DANBRO
Accounting For Life

Should I register for VAT?

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We're regularly asked, 'Should I register for VAT?' but there isn't always a straightforward answer; there's lots to consider, like your turnover and who you sell to. You could be legally obliged to register for VAT, but if you have the choice, first you'll need to weigh up the pros and cons.

The decision can be broken down into three parts: Can I? Must I? Should I?

Can I register?

Some goods and services are 'out of scope' of the VAT system so you can't charge or reclaim the VAT on them, and some goods and services are in scope but exempt from VAT.

If your business only sells VAT exempt goods and services you can't register for VAT.

Examples of exempt items include: insurance, postage stamps or services, and health services provided by doctors.

Must I register?

You must register for VAT when the total amount of your UK sales (excluding exempt sales) exceeds the VAT threshold during any 12 month period. You must also register where you expect to go over the threshold in a single 30 day period.

The VAT registration threshold currently stands at £85,000 and will remain so until April 2020.

You should register with HMRC within 30 days of exceeding the threshold, and if you're late in doing so you could receive a penalty.

CONTACT DANBRO ACCOUNTING AT: HELLO@DANBRO.CO.UK OR CALL 01253 600150
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Should I register?

Pros

- If you're VAT registered, you can claim the VAT back on any eligible purchases.
- Many businesses choose to register to gain credibility from being VAT registered.
- VAT registration can make your business appear larger or more established, as it says to potential clients that your turnover exceeds £85,000.

Cons

- Being VAT registered means you'll usually add 20% to your sales invoices. If you're selling mainly to the public or non VAT registered businesses this might put customers off, as they can't reclaim the VAT. Therefore you might choose to absorb the VAT yourself, rather than increasing your selling price.
- You'll have the extra admin of keeping VAT records, but this is something that your accountant can deal with.
- You might be selected for a VAT inspection by HMRC. However, if you appoint Danbro to prepare your VAT records and returns, this wouldn't be a concern.

If you do choose to register for VAT, Danbro will take care of the registration process on your behalf. Registration takes between 3 to 12 weeks and once registered, we'll confirm the date of your first VAT return and payment.

Which is the right VAT scheme for my business?

Once your business is VAT registered you must account for any VAT due to HMRC. There are several schemes available to you, some of which could save you time and money and improve cash flow.

Which scheme you choose will depend on your business, and your needs. Certain accounting schemes are designed for specific trade sectors, some for general businesses and some schemes can be used together.

Standard Accounting

Most businesses operate the Standard Accounting method, where you're required to complete four VAT returns a year on a quarterly basis, paying the VAT due at a similar time to submitting your return.

Your VAT bill for the quarter is based on the sales and purchase invoices dated in that period.

Under this method you pay the VAT on your sales whether or not your customer has paid you.

Cash Accounting

Under this method you only pay the VAT to HMRC once your customer has paid you, so this method is helpful for cash flow.

Your business can only use Cash Accounting if the VAT taxable annual turnover is under £1.35 million. Your VAT taxable turnover is the total value of any goods and services you sell, which aren't VAT exempt.

This scheme is advantageous when you have more money owed to you than you owe out to suppliers. Businesses who don't have any money owed to them, such as a public house should normally opt for the Standard Scheme for VAT.

Flat Rate Scheme (FRS)

To join the Flat Rate Scheme, your annual turnover excluding VAT must be £150,000 or less. With this scheme, which was introduced to simplify the admin side of VAT, you'll pay a fixed rate of VAT to HMRC.

The fixed rate you pay depends on your business sector, for example, a caterer would attract a flat rate percentage of 12.5%. You continue to charge VAT to your customers at the usual rate but you only pay over to HMRC 12.5% of your gross (meaning inclusive of VAT) turnover. You can't claim back any VAT on your purchases (with a few exceptions), but you don't hand over all of the VAT you receive to HMRC. The Flat Rate Scheme can generate some extra cash depending on the industry you operate in.

HMRC provide a list of business types, together with their percentage rates; you should select the closest match to your trading activity.

The Limited Cost Trader
If you spend a small amount on goods you might be defined by HMRC as a limited cost trader, meaning your percentage will be set at 16.5%, regardless of your trading activities. You're a limited cost business if:

- Your qualifying goods cost less than 2% of your turnover

OR

- You spend less than £1,000 a year on qualifying goods (if your costs are more than 2%)

Qualifying goods must not have any element of personal use and cannot include any of the following:

- Capital goods which are used over a period of time (i.e. computer/office equipment)
- Food or drink
- Vehicles, vehicle parts and fuel
- The cost of services (i.e. accountancy/ professional fees)

Annual Accounting Scheme

You can join this scheme if your estimated turnover is £1.35 million or less. If you register for the Annual Accounting Scheme you'll submit one VAT return a year instead of making submissions on a quarterly basis. You'll need to make advance payments based on your estimated VAT bill, with a final payment (or refund) being made when your return is submitted.

This scheme can be beneficial for small businesses, as it can help with cash flow, as well as reducing the amount of admin involved.

The VAT Margin Scheme

VAT Margin Schemes tax the difference between the amount you paid for an item and the amount you sold it for, i.e. your margin. You pay VAT at 16.67% (one-sixth) on the difference.

There are limits on the types of goods that are eligible, but you can choose this scheme when you sell second hand goods, works of art, antiques or collectors' items. If you're selling a large volume of low price items, it may be better to use the Global Accounting Scheme which is a simplified version of the Margin Scheme.

VAT Retail Schemes

If you run a retail business, there are a number of schemes to try and make calculating your VAT liability easier for you. The three standard retail schemes are: Point of Sale Scheme, Apportionment Scheme, and Direct Calculation Scheme. Each of these can be used together with the Annual Accounting Scheme mentioned previously.

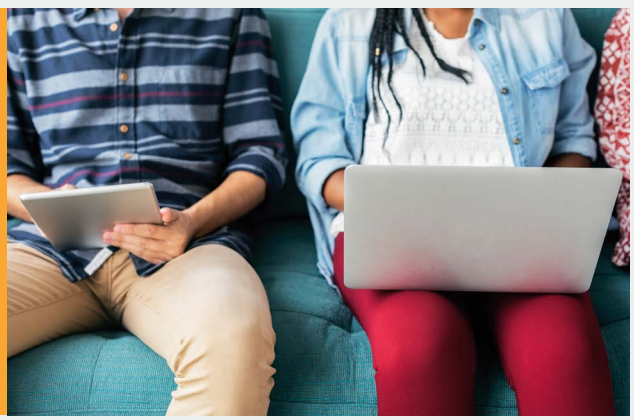
However, if your turnover (excluding VAT) exceeds £130 million you will need to arrange a bespoke scheme with HMRC.

Still not sure?

If you're still not sure whether to register for VAT, or you need help choosing the right scheme, contact us now at:

hello@danbro.co.uk

OR CALL 01253 600150



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