

BUSINESS TAX

VAT: Registration, Schemes and Common Mistakes

When you must register for VAT, the schemes that can simplify it, how to reclaim VAT properly, and the mistakes that cost the most.

FOR: BUSINESSES APPROACHING OR USING VAT • SOME EXPERIENCE

How VAT works in a paragraph

VAT is a tax on the value added at each stage of the supply chain, but in practice it works through your own bookkeeping. You charge VAT on your sales (output tax) and you pay VAT on your purchases (input tax). Every few months you pay HMRC the difference, or reclaim it if you have paid more than you charged. It is not a cost of your business so long as you are registered and your purchases qualify. It is, however, other people's money, held for a time in your bank account, and a common cause of cash problems when it is spent.

When you must register

You must register if your taxable turnover goes over the registration threshold, measured over the previous twelve months, or if you expect it to within the next thirty days. The threshold changes, so check the current figure on GOV.UK. If you pass it, you must register within the time allowed and charge VAT from the date the rules require. Registering late can mean paying the VAT you should have charged, out of your own pocket.

Voluntary registration

You can register earlier, and sometimes should.

- If your customers are VAT-registered businesses, they can reclaim the VAT you charge, so it costs them nothing, and you can reclaim the VAT on your own costs.
- If you have large start-up costs with VAT, you may be able to reclaim it.
- On the other hand, if your customers are the public and cannot reclaim VAT, registering effectively raises your prices or cuts your margins.

Rates

Most goods and services are standard rated, some are reduced rated, some zero rated and some exempt. Zero rated means VAT applies at nil and you can reclaim input tax. Exempt means no VAT is charged and you usually cannot reclaim input tax. Getting the rate wrong is one of the most common errors, so check each product or service.

Who this is for

- Businesses nearing the threshold
- New registrants choosing a scheme
- Anyone who has had a VAT query

Key points

- Watch your rolling twelve-month turnover.
- Register on time, or earlier if it helps.
- Set VAT aside as you receive it.
- Keep valid VAT invoices.
- Check the rate for each product and service.

Schemes that can simplify things

SCHEME	IN OUTLINE	SUITS
Standard	Account for VAT on invoice dates and reclaim on purchases	Most businesses
Cash accounting	Account for VAT when you are paid and when you pay	Slow-paying customers
Flat rate	Pay a fixed percentage of turnover, with limited reclaims	Small, low-cost businesses
Annual accounting	One return a year, with advance payments	Stable, simple businesses
Retail schemes	Special methods for shops	Retailers

Each has entry limits and rules, and the best choice depends on your costs and customers, so ask before choosing. The flat rate scheme, for example, can cost you money if you have high purchases or buy a lot of equipment.

Reclaiming VAT correctly

- You need a **valid VAT invoice** in the business's name.
- The cost must be **for business use**. Where private use is involved, only the business part can be reclaimed.
- Some items are restricted: VAT on business entertainment is not normally reclaimable, and cars are restricted.
- Reclaim in the **correct period** and within the time allowed.

Returns and payment

Returns are normally filed through Making Tax Digital software and are due one month and seven days after the end of each VAT period, and payment is due by the same date. Direct debit helps, but make sure the cash is there. Penalties for lateness operate on a points system, with financial penalties after a threshold, plus interest on late payment.

Common mistakes

- Registering late.
- Charging the wrong rate.
- Reclaiming VAT without a valid invoice.
- Spending the VAT you have collected.
- Ignoring overseas sales and purchases, which have their own rules.
- Not telling HMRC about changes in the business.

Related guides

- Making Tax Digital
- Registering your business

VAT habits

- Track rolling turnover monthly
- Put VAT aside as you are paid
- Check invoices before reclaiming
- Reconcile the VAT account
- File early
- Review scheme choice yearly

How King Street can help

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We monitor your turnover against the threshold, register you at the right time, help you choose the best scheme, prepare and file your VAT returns in compatible software, and review your VAT treatment so you do not overpay or fall foul of HMRC.

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