

VAT Registration and Flat Rate Scheme

Do I Need to Register for VAT?

- You have to register for VAT once your turnover reaches £77,000 for any twelve month period
- You can voluntarily register for VAT even if your turnover is below this limit - consider your end users and their VAT status, the level of purchases that you make
- Having decided to VAT register you must then decide to register for the Standard Scheme or the Flat Rate Scheme

- You will receive more company correspondence than if you were not registered
- VAT is due quarterly and not when it is paid by your client/agency which means there can be instances where you have to pay

VAT over before you have received payment from your client. To prevent this you can opt to use the cash accounting scheme

What are the implications of being VAT registered?

- Once you are VAT registered you are compelled to charge VAT at the current rate on all invoices generated by your company
- VAT is chargeable not only on the cost of your services but also on any expenses recharged to you client
- Charging VAT does not usually increase the cost to your agency/client as most businesses are VAT registered and can reclaim the VAT on your invoices
- Once VAT registered you are able to reclaim any VAT you incur on expenses processed through the company
- Being VAT registered goes some way towards proving you are in business on your own account and supporting your IR35 status

What is the Cash Accounting Scheme?

- The cash accounting scheme accounts for VAT on the basis of payments you receive rather than on the vat invoices you issue.
- This will ensure that only monies paid into the company is subsequently included on the quarterly VAT return. This will avoid any VAT being overpaid to HMRC.

Normal VAT Registration

- If you are registered for normal VAT, you invoice clients for goods or services, say £1,000. VAT in the UK is currently 20%.

Gross Invoiced	VAT	Net Amount Receivable
£1,000	£200	£1,200

- You now have £1,000 gross profit and you owe HMRC £200. The £200 you owe is called input VAT.

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- You now purchase a computer for £500 plus VAT = £600

Cost Price	VAT	Net Amount Payable
£500	£100	£600

- On your VAT return you can now deduct £100 from what you owe HMRC. This is called output VAT,
- Your VAT return will therefore record

Input VAT	Output VAT	Net Amount due
£200	£100	£100

Flat Rate VAT Scheme

- You can apply to join the scheme as long as your turnover, excluding VAT, is below £150,000 or less in the next year. You will be asked to leave the scheme once your turnover exceeds £230,000.
- Having left the Flat Rate Scheme you are not permitted to re-join for at least one year.
- If you are registered for the flat rate scheme you will invoice your customers 20% VAT but you will be unable to reclaim VAT on expenses subject to an exception re capital assets
- You will pay a smaller % of VAT to HMRC than you charge to your customers, with the difference

being recognised as income in the company

- The % charged is dependent on your business activity. There is a 1% discount on this rate for the first 12 months from the date of your VAT registration.
- Flat rate can be the better scheme for contractors operating through Limited companies since they have minimal expenses

Example Flat Rate VAT:

You invoice your client/agent £1,000 plus 20% VAT = £1,200

You pay VAT at 12% of £1,200 = £144 (% depends on your business activity)

You have made an additional profit of £200 - £144= £56

- By exception you can reclaim VAT on the purchase of certain capital assets
- This purchase must be a single purchase of capital goods not services and although it can relate to more than one asset they all have to be purchased at the same time and the total of the invoice needs to exceed £2,000 VAT included
- You cannot claim VAT back on Capital Goods you intend to re – sell or that you intend to use or consume within 12 months.

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- If you claim VAT back on a capital asset, then when you come to dispose of the asset and sell it, you must charge VAT at the full standard rate, not at your flat rate %

What is the Procedure to Deregister?

- If you have voluntarily registered and are below the compulsory registration limit or wish to cease to trade you can de-register from VAT by completing a simple form providing reasons or your decision
- You will need to continue to charge VAT until such time as HMRC notifies you of the exact date of de-registration
- Once you have de-registered you will no longer have to charge VAT on your invoices but equally you can no longer reclaim VAT on your expenses