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THE EXPLORER'S GUIDE TO VAT (VALUE-ADDED TAX)

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If you made a list of the top annoyances, inconveniences and worries of small business owners, whether they're just starting out or already well established, it's a safe bet that keeping up with their VAT obligations is right near the top. It's not as scary as it tends to sound, but it's something you really can't afford to get wrong. Here's a basic rundown:

VAT is a tax charged on most types of goods and services traded in the UK, whether you're trading to individual customers or other businesses. Its main distinctive feature is that the government makes you do most of the work for it, collecting the tax from your customers and paying it to your suppliers. It's not all bad news, though. If you're a VAT-registered business you can generally claim back some or all of the VAT you pay on business expenses. There are specific rules about the kinds of things you can claim back, but the basic principle is that, if you're VAT registered, the basic cost to your business will be nothing but the time and effort it takes to comply. In fact, you may actually be missing out by not registering, even if you don't strictly have to.

You should register for VAT if your business:

- Trades in goods or services that are eligible for VAT.
- Has an annual turnover above the current threshold, or you expect it to be above within 30 days.
- Is not required to register but might benefit from doing so.

Once you've decided that you either need to or want to register, you can get the ball rolling online, by post or through an agent like RIFT Accounting. It can take a couple of weeks to get your VAT registration certificate from HMRC and you'll need to send them details of your turnover, business activities and so on. It's worth getting your arrangements sorted out from the start, as HMRC takes a very dim view of suspected VAT evasion and the penalties can quickly get painful if your sums don't add up.

WINNING THE VAT RACE

Here's where things can start to get tricky if you're not prepared. There are various rates of VAT applied to registered businesses, depending on the types of goods and services they're trading.

- **VAT Exempt,** including education, certain medical services and insurance.
- **Zero Rated,** including most food, books and prescriptions.
- **Reduced Rate,** applied at 5% to things like fuel and power in homes.
- **Standard Rate,** currently 20%, applied to basically everything else

The system works by businesses keeping track of the VAT they charge to their customers (Output Tax) and the VAT they pay to their suppliers (Input Tax). If you aren't VAT registered, then you simply pay VAT for every applicable business expense at the appropriate rate, but registering for VAT means you can claim back the VAT you've paid on those expenses. Essentially, you only pay the difference between your Output Tax and your Input Tax, assuming your Output Tax is higher. If your Input Tax is higher, you can actually claim the difference back instead

PULLING YOUR VAT OUT OF THE FRYER

Obviously, the paperwork burden is a major consideration for most small businesses. The Standard Scheme has you calculating each of your VAT transactions individually and keeping records of everything to back up your VAT returns. In addition, you're actually liable for the VAT you've charged from the moment you invoice the customer, even if they end up paying late. Luckily, there are a few ways of simplifying things, if your business qualifies:

- **The Flat Rate Scheme** allows you to pay VAT at a fixed percentage of your turnover instead of calculating every transaction. The rate is lower and you'll have less paperwork, but you can't claim back VAT on your business expenses. You can apply for this if your VAT taxable turnover is under £150.000.
- **The Cash Accounting Scheme** means that you no longer have to pay the VAT until you've actually been paid by your customers. On the other hand, you can't reclaim VAT on your purchases until after they're paid for either. This scheme can ward off any cash flow crises if you're being paid late, but you can only apply for it if your turnover is under £1.35 million.
- **The Annual Accounting Scheme**, again for businesses with under £1.35 million in turnover, lets you file your VAT returns annually instead of quarterly, meaning less heavy lifting in the paperwork department. You can pay in instalments over the year, either every 3 months or monthly.

GATHERING VAT MOSS

Even if your taxable turnover is under the threshold for VAT, you might find yourself getting caught up in the new VAT MOSS rules. Now, tax on digital services within the EU is based on where the purchaser is, rather than the seller. It's actually a move designed to stop large businesses from routing all their sales through low-VAT countries to minimise the tax they pay. Unfortunately, it's having a lot of unintended knock-on effects on small businesses.

The bottom line is that, if you're selling digital services outside the UK, you're going to have to start charging VAT on those transactions even if your turnover is under the current threshold - at a rate determined by the buyer's location. This potential screaming nightmare of a situation is eased a little by the "VAT Mini One-Stop Shop" set up by HMRC, but it could still mean some intense headaches if you're tripped up by the additional record-keeping involved.

AVOIDING THE VAT TRAP

VAT can be a complex and time-consuming hassle for small enterprises, and getting it wrong can be disastrous. With RIFT Accounting as the guard dog, guide dog and watchdog for your business, we can take care of your returns and calculations, and make sure you're always within the rules. As your official agent with HMRC, we can even handle all their communications and demands for you so you can get back to business.

Get in touch to learn more about life in the RIFT.

SUBMITTING VAT RETURNS

The deadline for payment of the VAT you are liable for is generally the same as your return deadline.
Your Accounting Period is the period of time that your VAT return covers.

Accounting Period End	VAT Return Due Date
31 Jan	7 March
28 Feb	7 April
31 March	7 May
30 April	7 June
31 May	7 July
30 June	7 August
31 July	7 September
31 August	7 October
30 September	7 November
31 October	7 December
30 November	7 January
31 Dec	7 February

Your VAT return due date will differ if you participate in the annual accounting scheme.

Most VAT registered businesses are required to submit their VAT returns online.

Make sure that you stay compliant with your VAT obligations to minimize any disruption to your business operation.

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