



### *Taxation for Business (VAT)*

## VAT Annual Accounting Scheme

**There are various VAT schemes in place designed to alleviate the administrative burden of a business.**

#### What is VAT Annual Accounting Scheme?

This scheme is designed to help small businesses by allowing them to submit one VAT return on an annual basis rather than the normal four. During the year, businesses under this scheme have to pay instalments based upon an estimated liability for the year. They then pay a balancing payment due with the return. This scheme was established to help businesses with budgeting and cash flow and also reduce paperwork.

#### Who can join the Scheme?

Your business can apply to join the scheme if you expect your taxable supplies not to exceed £1,350,000 in the next 12 months. Your VAT returns must be up to date and you cannot register as a group of companies. We can advise on how to join the scheme. You will need to complete form 600 (AA).

#### Who cannot join the Scheme?

You cannot use annual accounting if:

- Your estimated VAT taxable turnover is over £1.35 million per year
- You are registered for VAT as a division of a company or part of a group
- You have previously used annual accounting within the past 12 months
- You are not up to date on your VAT payments
- You are insolvent

#### How is the VAT paid?

Any business that has been VAT registered for more than 12 months pays their VAT in nine monthly instalments of 10% of the previous year's liability. The instalments are paid at the end of months 4 – 12 of the annual accounting period.

Alternatively, you can choose to pay the VAT in three quarterly instalments of 25% of the previous year's liability which would be due at the end of months 4, 7 and 10. The balance of VAT for the year is then due plus the VAT return two months after the end of the annual accounting period.

If your business has not been registered for at least 12 months, you can still join the scheme but you will pay an estimate of your VAT liability (either monthly or quarterly). HMRC will advise the amount to be paid.

The annual accounting period usually begins at the start of the quarter in which you made your application. If your application is later, it may begin at the start of the next quarter.

If business significantly increases or decreases, you can apply to HMRC to change the level of instalments payable, which will obviously help cash-flow.

#### What if I want to leave the scheme?

You can voluntarily leave the scheme at any time; you just have to write to HMRC.

If your annual taxable turnover exceeds £1,600,000, you can no longer be in the scheme.

#### Advantages and Disadvantages to the Scheme

##### Advantages

- It reduces the number of VAT returns you need to complete from four to one a year.
- Cash flow can be managed much more easily as the liability that has to be paid is known and certain.
- You have an extra month to complete the VAT return and pay any outstanding tax.
- It should also help to simplify the calculations for a business that uses a retail scheme, or which is partially exempt.

## Disadvantages

- Your interim payments may be higher than they need to be as they are based on the previous years performance. This can be adjusted if the difference is significant.
- As a business, you are obliged to notify HMRC if the VAT liability is likely to be significantly higher or lower than that in the previous year.

## Interaction of the Annual Accounting Scheme with other schemes

You may be able to use the Annual Accounting Scheme together with some of the following VAT schemes:

### Cash Accounting Scheme

Unlike standard VAT accounting where VAT is due when you issue an invoice, using cash accounting you don't have to pay VAT until your customers pay you.

### Flat Rate Scheme

Using the Flat Rate Scheme you simply pay a fixed percentage of your turnover as VAT.

### Retail Schemes

If you are a retailer, there are several schemes where you can simplify your calculation of VAT by not having to account for VAT on each individual sale.

### Margin schemes for second-hand goods, art, antiques, collectibles

If you buy or sell second-hand goods, antiques, collectibles or art, you only need to account for VAT on the difference between the price you paid for an item and the price at which you sell it – your margin.

### Tour Operator's Margin Scheme

The Tour Operator's Margin Scheme, makes VAT accounting easier for tour operators who buy and sell travel, accommodation and certain other services internationally.

## How we can help

We can help, advise and consider whether the annual accounting scheme would be beneficial for your business.

## Call our Tax Specialists for more help

We have offices throughout Staffordshire and North Shropshire. Our Tax specialists are:

### Leek Office – 01538 393600

Seaton Kennerley

### Uttoxeter Office – 01889 563550

Carl Marsden

### Newport Office – 01952 813330

Mervyn Davies

To email: [initialsurname@howsons.com](mailto:initialsurname@howsons.com)

(N.B. When addressing the Leek Office, please replace .com with .net for example [skennerley@howsons.net](mailto:skennerley@howsons.net) or [cmarsden@howsons.com](mailto:cmarsden@howsons.com))

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