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Indie Dev' Guide
VAT

Introduction

The compulsory VAT registration threshold is £85,000. You must register for VAT if:

- your VAT taxable turnover is more than £85,000 in a rolling 12 month period
- you receive goods in the UK from the EU worth more than £85,000
- you expect to go over the threshold in a single 30 day period

You have 30 days from the month end in which you exceeded the registration threshold to register for VAT.

Voluntary registration

You can voluntarily register for VAT even if your turnover is below the VAT threshold, as long as you can prove to HM Revenue & Customs that you are or will soon be trading.

You may wish to register for VAT for a number of reasons including:

- Enabling you to reclaiming VAT on certain pre-VAT registration expenditure
- Potential gains under the VAT flat rate scheme
- Business "Kudos" – If you are not VAT registered, potential clients will know you are a small business with turnover of less than £85,000. If you are registered, they are not able to determine the size of your business and it gives the impression of a more serious and sizeable business.

The disadvantages of registering for VAT include:

- Potential impact on your profit margin if VAT can't be passed on to clients or reclaimed by them.
- Extra administration with invoicing and VAT returns
- Increased risk of HMRC inspections and penalties

Charging VAT

If you are selling goods or services to businesses or consumers in the UK, the standard VAT rate is 20%.

The VAT charged is 1/5th of the amount you are invoicing. For example, the VAT on charges of £10,000 + VAT equates to £10,000 / 5 = £2,000.

The customer pays you £12,000 in total, of which £2,000 is the VAT and £10,000 is your income.

If you are selling the countries outside the UK, then it is recommend that you take specialist advice to ensure you are dealing with this correctly.

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VAT returns

VAT returns are usually required quarterly. You can choose which month is the final month of each quarter, so if your company has a March year end, it is usually sensible to request your VAT quarters are 31 March, 30 June, 30 September and 31 December.

Following the quarter end, you have one month and 7 days to submit your VAT return to HMRC. For example, for a VAT quarter ended 31 March, you would need to submit your VAT return by 7 May. Any VAT payable to HMRC would need to reach HMRCs bank account by 7 May also, unless paying by DD, which gives you until the 10th.

The VAT due to HMRC or refundable to you is the difference between VAT charged on your sales in the quarter and VAT you incurred on expenditure.

VAT schemes

- Cash accounting or invoice accounting for VAT:

When preparing your VAT return you can choose whether to apply cash or invoice accounting for VAT and you do not need to tell HMRC, which method you have applied.

Cash accounting means that you only include sales invoices (or purchase invoices and expenditure) on your return, if you have actually received payment for the invoice (or paid the purchase invoice / incurred the expenditure) during the VAT quarter. This means you will only ever pay VAT to HMRC when you have had the money, so is beneficial from a cash-flow perspective. Cash accounting can be applied until turnover exceeds £1.6m, at which point you must switch to invoice accounting.

Invoice accounting means that you include all sales invoices and purchase invoices dated during the VAT quarter. The risk with this method is that you raise a large invoice, which is unpaid for a couple of months, but still have to pay over the VAT to HMRC 5 weeks after the end of the VAT quarter.

- Flat Rate Scheme for VAT:

With the Flat Rate Scheme you pay a fixed rate of VAT to HMRC, which is lower than the 20% you charge your clients. 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 e.g. computers costing £2,000 or more including the VAT.

To join the scheme your VAT turnover must be £150,000 or less (excluding VAT), and you must apply to HMRC. You must leave the scheme, on the anniversary of joining, your turnover in the last 12 months was more than £230,000 (including VAT) - or you expect it to be in the next 12 months.

The method of completing VAT returns is a much simpler way of dealing with your VAT.