



## Should you register for VAT?

Even if you don't have to...

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## VALUE-ADDED TAX (VAT)

We're used to paying VAT as consumers almost every time we buy something. It's usually 20%, although some items have a reduced rate and some are zero-rated. The Just for Fun section below shows how peculiar some VAT/non-VAT distinctions can be.

If you register your business for VAT you must add the tax at the appropriate rate to your selling prices. You then hand that additional amount to the government. Congratulations! You're now an unpaid tax collector. You also have to keep meticulous records and submit monthly or quarterly VAT returns.

The upside is that you can reclaim the VAT you pay to your suppliers. These reclaims could be significant.

If you trade below a defined earnings threshold it's up to you whether you register. This guide may help you make that decision. But it's only a guide, and we'd recommend you speak to a Chartered Accountant before you take the leap. Well, we would, wouldn't we!

## VAT AND PRICING

Once registered, you'll add 20% to your invoices as VAT. Your customer will pay you (say) £120 instead of £100. After paying the VAT to HMRC, you're left with the same £100.

If your customers are VAT-registered businesses they'll reclaim the 20% on their own VAT return. A little more cash moves around, but no overall change in your prices.

If your customers are individuals, they won't be registered for VAT. So your product just got 20% more expensive.

## MANDATORY REGISTRATION

If your total taxable sales **in any 12 month period** are over £85,000 you **must** register for VAT. It doesn't matter if you're a sole trader, a limited company or even a charity!

Some sales are exempt, and don't count towards the £85,000 limit. These include:

- Sales to overseas customers
- Most rental income
- Education and training
- Some medical supplies
- Land sales
- Bank interest

You must review the limit every month - not just annually. HMRC knows how much your business turns over from your year-end accounts and self-assessment tax return. If you cross the threshold HMRC will bill you for 20% of your sales from the date you should have registered - even though you haven't charged this VAT amount to your customers.

An unexpected charge of 20% of your sales! What might that do to your business?





## VOLUNTARY REGISTRATION

Even if your turnover will never hit £85K you can choose to register.

But who would want to pay a tax voluntarily?

Answer: any business that makes significant purchases with VAT added. Your Chartered Accountant can prepare some figures to show you the effect of being VAT registered before you take the leap.

Blue Penguin registered for VAT long before we hit the threshold. Most of our customers are businesses so it made no difference to them. It allowed us to reclaim VAT from day one.

### Points to consider

- Are most of your customers VAT registered and unaffected by your 'higher' prices?
- How much VAT are you paying on purchases - does the reclaimable amount warrant the additional admin and compliance risk?

Each business is different. Penalties can be onerous, and wipe out any previous savings.

## ADMINISTRATION

All VAT-related transactions must be recorded and reported quarterly. Since the advent of Making Tax Digital (MTD) everything MUST be done via approved commercial software.

Accounting systems like Xero or QuickBooks handle all the record keeping for you, including submitting the figures to HMRC. Of course, rubbish in = rubbish out, so if you do your own bookkeeping we would advise you have the figures reviewed each quarter before submission, so any errors can be corrected.

If you're still using a spreadsheet, we need to talk (and not just about VAT).

## THE FLAT RATE VAT SCHEME

Another consideration will be whether or not to join the Flat Rate VAT Scheme. Under the scheme you pay a fixed rate of VAT to HMRC based on your business type. The rate is lower than the 20% you add to your invoices and you get to pocket the difference.

Wow! That sounds good. But hold on - you cannot then reclaim VAT on most of your purchases.

The calculations to decide whether or not the Flat Rate Scheme is beneficial can become quite intricate - definitely one for professional advice!



### DISCLAIMER



## JUST FOR FUN

VAT only applies to luxury items, right? Here's a fun game to play next time the family are round. Ok, so 'fun' might be pushing it...

| VAT                                   | NO VAT                             |
|---------------------------------------|------------------------------------|
| Calendars. Diaries                    | Pornographic magazines. The Bible  |
| Marshmallows                          | Marshmallow Teacakes. Jaffa Cakes  |
| Car seats & booster seats             | Bike helmets                       |
| Chocolate Digestives                  | Bourbon biscuits                   |
| Bridge lessons                        | Table tennis lessons               |
| Gingerbread man with eyes and buttons | Gingerbread man with eyes          |
| Nuts with shells removed              | Nuts with shells on                |
| Steel-toe safety shoes                | Steel-toe safety boots             |
| Orange juice                          | Caviar                             |
| Employed private tutors               | Self-employed private tutors       |
| Pringles. Potato crisps               | Doritos. Beetroot crisps. Twiglets |
| Children's nappies                    | Adult nappies                      |
| Bees. Horses. Pigeons. Rabbit         | Chickens. Pheasants. Cows. Ferrets |
| Ice cream                             | Frozen yoghurt                     |

## THE COST OF GETTING THIS RIGHT

This helpsheet has been prepared as a general guide to the main things you need to consider when deciding whether to register for VAT. It's not exhaustive, and everyone's circumstances are different.

You don't need an accountant to register for VAT. And you don't need a solicitor to buy a house. But why would you go it alone when so much is at stake?

Last year we reviewed the VAT position of a new client who was in the hospitality sector. A simple error on their till system meant they weren't charging VAT properly on all of their sales, to the tune of £40,000 over the last few years. Their previous accountant had failed to pick this up; I believe some choice words were had!

Our fee for a consultation to review the pros and cons for YOUR business of VAT registration is £120 plus VAT, with a similar fee for the registration if that is the right thing for your business.

If you'd like to have a conversation in more detail, you can [book a consultation here](#).

It's fair to say that our costs in Getting This Right are significantly lower than the costs in tax and penalties of Getting This Wrong.



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