services
- Education provided by an eligible body like a school

VAT is charged at three different rates. Most goods and services are subject to VAT at the standard rate which is currently 20%. Certain goods and services are subject to a reduced rate of 5% (e.g. energy saving materials), and others at 0% (e.g. children's clothes, books)

VAT schemes

There are a couple of accounting “schemes” which can simplify your VAT administration, including:

Cash accounting scheme: You account for your VAT when you receive cash from your customers, and when you pay out cash to your suppliers. This is worth looking at if you pay your suppliers significantly before you receive cash from your customers;

- (a) **Flat rate scheme:** If your taxable turnover is less than £150,000 you can calculate your VAT payments as a % of your total turnover (including VAT). You don't reclaim VAT on your purchases, but this is very straightforward way to work out your VAT.

There are also several VAT accounting schemes that retailers can use to simplify their retail VAT accounting where they sell high quantities of low value items.

VAT returns and deadlines

VAT returns and payments are due one month after the end of your VAT period. So if your VAT period is the quarter ended 31 March, your VAT return and payment is due on 30 April. If you submit your return online then you must pay electronically, but you get seven extra calendar days to submit your return and to pay. If you file your return or pay your VAT late then you may incur penalties.

Accounts and records

You must keep complete and up to date records which allow you to correctly work out your VAT position. You should already be keeping most of the accounts and records you will need for other purposes, but you will also need to keep VAT records and track your VAT in a VAT account.

Your VAT records must include:

- Records of all standard rated, reduced rated, zero rated, and exempt goods and services you buy and sell
- Copies of sales invoices
- All purchases invoices
- Records of imports and exports
- A VAT account (i.e. a separate record of the VAT charged on your sales and the VAT paid on your purchases).