



| CHARTERED CERTIFIED ACCOUNTANTS |

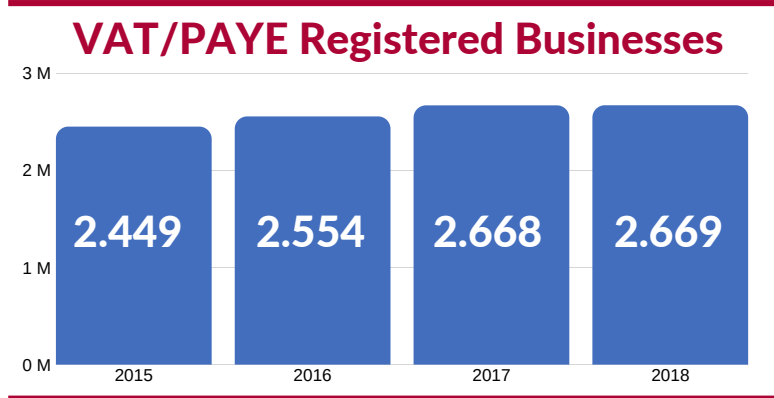


Value Added Tax

Value Added Tax is a chargeable tax added onto the price of goods or services sold, and represents the 'added value' on the product throughout the production stage. If you are a VAT registered business, you will be required to charge VAT on all goods or services sold at their appropriate rates.

You will also be required to file a VAT return every 3 months, which will record the following information:

- Total sales and purchases.
- Amount of VAT owed.
- Amount of VAT reclaimable.
- Amount of VAT refunded from HMRC.



VAT Rates

Standard Rate

- 20% VAT chargeable rate.
- Increased from 17.5% in 2011.
- Applied to majority of goods and services in the UK.
- Should be charged on everything that isn't Reduced or Zero rated.

Reduced Rate

- 5% VAT chargeable rate.
- Applied to goods such as children's car seats, home energy & energy saving materials.
- Depends on both product & circumstances of sale e.g. mobility aids if user is over 60 & installed in their home.

Zero Rate

- 0% VAT chargeable rate.
- Applied to most foods, children's clothes & charitable activities.
- Must still be recorded in VAT accounts & returns.
- Goods are still taxable but must be charged at 0% to customers.

Payment Schemes

Flat Rate Scheme

- Threshold of £150,000 or less to join scheme. £230,000 threshold to leave scheme.
- Pay a fixed rate of VAT to HMRC.
- Keep the difference of what charged to customers & paid to HMRC (based on flat rate).
- Cannot reclaim VAT back on most purchases.
- Limited companies calculate their flat rates based on their industry e.g. catering services flat rate is 12.5% meaning if you charge 20% VAT you only pay HMRC 12.5% of the total.

Standard Scheme

- Either Accruals or Cash Accounting.
- Accruals - Account for VAT on sales & purchases from the date of invoicing.
- Cash Accounting - Hold off paying VAT on sales until payment received, and from purchases when payment made (Cash-flow Advantage).
- Threshold of £1.35m or less to be eligible for Cash Accounting. Must leave once over £1.6m.
- Cash accounting cannot be used if the terms of payment for an invoice exceed 6 months.

Annual Accounting Scheme

- Threshold of £1.35m or less to join. £1.6m threshold to leave the scheme.
- 1 VAT return submitted per year instead of the usual 4.
- VAT bill paid is calculated based on previous year, or estimated if first VAT bill.
- Payments are made in advance towards your VAT bill.
- Upon submission of VAT return either make final payment if underpaid, or claim a refund if overpaid.

You may also voluntarily register the business for VAT if the business' taxable revenues are below the £85,000 threshold. As the owner of a VAT registered business, you will also be able to claim VAT back on any goods or services purchased for the business that had VAT charged.



PROFESSIONAL



PRO-ACTIVE



SUPPORT