

The VAT Return

This is usually done quarterly and is illustrated below:

	£
Output VAT	
Standard rated supplies	X
Zero rated supplies	Nil
Outside the scope & exempt supplies	Nil
Input	
Standard rated purchases & expenses <i>Note* input VAT that you cannot reclaim: examples - Motor cars (unless 100% used for business) & business entertaining</i>	X
Zero rated purchases and expenses	Nil
Exempt purchases and outside scope	Nil
Bad debt relief <i>Note* Can only claim the relief if the output vat on the sale was originally paid to HMRC & it has been written on the accounts & 6 months have passed since due for payment from customer</i>	X
Net VAT payable/receivable <i>Note* the return and payment is due one month after the day your VAT quarter ends</i>	X

Important Notes and rules

Pre-registration input VAT:

Goods - Can claim back VAT on goods purchased from last 4 years from the date of registration, if you still have those goods on the date of registration.

Services - Costs incurred in starting/running the business (legal & accounting, business premises costs etc.) incurred last 6 months from the date of registration.

Small business options:

There are different schemes that are available for VAT:

1. Cash accounting

- VAT accounted for when cash is paid and cash received basis. Not when the invoice is raised or received.
- Conditions – if your turnover is < or = £1.35 million, your VAT payments are up to date
- Benefits – Bad debt relief is automatic (as if customer does not pay, the VAT is never included on the return) & cash flow is better as you do not pay VAT until the cash is received from the customer.

2. Flat rate

- Charge output VAT and invoice your customer the normal way.
- But you do not take into consideration any input VAT paid out and you do not do a normal VAT return.
- The VAT payable is calculated as (Total VAT inclusive turnover including exempt supplies) x (Fixed % for the trade sector you're in)
- Conditions – taxable supplies for the next 12 months < or = £150k, must leave the scheme once you exceed £250K
- Benefits – less admin work (You do not have to keep records of input VAT on purchases. If your trade sector % is low, can possibly reduce the VAT payable.

3. Annual accounting

Usually, VAT-registered businesses submit their VAT Returns and payments to HM Revenue and Customs 4 times a year.

With the Annual Accounting Scheme you:

- make advance VAT payments towards your VAT bill - based on your last return (or estimated if you're new to VAT)

- submit 1 VAT Return a year

When you submit your VAT Return you either:

- make a final payment - the difference between your advance payments and actual VAT bill
- apply for a refund - if you've overpaid your VAT bill
- Conditions - if you turnover is < or = £1.35 million