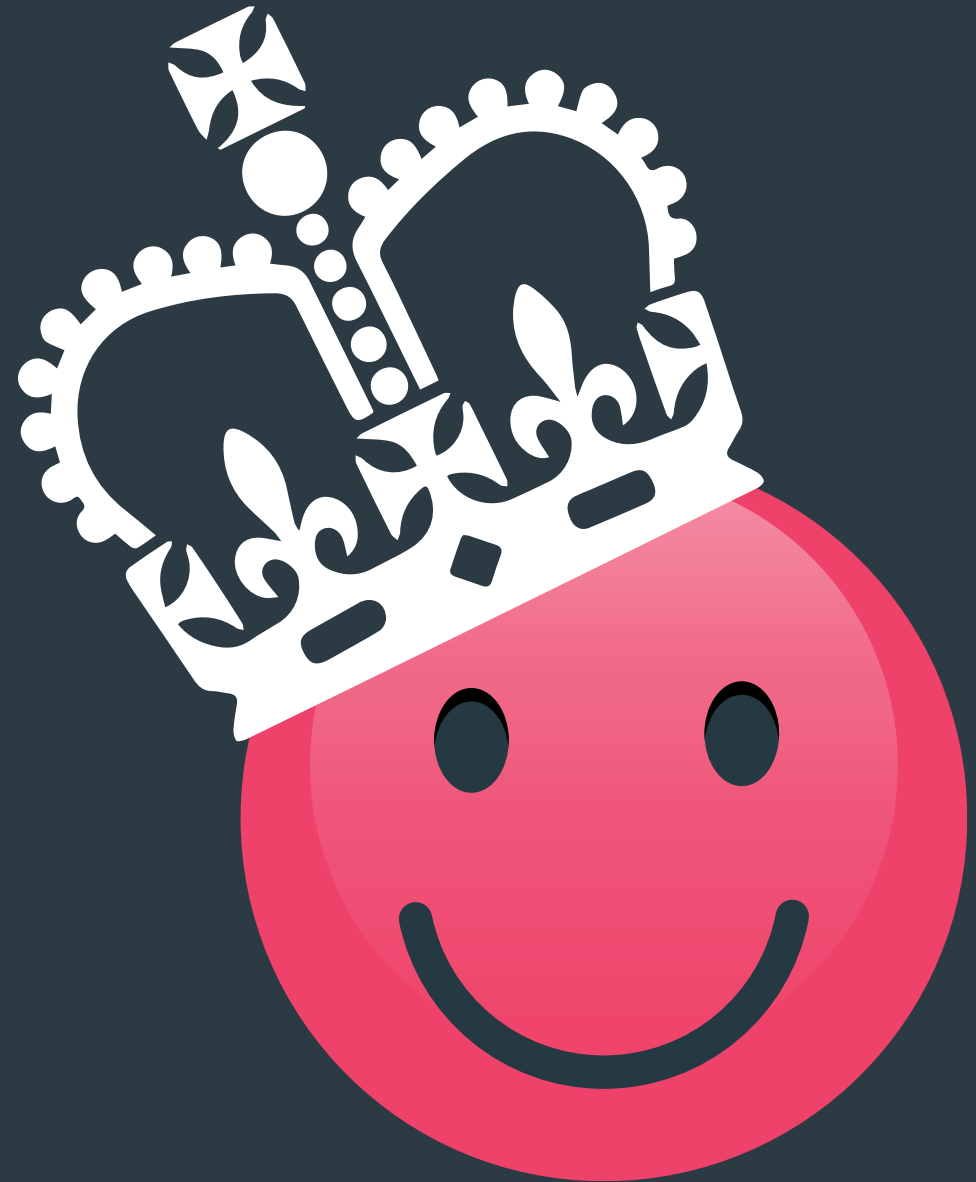


VAT REPORTING AND YOU – HOW TO KEEP HMRC HAPPY

Managing VAT can be a real headache for sole traders and small businesses, but trust us – it's doesn't have to be. In order to keep HMRC happy – that's Her Majesty's Revenue and Customs – you need to stick to the rules. And there are lots of them, too, so let us be your guide.

We're going back to basics with some handy hints to help you on your way. Here's your beginners guide to VAT – where we bust the jargon and tackle the key issues surrounding this tricky topic.



SO, WHAT EXACTLY IS VAT?

VAT – that’s short for value added tax – is collected on behalf of HMRC by businesses that are VAT registered. It’s charged on most goods and services provided by VAT-registered businesses in the UK. Rates vary according to what you’re supplying, and there are four main categories to think about:

Standard Rate

This now stands 20% and it applies to most goods and services – including web design services, electronics, consultancy, photography services and much, much more. This is the most common VAT rate, and if it applies to you then it’s the rate you should charge your customers for your goods and services.

Reduced Rate

This rate is 5%, and it’s charged on things like fuel and power used in homes and by charities; energy-efficient materials such as insulation, property renovations and alterations, as well as

children’s car seats. If your goods or services fall into relevant categories, then this is the rate you will charge your customers.

Zero Rate

This means that your goods and services are still VAT-taxable – so they still need to go on your VAT return – but the VAT rate you charge to your customers is 0%. Yet you must still record them in your VAT accounts and report them on your VAT return. Examples include food and drink for human consumption (except some items like alcohol, confectionery, and restaurant and takeaway meals, which are standard rate), plus children’s

shoes and clothing, books, newspapers, protective clothing, brochure printing and animal feed.

Exempt Supplies

Some things are totally exempt from VAT, like postage stamps, most financial services, insurance and property transactions. Antiques and works of art, physical education and sports activities, also fall into this category. If you only supply exempt services, you can’t usually register for VAT.

Rates are subject to change and you must apply changes from the date they change – and not a day later.

DO I REALLY NEED TO REGISTER FOR VAT?

Well, that depends on your particular circumstances. If your turnover in a 12-month period reaches the current £85,000 threshold, then registration is compulsory – and if you don't do it, you'll receive a fine as a penalty. If you don't hit this figure, then registration isn't obligatory, but you can still register voluntarily if you wish to do so.

You must register for VAT when:

- Your VAT taxable turnover is over the threshold in a 12-month period – that's the total value of everything you sell that isn't VAT-exempt

- You expect or know you will go over the threshold over a 30-day period

When we talk about 12-month period, we mean any rolling 12-month period – for example, from the start of July to the end of June. That's different from the calendar year or your tax year, which represent fixed periods.

Easy-to-use accounting software like KashFlow stays up to date with threshold changes, and lets you know if you're getting close to it so you can remain compliant. And remember that you can only charge VAT if your business is VAT-registered.

Current VAT rates for goods and services in the UK

Standard rate	20%
Reduced rate	5%
Zero rate	0%
Exempt supplies	-

Things you should know



If your yearly turnover hits or goes over the £85,000 threshold, then VAT registration is compulsory - otherwise you will be fined



If your turnover is below this figure, then you can still VAT register – it allows you to reclaim VAT on certain goods and services you buy for your business, but it also means you need to charge VAT to your customers

WHY WOULD I CONSIDER VOLUNTARY REGISTRATION?



If your turnover is below £85,000, you can still opt for voluntary registration – which has certain benefits for some businesses. These include the following:

- You can reclaim VAT on most goods or services you buy for your business
- It can boost your business profile, as it makes you seem bigger and more established
- You receive a VAT number, which you can show on websites and forms to give your business an extra professional touch

However, voluntary registration also means you get the hassle of completing VAT returns and paying what you owe every quarter. And it's worth noting that, if you're supplying the general public with goods and services, then you will put your prices up by the appropriate rate of VAT.

HOW DO I ACTUALLY VAT REGISTER?

You need to apply to register for VAT – it doesn't just happen automatically. Most businesses can **register online**, where you can create your own online account (sometimes called a 'Government Gateway account').

In order to register, you need to provide a few key details – such as your turnover, business activity and bank details. You'll receive a VAT registration certificate within 14 days or so, which will arrive directly to your VAT online account or through the post (if an agent registers on your behalf or you can't register online).

Your registration date is called your 'effective date of registration' – and you'll need to pay any VAT due from this date onwards.

Using an agent

If your short of time, or want to leave the work to someone else, you can get someone else to deal with HMRC on your behalf – and they become your 'agent'. This can be a professional accountant, a friend or a relative, and they will receive all the necessary correspondence to deal with you VAT.

HOW DO I WORK OUT MY VAT?

VAT CALCULATOR

Price

VAT Inclusive Price

VAT Rate (%)

VAT Amount

ADD VAT

Remove VAT

Once you've registered, you need to charge the applicable rate of VAT on the products or services you sell. Forget time-consuming calculations – it's never been quicker or easier to tot up your VAT thanks to the [KashFlow VAT calculator](#).

This clever tool works out how much VAT to add or reclaim for any given price. It's completely free to use, so why not give it a go today?

[KashFlow VAT calculator](#)

WHEN DO I SUBMIT MY VAT RETURNS?

You need to file a return to for each VAT period – that's usually once every three months, or every quarter. This stretch of time is called your 'VAT accounting period'.

Keeping your records up to date as you go along is a great way to reduce your admin burden – and by using KashFlow to submit it directly to HMRC, you'll make your VAT return quicker and easier than ever before.

Your VAT return records things like:

- Total sales and purchases
- How much VAT you owe

- How much VAT you can reclaim
- What HMRC owe you as a VAT refund

Check your VAT online account to confirm your VAT return and payment deadlines, which are usually the same – one calendar month and seven days after the end of a VAT accounting period. And you also need to allow time for the payment to reach HMRC's account.

If you're VAT registered, then it's important to note that you need to submit a VAT return even if you have no VAT to pay or reclaim.

Final VAT Returns

When you cancel your VAT registration, you also need to make sure you submit a final VAT return. You can usually do this via your online VAT account.

WHAT'S THE FLAT RATE SCHEME?



The Flat Rate Scheme is open to businesses with a turnover of less than £150,000, and it's designed to simplify the VAT process – particularly for freelancers, contractors and small businesses. You have to make sure you apply to HMRC to sign up for it.

So, as you already know, the amount of VAT you pay HMRC each quarter reflects the difference between the VAT you've charged customers, and the VAT you can reclaim on your supplier bills. But things are different with the Flat Rate Scheme.

With the Flat Rate Scheme, the two-stage process mentioned above is simplified into one. You still charge VAT to your customers in the usual way, but instead you pay a percentage of your total sales to HMRC as VAT – and that percentage depends on what kind of business you run. Here are some things about the Flat Rate Scheme that you should know:

- You pay a fixed rate of VAT to HMRC
- You keep the difference between what you charge your customers and pay to HMRC

- You can't reclaim the VAT on your purchases – except for certain capital assets over £2,000 (for example, a computer package or items of kitchen equipment bought for a restaurant).
- HMRC allows new registrants to apply a 1% discount to their rate for their first year

When you sign up for the Flat Rate Scheme, you will apply a HMRC-mandated rate to your turnover, and it'll be based on your sector. See a few common examples on the next page:

WHAT'S THE FLAT RATE SCHEME?

Type of business	Current VAT flat rate (%)
Accountancy or book-keeping	14.5
Catering services, including restaurants and takeaways	12.5
Computer and IT consultancy	14.5
General building or construction services	9.5
Hairdressing and beauty treatment services	13
Repairing vehicles	8.5

[See here](#) for a full list of flat rates for types of business, along with further details about the Flat Rate Scheme.

Don't forget that you can head to the [HMRC website](#) to explore the ins and outs of VAT in more detail.

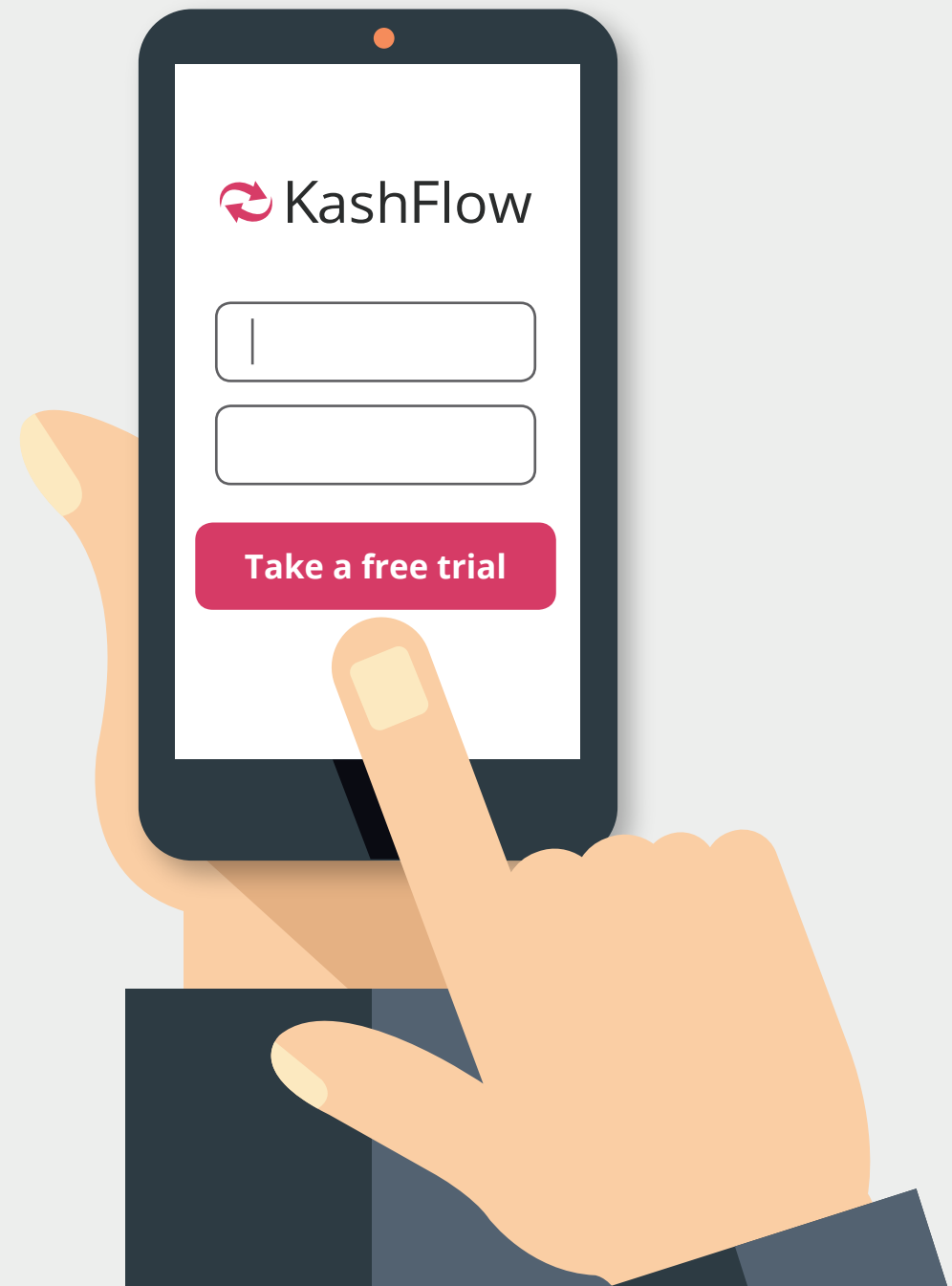


ABOUT KASHFLOW

This VAT guide was brought to you by KashFlow – specialists in straightforward accounting software for sole traders, micro- and small businesses, and freelancers. You can use KashFlow to record all your VAT invoices and expenses, which is all part of our mission to make accounting as easy as possible – allowing you to focus on growing your business. Our extra handy tools such as the free [KashFlow VAT calculator](#) can also lend a helping hand.

Want to try us out for free? [Sign up](#) for a free trial today to see where we can take you.

Based in the UK, over 70,000 users make the most of our award-winning, cloud-based platform to keep track of finances from anywhere. Our iOS and Android app, KashFlow Go, lets you send invoices and quotes on the go – it's the ideal tool for busy businesses. What's more, you get access to fast and free support from our experts.



Please note that the figures included in this guide are correct as of April 2017, and are subject to change.

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