Chartergates Fact Sheet

SUBJECT: TOP 3 VAT TIPS

1. *Flat Rate Scheme ('FRS')*

This is a scheme available to 'help' small businesses. You are eligible if you expect your taxable turnover in the next 12 months won't exceed £150,000 net.

Pros: simplified way of accounting for VAT as the fixed percentage for the trade sector is applied to gross income; you charge 20% to your customers but only pay over the relevant rate to HMRC e.g. general building and construction services 9.5%. Therefore, you make 8.6%. For new registrations there is a 1% discount on the FR% in the first 12 months; if the business has been registered for 6 months prior to using the 'FRS' the 1% reduction will only apply to the remaining 6 months of the first year.

Cons: Recovery of VAT on purchases is not allowed, as you receive credit in the difference of the flat rate applied to sales; although VAT on 'capital expenditure goods' – a single purchase of £2,000 or more is allowed. Don't forget though, the same rules on pre-registration VAT apply to 'FRS' so you will get this. If you receive exempt income; e.g. rental income from a flat, you will need to account for the flat rate % on this too.

2. *Cash Accounting*

This is a scheme that allows you to account for VAT on the date you receive payment in from a client rather than when you raise a sales invoice and recover VAT on purchases when you pay for them rather than on the date of invoice.

It's available for businesses who expect their taxable turnover (net of VAT) will not exceed £1,350,000 in the next year.

Pros: It has a built-in automatic bad debt relief. If your business allows extended payment terms to customers, this scheme will benefit you.

Cons: not beneficial if you are in a repayment position; i.e. you receive regular refunds from HMRC, or sales are paid promptly or in cash. Not good if you have extended credit terms from suppliers as you will want to recover VAT on the date of invoice.

3. *Option to tax ('OTT')*

Land and property transactions can be notoriously complex and I'm not attempting to do justice to the subject of 'OTT' here!

If you buy property that has been opted as part of a transfer of a business as a going concern, it is possible to purchase the property without paying the VAT (provided conditions are met). This will also reduce stamp duty as it's calculated on the VAT inclusive price.

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Pros: if you are buying land or buildings which have VAT charged on the sale price; you will undoubtedly want to recover it. Consider whether you are able to 'OTT' and whether it will be beneficial to your business to do so; once you have opted you are in it for the long haul.

Cons: once you have opted the 'OTT' will stay with your interest in the land or buildings. There is an automatic revocation if no interest is held for 6 years. There is a 6-month cooling off period and you can look at revoking once 20 years has elapsed.

If you would like to explore any of the Top 3 VAT Tips in more depth, please contact Suraj Chauhan or Hilary Oldham on 01908 533255.

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