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5 Things to Consider if You're Approaching the VAT Threshold.

You must register your business for VAT if its **VAT taxable turnover** is more than £85,000.

1) If you've reached this point - don't panic! Celebrate the growth of your business, and with your clients too. Your prices are about to go up by 20%, but tell your clients in a celebratory way. "I'm so proud to have reached this milestone. VAT registration means that I will need to increase my prices. Thank you for your support."

You are successful and your clients or customers clearly love working with you so will value you and will pay the extra. If you lose some based on the increase, you will find more.

2) You should start tracking your rolling 12-month turnover, which means at the end of every month you need to add up your turnover for the previous 12 months. This is not related to the tax year or your financial year. You will have to register for VAT with HM Revenue and Customs (HMRC) the month after your rolling 12-month turnover goes over the £85k turnover threshold. You can't wait until your year-end accounts are finalised.

For example..... between 10th February 2020 and 9th February 2021 your VAT taxable turnover was £100,000. That's the first time it has gone over the VAT threshold. You must register by 31st March 2021. Your effective date of registration is 1st April 2021.

If you go over the threshold and don't register at that time you could be liable for a large amount of back tax (as HMRC can treat you as being registered from the date you go over and then calculate what you owe them as a result!)

3) Get some accounting software. If you are approaching £85k turnover and not yet using accounting software then I would highly recommend getting onto a package like FreeAgent. Firstly, once you are VAT registered you will need to file returns under the HMRC Making Tax Digital (MTD) scheme so will need some software to do this. VAT returns must be filed quarterly. Secondly, FreeAgent tracks your turnover for the previous 12 months on a rolling basis and shows the total on your dashboard, saving you having to do the manual calculations at the end of each month. Thirdly, packages such as FreeAgent will enable your invoices to show the VAT split for your clients. The automation within these packages are big time savers, and we could all use more time, couldn't we?

4) Choose which VAT scheme you will be on. There are 2 options: -
a) Standard VAT scheme
b) Flat rate VAT scheme

a) **Standard VAT** - you will add 20% VAT on all your sales and will claim any VAT on your purchases / expenses back. So yes, your prices will increase by 20%. It won't make any difference for any of your clients who are VAT registered as they will be able to claim the VAT back, but for any of your customers who are individuals or small businesses not registered for VAT it will mean a 20% price increase.

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Say you have sales of £30,000 in one quarter - £25,000 is your sales and £5,000 is output VAT. Then say you have purchases/expenses of £2000 in that quarter and they all have VAT on them (£400). The VAT return will show as follows:

OUTPUT VAT £5,000
INPUT VAT -£400
VAT payable to HMRC = £4,600
Output VAT is VAT on Sales and Input VAT is VAT on Purchases

b) **Flat Rate VAT** – The amount of VAT a business pays or claims back from HMRC is usually the difference between the VAT charged by the business to customers and the VAT the business pays on their own purchases.
With the Flat Rate Scheme:

- you pay a fixed or **flat rate of VAT** to HMRC
- you keep the difference between what you charge your customers and pay to HMRC
- you cannot reclaim the VAT on your purchases - except for certain **capital assets over £2,000**

To join the scheme your VAT turnover must be £150,000 or less (excluding VAT), and you must apply to HMRC. The VAT flat rate you use usually depends on your business type. You may pay a different rate if you only spend a small amount on goods.

Within the Flat Rate scheme, most service-based b usinesses are likely to fall under the limited cost trader category. A limited cost trader is defined as one that spends less than 2% of the value of its sales on goods (not services) over the period you submit a VAT return. If you're a limited cost business your flat rate percentage will be 16.5% regardless of your sector, but be aware that HMRC do allow a 1% discount if you're in your first year as a VAT-registered business.

So, in the example above, your VAT return would look like this (in the first year) as your flat rate payment will be 15.5%. So, on a £25,000 turnover, the VAT payable to HMRC will be £3,875.

You calculate the tax you pay by multiplying your VAT flat rate % by your 'VAT inclusive turnover'

If you are classed as a limited cost trader, the flat rate method is simpler than working out your output VAT, but benefits (if any) in terms of amounts payable to HMRC are marginal.
If you are not a limited cost business, you use your business type to work out your flat rate. **VAT Flat Rate Scheme : Work out your flat rate - GOV.UK (www.gov.uk)**

5. Get an accountant or bookkeeper to help you.
Who will file your VAT returns? Are you going to do the VAT returns yourself or is it now time to get a bookkeeper or accountant?

Consider whether any or all of the goods and services you provide are VAT exempt or zero rated. You will need to register for VAT with HMRC and then you need to register for MTD too so that you can file your returns. HMRC VAT inspections are fairly common so it's important that you submit your VAT returns correctly from the start. Also, you may well want to change your invoices to show the VAT split for your clients, and change other business stationery to show VAT registration details.

If you want to discuss your accounts and VAT returns, please send me an email **info@carolineboardmanconsulting.co.uk**