

VAT

Three ways to make it easier for small business



Cash Accounting

If your annual turnover (excluding VAT) is £1,350,000 or less you may be eligible to calculate your VAT payments using the cash accounting VAT scheme.

Annual Accounting

Cash Accounting

Flat Rate Scheme

The cash accounting scheme is especially useful for businesses that are owed more by their customers than they owe to their suppliers.

Combine the Schemes

Normal VAT accounting is based on invoice dates which means that the VAT shown on your sales invoices will become payable to HM Revenue & Customs even if you have not been paid by your customer. Cash accounting on the other hand uses payment dates i.e. the dates you are paid by your customers and the dates you pay your suppliers.

This should improve cashflow as you only pay over VAT that has already been paid to you. However, please remember to only claim back VAT on your purchases once you have paid your suppliers.

Annual Accounting

Would you like to reduce the amount of time you spend completing VAT returns? A solution may be found in the Annual Accounting scheme which allows you to do one VAT return per year rather than the usual four quarterly ones!

You do, however, need to pay an estimate of your annual VAT liability in regular monthly or quarterly instalments with any balance becoming due or repayable when

the return is filed two months after the end of your accounting year.

A word of caution! If you do use Annual Accounting we suggest that you continue to maintain a monthly bookkeeping routine. If you leave everything to the end of the year you will find the filing of your annual return two months after your year end difficult to meet! Penalties, surcharges and interest may be charged if you are late. Any business with annual turnover of less than £1.35m can apply to use the scheme.

Flat Rate Scheme

If your annual taxable turnover (excluding VAT) is expected to be less than £150,000 then you could consider the Flat Rate Scheme.

Time is saved with this scheme as record keeping is simple - you calculate your quarterly net VAT due by taking total turnover (inclusive of VAT) and applying a flat rate percentage.

There are different rates depending on which business sector you belong to and there is also a 1% reduction in the rate if you use the Scheme for the first year that you are VAT registered.

Most of the rates have also been updated to reflect the reduction in the VAT rate on 1 December 2008

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When you use the Flat Rate Scheme you do not claim back VAT on purchases as allowance is made for that within the flat rate percentages but if you buy a capital item costing more than £2,000 you are allowed to claim the VAT on this separately.

You must apply to use this scheme and it is important to use the correct percentage for your business. If you operate more than one type of business under the same VAT registration you must use the percentage appropriate for the part of your business that has the **highest** turnover.

Combine the Schemes

You can also use a combination of the above schemes. In this way you can maximise all the benefits:

- VAT due based on cash received
- One VAT return per annum
- Regular monthly payments to ease cashflow

Simplify calculation of VAT due by applying the Flat Rate Percentage.

Specific advice should be obtained before taking action, or refraining from taking action, on any of the subjects covered

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