

VAT Guide



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BUSINESS SERVICES

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What Is VAT?

VAT stands for Value-Added Tax. It's a tax that gets added to almost everything you buy. If you own a business, you might also need to add this tax when you sell something to your customers.

How Does It Work?

Let's say you make websites for people. When you charge your customer for a new website, you add a little extra to the bill. This extra money is the VAT, and you send it to the government later.

Who Pays VAT?

Everyone pays VAT when they buy things. But if you own a business, you collect this tax from your customers and then give it to the government.

Why Is It Important?

1. **Money for Public Services:** This tax helps the government pay for things we all use like schools, hospitals, and roads.
2. **Easy to Understand:** It's a simple tax that's easy for businesses to handle.

Different Types of VAT

In the UK, there are three main types:

1. **Regular VAT:** This is 20% and is added to most things you buy.
2. **Lower VAT:** This is 5% and is added to some things like home energy.
3. **No VAT:** Some things don't have any VAT, like most food and children's clothes.

Do You Need to Add VAT to Your Prices?

If your business makes more than £85,000 a year, you have to register for VAT and start adding VAT to your prices.

VAT is something everyone needs to know about, especially if you're running your own business. It affects how much you charge your customers and how much tax you owe the government.

“ If your business makes more than £85,000 a year, you have to start adding VAT to your prices. ”

Registering for VAT

Registering for VAT might sound complicated, but it's actually pretty straightforward.

Who Needs to Register?

If your business makes more than £85,000 a year, you have to register for VAT.

It's not optional; it's the law. But hey, even if you make less, you can still choose to register.

Some businesses do this to look more professional or to get some tax benefits.

How to Register

1. **Online is Easiest:** The quickest way to register is online on the [GOV.UK website](#).
2. **Paperwork:** You'll need to fill in some details about your business, like your turnover, business activity, and bank details.
3. **Wait for Your VAT Number:** Once you've applied, you'll get a VAT certificate, this can take up to 6 weeks to arrive, but usually arrives between 2 and 3 weeks.

After You Register

1. **Start Charging VAT:** From the day you're registered, you need to add VAT to your prices.
2. **Keep Records:** You'll need to keep track of all the VAT you collect and pay. This is super important for when you fill out your VAT return.
3. **Send VAT to the Government:** Usually, every three months you'll fill out a VAT return online to tell the government how much VAT you've collected and paid.

Now, this is where software like Xero can be a game-changer. Instead of manually calculating all these numbers, Xero automates the process for you. It keeps track of all your transactions, calculates the VAT you owe, and can even submit your VAT return directly to HMRC.

This not only saves you time but also reduces the risk of errors that could lead to fines or other complications.

What If You Don't Register?

If you should be registered for VAT and you're not, you could get into trouble. The government can charge you a fine, and you'll still have to pay all the VAT you should have been collecting.

Responsibilities for VAT Registered Businesses

Alright, so you've registered for VAT. That's a big step, but what comes next? Being registered for VAT comes with some responsibilities that you'll need to keep up with.

Don't worry, it's not as daunting as it sounds!

Charging VAT

1. **Add VAT to Your Prices:** From the day you're registered, you need to add VAT to the prices you charge your customers. Make sure you're using the right rate: 20% for most things, 5% for some special items, and 0% for others.
2. **Show It on Invoices:** When you bill your customers, you have to show the VAT amount & VAT Number clearly on the invoice. This is important because your customers may need this information for their own tax records.

Record-Keeping

1. **Track Your Sales and Purchases:** Keep a record of all your sales and purchases. You'll need this info when it's time to fill out your VAT return.
2. **Keep VAT Invoices:** Hang on to all the invoices that include VAT, whether you're the buyer or the seller. You'll need these if the tax folks want to check your records.

Filing VAT Returns

1. **Report Regularly:** Usually, every three months you'll need to fill out a VAT return. This is basically a form that tells the government how much VAT you've collected from customers and how much you've paid on your purchases.
2. **Pay on Time:** After you fill out your VAT return, you'll either owe money to the government or they'll owe you. Make sure to settle up by the deadline to avoid any fines.

“ From the day you're registered, you need to add VAT to your prices. ”

Special Schemes

1. **Flat Rate Scheme:** Some smaller businesses use a simplified system called the Flat Rate Scheme. If you're eligible, this could save you some time and effort.
2. **Cash Accounting:** This is another option where you only pay VAT when your customer pays you. It can help with cash flow.

What Happens If You Don't Follow the Rules?

If you ignore these responsibilities, you could end up with a fine or even legal trouble. So it's really important to stay on top of things.

Being responsible for VAT might seem like a lot at first, but once you get into the swing of things, it becomes part of your regular business routine.

And remember, you're not just paying tax; you're contributing to services that make everyone's life better.

“ If you ignore these responsibilities, you could end up with a fine or even legal trouble ”



The Flat Rate Scheme: A Simpler Way to Handle VAT

Handling VAT can sometimes feel like a juggling act, especially when you're busy running your business.

That's where the Flat Rate Scheme comes in. It's designed to make life a bit easier for small businesses. Let's break down what it is and how it works.

What is the Flat Rate Scheme?

The Flat Rate Scheme is a simpler way to manage VAT. Instead of calculating the VAT for each sale and purchase, you pay a fixed percentage of your sales to the government. This percentage varies depending on the type of business you run.

Who Can Use It?

Small businesses with a turnover of £150,000 or less can opt for this scheme. It's great for those who don't want to spend a lot of time on bookkeeping for VAT.

How Does It Work?

1. **Fixed Percentage:** You'll pay a fixed percentage of your sales as VAT. This rate is set by the government and depends on your type of business. For example, if you're a consultant, your rate might be different from someone who owns a restaurant.
2. **One Simple Calculation:** At the end of each tax period, you'll multiply your total sales by this fixed percentage. The result is the VAT you owe.
3. **Keep the Difference:** You'll still charge your customers the standard VAT rate (usually 20%), but you only pay the government the lower, flat rate. You get to keep the difference!

Pros

1. **Simplicity:** No need to keep track of the VAT on every pencil or paperclip you buy. One simple calculation and you're done.
2. **Cash Bonus:** You get to keep the difference between what you charge your customers and what you pay to the government.

Cons

1. **No Reclaiming VAT:** You can't reclaim VAT on your purchases, except for some big expenses like a new van or computer equipment.
2. **Not Always Cheaper:** Depending on your expenses, you might end up paying more VAT than you would under the standard system.

How to Join

Joining is pretty straightforward. You can apply online through the HMRC website. If you're already registered for VAT, you can switch to the Flat Rate Scheme, but you'll need to let HMRC know.

The Flat Rate Scheme can be a real time-saver and might even put a little extra cash in your pocket. But it's not for everyone, so weigh the pros and cons carefully.



Need more help with your VAT?

If you have any further questions simply book a free 30 minute discovery call to see how our expert accountants and bookkeepers can help your business.

[Book a Call](#)

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