



Guide to VAT registration



In this guide, we walk you through the different **VAT schemes** and explain how to **comply** with the relevant laws.



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VAT – a brief introduction

Being VAT (value added tax) registered means you may claim the VAT back on VAT rated business expenses and capital asset purchases. It also means you'll charge VAT on your invoices.

Any type of trader is eligible, so whether you work as a sole trader, in a partnership or through a Limited Company you can register for VAT.

Advantages +

If you have high outgoings and work mainly for VAT registered clients, VAT registration is good news. Firstly, your clients usually won't mind - as they'll usually be reclaiming the VAT anyway if they are VAT registered. Secondly, you'll be able to claim the VAT element back from all your eligible VAT rated business expenditure.

Disadvantages -

VAT registration is not so great if you have low outgoings and your customers are not VAT registered.

If your outgoings are low there's little VAT for you to claim back on your outgoings and, by adding 20% to your fees, you could price yourself out of your market.

When VAT registration becomes compulsory

If your VAT taxable turnover goes over £85,000* in any 12-month period, or you will go over the threshold in a single 30 day period. You must register within 30 days of your business turnover exceeding the threshold.

*Rate correct at 31/03/18

Boox tip 💡



Find out how many of your clients are VAT registered and forecast your business's future expenditure. Then contact us to discuss which VAT scheme, if any, is right for you.

Types of VAT

There are various VAT schemes, each with distinctive pros and cons, depending on the nature of your business. In all cases, you'll need to submit VAT returns, usually quarterly. Here's a look at some of the schemes.

1 Standard VAT accounting

With standard VAT accounting, your VAT payments are based on the dates invoices are raised, not the date they are paid.

In your VAT return, you'll need to list the VAT you've charged on your invoices (known as output tax) for the applicable quarter and the VAT you've paid as part of your allowable business expenses and purchases (input tax).

The difference between the two figures is what you'll owe to HMRC.

So, if you've invoiced more VAT than you've paid out, you will owe HMRC the difference – even if your invoices haven't yet been paid.

On the other hand, if you've invoiced less VAT than you've paid out, you can reclaim the difference from HMRC – even if you've not yet paid all your bills.

2 Cash accounting

With cash accounting, your VAT payments are based on the date invoices are paid.

In your quarterly VAT return, you'll list your input and output VAT amounts in the same way as for the standard accounting scheme. However, the amount you pay for that quarter is the difference between the total VAT you've actually received and what you've paid out.

Therefore, cash accounting helps when the time between raising an invoice and getting paid crosses a VAT return deadline. The flip side is that you can't claim VAT back on bills that you've not yet paid. This can reduce the benefit of any extended payment terms you agree with suppliers.

If your turnover is below £1.35 million, you're eligible for VAT cash accounting. [➔](#)

Types of VAT continued...

3 Annual accounting scheme

VAT is paid on account throughout the year in nine monthly or 3 quarterly instalments. Your previous year's VAT determines how much these installments will be. However, if in your first year, then this is based on an estimate of your VAT liability.

You only need to complete one VAT Return at the end of the year. If you have not paid enough VAT on account, you will need to make a balancing payment to HMRC. If you have overpaid, you can claim a refund from HMRC. You can join the scheme if your estimated VAT taxable turnover is £1.35 million or less.

Annual accounting is not suitable for businesses that regularly reclaim VAT as you would only get one repayment at the end of the year. If your turnover decreases, your interim payment may be higher than under standard VAT accounting. You have to leave the scheme if your VAT taxable turnover exceeds £1.6 million. 

Boox tip



Both your return and your payment must be sent electronically. Our accounting software will help you manage your returns and avoid missing deadlines.

 **Need anymore help with your accounts?**

Visit our **Help & Advice** section at www.boox.co.uk/help-and-advice

Types of VAT continued...

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Flat rate VAT (FRV)

The flat rate VAT scheme is designed specifically for small businesses to reduce the administrative burden of VAT registration. Under this scheme you charge VAT on your invoices at the full rate, yet pay a lower percentage to HMRC. Exactly how much lower depends on the industry sector you're in (see table on page 7). The balance is treated in the same way as income for the business.

Flat rate VAT (FRV)

As an extra incentive, HMRC gives a first year discount of a further 1% off your industry VAT payment rate.

You're eligible to join the scheme if your annual turnover is less than £150,000 ex VAT. If your VAT inclusive turnover then goes over £230,000 in a financial year, you'll no longer qualify.

So what's the catch?

If you are classified as a low cost business the rate applied is 16.5%. Limited cost businesses are ones where the goods cost are less than either:

- › 2% of turnover
- › £1000 a year (if your costs are more than 2%)

Note the costs considered are goods only so exclude professional fees, travel, subsistence etc.

You can't claim VAT back on your business expenses. However, you are allowed to claim it back on capital purchases where the receipt value is higher than £2,000.

In other words, if you buy a single item costing £2,000 or more, or a combination of items exceeding that value in a single purchase, you can claim the VAT back.

Here's an example...

You work in advertising. Each month you invoice your clients £3,000 excluding VAT. By registering with the flat rate VAT scheme, your invoice value increases to £3,600. Of this total, you pay 11% (£396) to HMRC in VAT and you keep the rest (£204).

Flat Rate VAT - rates by sector

Business category	% you pay to HMRC
Accountancy or book-keeping	14.5
Advertising	11
Agricultural services	11
Any other activity not listed elsewhere	12
Architect, civil and structural engineer or surveyor	14.5
Boarding or care of animals	12
Business services that are not listed elsewhere	12
Catering services including restaurants and takeaways	12.5
Computer and IT consultancy or data processing	14.5
Computer repair services	10.5
Entertainment or journalism	12.5
Estate agency or property management services	12
Farming or agriculture that is not listed elsewhere	6.5
Film, radio, television or video production	13
Financial services	13.5
Forestry or fishing	10.5
General building or construction services	9.5
Hairdressing or other beauty treatment services	13
Hiring or renting goods	9.5
Hotel or accommodation	10.5
Investigation or security	12
Labour-only building or construction services	14.5
Laundry or dry-cleaning services	12
Lawyer or legal services	14.5
Library, archive, museum or other cultural activity	9.5
Management consultancy	14
Manufacturing fabricated metal products	10.5

Business category	% you pay to HMRC
Manufacturing food	9
Manufacturing that is not listed elsewhere	9.5
Manufacturing yarn, textiles or clothing	9
Membership organisation	8
Mining or quarrying	10
Packaging	9
Photography	11
Post offices	5
Printing	8
Publishing	11
Pubs	6.5
Real estate activity not listed elsewhere	14
Repairing personal or household goods	10
Repairing vehicles	8.5
Retailing food, confectionary, tobacco, newspapers or children's clothing	4
Retailing pharmaceuticals, medical goods, cosmetics or toiletries	8
Retailing that is not listed elsewhere	7.5
Retailing vehicles or fuel	6.5
Secretarial services	13
Social work	11
Sport or recreation	8.5
Transport or storage, including couriers, freight, removals and taxis	10
Travel agency	10.5
Veterinary medicine	11
Waste or scrap dealing	10.5
Wholesaling agricultural products	8
Wholesaling food	7.5
Wholesaling that is not listed elsewhere	8.5

Limited cost traders - the above rates do not apply and the rate is set at 16.5%



Get it today

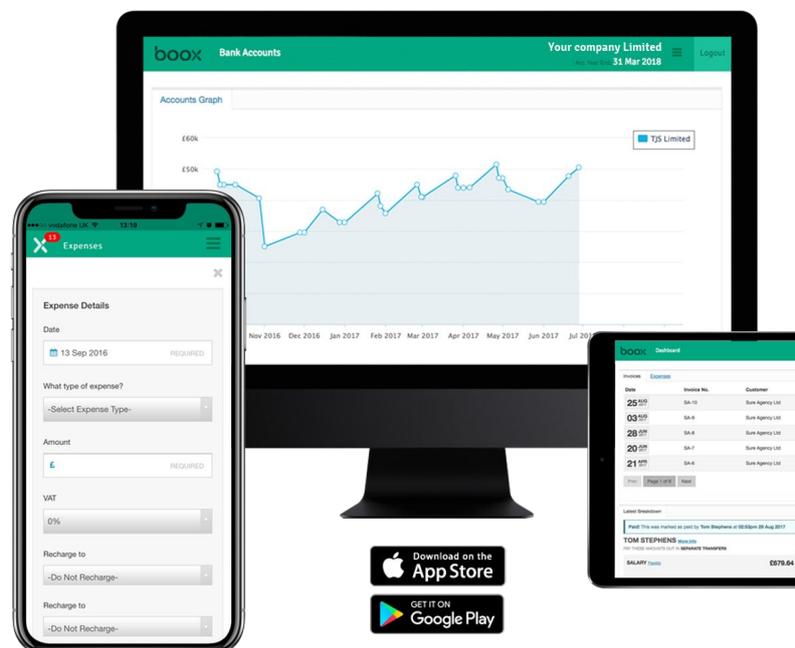
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- ✓ Connect your bank account

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Registering for VAT

Online registration

If you haven't already done so, you'll first have to register for HMRC Online Services or the Government Gateway.

Then, you can register for VAT online at www.hmrc.gov.uk.

If you are a Boox client, we would suggest letting us help with this as it can be a complex area.

Registering for VAT online services

Once HMRC has processed your VAT registration, you'll receive your certificate of registration, known as VAT4.

Next, you'll need to log in to your HMRC online and register for VAT Online Services. You'll be asked for:

- › Your VAT registration number (this is on your VAT4).
- › Your business's postcode (if you're an overseas business, use AB10 1ZP).
- › Your effective date of registration for VAT (this is also on your VAT4).
- › The final month of the last VAT return you submitted (select 'n/a' for a newly registered business).
- › The Box 5 figure from the last VAT return you submitted (insert '0.00' for a newly registered business).

You're now ready to submit your VAT returns online!

Boox tip



Once you've registered for VAT, you may be able to claim back the VAT on some of your historic purchases. However, the eligibility criteria for this can get complicated, so talk to us to see if any of your pre-VAT registration expenditure may apply.

Submitting your VAT returns

You'll need to submit your VAT return online for each VAT period, usually every 3 months. You'll be asked to provide details of your sales and purchases and the amount of VAT that applied to these transactions.



As a VAT registered business, you'll usually have to submit a VAT return every quarter, even when you have no VAT to pay or reclaim.

The frequency of your return will depend on how you have set up your scheme. The options are: Monthly, Quarterly or Annually.

What you can and can't claim

You can claim VAT back on most expenditure necessary for running your business. If you use the product of service for personal as well as business use, work out the business element as a percentage of the cost and claim the VAT on a pro rata basis.

Examples of what you can't claim VAT on the cost of:

- › Business entertainment.
- › Goods and services your business uses to make VAT exempt supplies.
- › Anything for private use.
- › You can only claim the VAT on the fuel you use for business mileage - Or you can claim on all your fuel and adjust it by paying a fuel surcharge.
- › There are special rules for car expenses, staff travel and partly exempt businesses

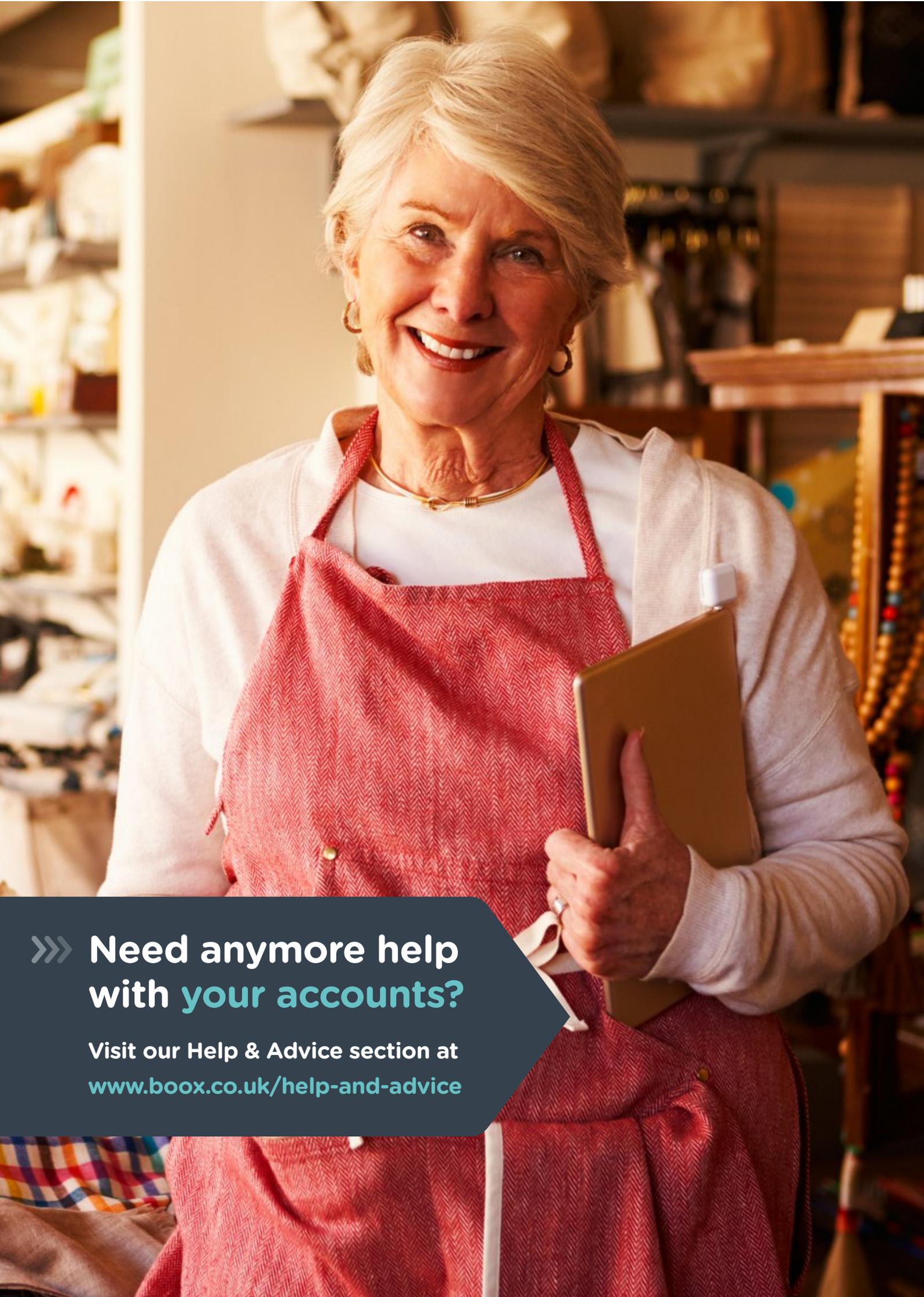
Bad debts

- › A problem that sometimes arises with standard VAT accounting is that a business pays VAT to HMRC, but doesn't get paid by its client.
- › If this happens to you, you can claim the money back through your VAT return, providing:
- › The debt is between 6 months and 4 years and 6 months old.
- › You haven't sold the debt.
- › You didn't charge more than your normal price for the product or service.
- › If you make a claim and the debt is subsequently paid, you must pay the relief back via your next VAT return.

Boox tip



Keep copies of invoices and receipts – you may have to prove you paid VAT on items you claim for.



»» **Need anymore help
with **your accounts?****

Visit our Help & Advice section at
www.boox.co.uk/help-and-advice

Submitting your VAT returns continued...

Other penalty charges

HMRC can also charge you up to:

- › 100% of any tax you understate or overclaim if it believes you've made careless or deliberate inaccuracies.
- › 30% of an assessment if HMRC sends you one that's too low and you don't tell them within 30 days.
- › £400 if you submit a paper VAT return, unless HMRC has given you exemption from submitting online returns.

Interest – when HMRC can claim from you

HMRC may charge you interest if you:

- › Under-report the VAT you've charged.
- › Try to claim back more than you've paid.
- › Pay an assessment that HMRC later finds was too low.
- › Make a mistake on your VAT Return.

If left unpaid within 30 days, further interest will be applied. HMRC will continue to charge you interest for as long as you don't pay, up to a maximum of two years.

Boox tip



Avoid all the hassle and extra expense a mistake on your VAT return may cause. At Boox, we'll make sure you hit your VAT deadlines, submit the right figures and pay the correct amount.

Interest – when you can claim from HMRC

If you've overpaid your VAT and had to wait for a refund from HMRC, you can claim interest for this period.

In most cases, you'll be able to claim for the whole period between your payment to HMRC and the date it authorises your refund.

When claiming interest from HMRC, be aware:

- › If you delay your claim, HMRC might disregard this time when calculating interest.
- › You must claim the interest separately from the repayment itself - write to HMRC within four years of the repayment's authorisation date, explaining why you're owed interest.
- › Any interest you get from HMRC is taxable.

Making your VAT payments

HMRC doesn't accept cheques from most businesses anymore, so you'll need to pay your VAT electronically.

Ways to pay HMRC

You can pay your VAT bill using any of the following methods:

CHAPS	Direct Debit	Standing Order	Telephone Banking	Corporate credit or debit card
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What happens if you're late

If HMRC doesn't receive your VAT return or the full VAT payment by the deadline, it records a default.

You may then enter a 12-month surcharge period. If you default again during this time, the surcharge period is extended for a further 12 months and you may be hit with a surcharge on top of the VAT you already owe.

This will be a percentage of the amount outstanding on the date you missed the deadline. The rate increases with every subsequent default in a surcharge period.

This table, reproduced from the HMRC website, shows the surcharges for defaulting on VAT returns and payments.

Defaults within 12 months	Surcharge if annual turnover is less than £150,000	Surcharge if annual turnover is £150,000 or more
2nd	No surcharge	2% (no surcharge if this is less than £400)
3rd	2% (no surcharge if this is less than £400)	5% (no surcharge if this is less than £400)
4th	5% (no surcharge if this is less than £400)	10% or £30 (whichever is more)
5th	10% or £30 (whichever is more)	15% or £30 (whichever is more)
6 or more	15% or £30 (whichever is more)	15% or £30 (whichever is more)

VAT rates

There are three different rates of VAT.

Standard rate – currently 20%

This is the most common rate and it applies to most goods and services. You need to charge this rate unless your goods or services are classed as reduced or zero-rated.

Reduced rate – currently 5%

When to charge this rate can depend on the item being provided and also the circumstance of the sale. To quote HMRC's example:

- › Domestic fuel or power are always charged at 5%.
- › Mobility aids for older people are only charged at 5% if they're for someone over 60 and the goods are installed in their home.

Zero rate

Zero-rated goods include:

- › books and newspapers
- › most food

Even though no extra money gets charged with these items, HMRC requires you to record zero-rated transactions in your VAT accounts and report them on your VAT return.

See HMRC's current guidance on VAT rates for different goods and services.



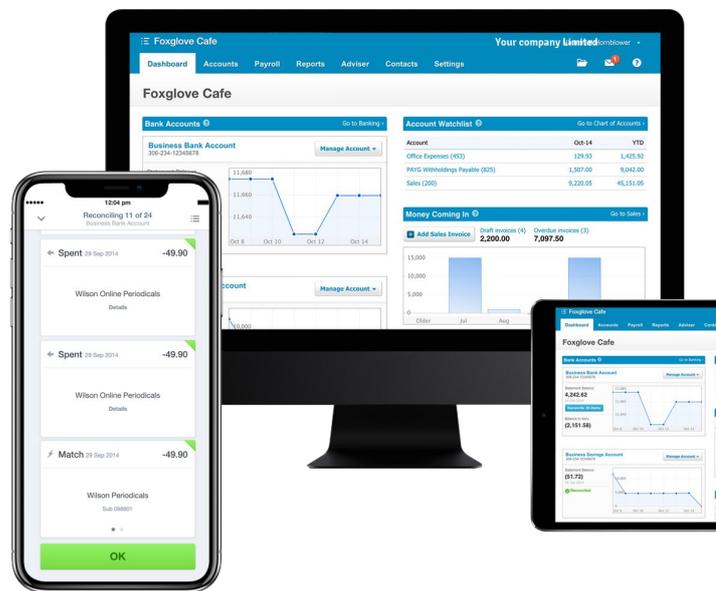
Boox tip



Keep an eye on VAT rates. They do change from time to time and, if you're VAT registered, you must apply the new rates from the date they take effect.

What works for you?

As well as our own agile accounting app, we support other market leaders in accounting software, to fit in with what works best for you.



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If you are a **Boox** client and have made the decision to close your company, we will work with you to ensure the closure is handled fully and correctly so that you are not exposed to the consequences of getting it wrong.

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