



THE ULTIMATE GUIDE TO VAT

Paying VAT is one of the biggest, and most daunting, parts of any small business's journey. Whether you're preparing to register for the first time, or looking for way to make the whole process a bit simpler, you'll find plenty of tips and tricks in this guide.



SO, WHAT EXACTLY IS VAT?

VAT (value added tax) is charged on most goods and services provided by VAT-registered businesses in the UK. It's collected on behalf of HMRC by businesses that are VAT registered. These same business can also claim VAT back on relevant purchases – we'll get into this in a bit.

Rates vary according to what you're supplying, and there are four main categories to think about:

Standard Rate

This now stands at **20%** and 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%**. Despite this, you still have 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.

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.

The main advantage is that you can reclaim VAT on most goods or services you buy for your business. So, for example, you might collect £1,000 in VAT from your customers over a 3 month period. In the same period you also buy something from a supplier and you're charged £200 + VAT (Total: £240).

The amount you have to give to HMRC is the VAT you've collected (often called "Output VAT") minus the VAT you've paid out ("Input VAT"). So in this example you'll be handing over £960 (1000 minus 40). This means you're essentially £40 better off than you would have been if you weren't VAT registered.

There are other advantages too:

1. It can boost your business profile, as it makes you seem bigger and more established.
2. You receive a VAT number, which you can show on websites and forms to give your business an extra professional touch.

REGISTERING FOR VAT

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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.



THE DOWNSIDES OF VAT REGISTRATION



However, voluntary registration also means you have to keep on top of completing VAT returns and paying what you owe every quarter. If you're not using accounting software, then this can create more paperwork for you.

It's worth noting that, if you're supplying the general public with goods and services, then you might have to put your prices up by the appropriate rate of VAT.

Imagine you sell widgets to people or businesses that aren't VAT registered (like the general public). If you currently buy them for £7 (including VAT of £1.17) and sell them for £10, then you're making a profit of £3 on each sale.

If you become VAT registered then you can claim that £1.17 back and now you're making a profit of £4.17 per sale - and increase of over 30%.

But if you're VAT registered, you have to charge VAT on everything you sell, so you'll have to start selling at £12. If your customers aren't VAT registered then the extra £2 has to come out of their pocket. This may lead to customers shopping elsewhere.

You could absorb the VAT and still sell at £10, but have that as the VAT inclusive price (£8.33 + £1.67 VAT).

In this example, you'd buy your widgets at £5.83 (you actually pay £7, but £1.17 can be claimed back). You'd sell them at £8.33 (you actually charge £10, but £1.67 goes to HMRC). So, you now make £2.50 (£8.33 minus £5.83) profit on each sale.

HOW DO I REGISTER FOR VAT?

If you decide to, or need to, register for VAT then you'll have to apply – 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 you're 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. 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.

WHICH VAT RECORDS SHOULD I KEEP?

- Copies of all invoices you've issued or received
- Self-billing agreements
- Debit and credit notes
- Import and export records
- Records of anything you can't reclaim VAT on
- Records of goods
- Records of any exempt or zero-rated AVT items (*bought or sold*).
- A register of your VAT accounts

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

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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

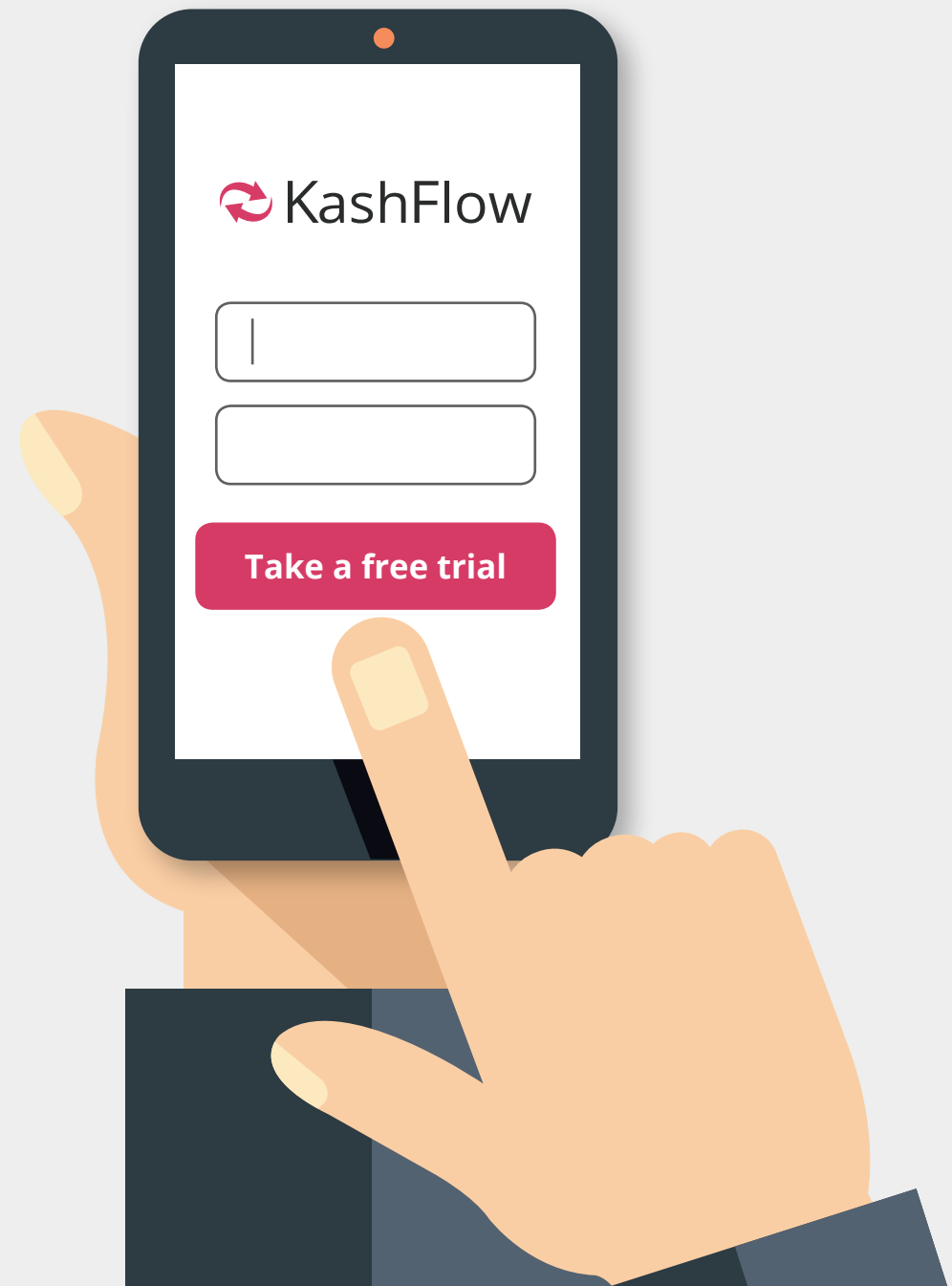


ABOUT KASHFLOW

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 57,000 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.

www.kashflow.com