



VAT

VAT Annual Accounting Scheme

Customs and Excise has introduced a number of VAT schemes over the years designed to reduce the administrative burden on small businesses. One such scheme is the annual accounting scheme.

What is the Annual Accounting Scheme?

The annual accounting scheme helps small businesses by allowing them to submit only one VAT return annually rather than the normal four. During the year they pay instalments based on an estimated liability for the year with a balancing payment due with the return. The scheme is intended to help with budgeting and cash flow and reduce paperwork.

Joining the Scheme

A business can apply to join the scheme if it:

- expects taxable supplies in the next 12 months will not exceed £150,000 or
- has been registered for at least 12 months and expects that taxable supplies in the next 12 months will not exceed £660,000.

Businesses must be up to date with their VAT returns and cannot register as a group of companies.

Application to join the scheme must be made on form 600(AA) which can be found at the back of VAT Notice 732. Customs will advise the business in writing if the application is accepted.

Paying the VAT

Businesses with annual taxable turnover exceeding £100,000 pay the VAT in nine monthly instalments of 10% of the previous year's liability (unless the business has been registered for less than 12 months when it is based on the expected liability for the period). The instalments are payable at the end of months 4-12 of the current period.

Businesses with annual taxable turnover not exceeding £100,000 make quarterly interim payments of 20% of the previous year's liability.

The balance of VAT for the period is then due together with the VAT return two months after the end of the accounting period.

All businesses are able to apply to Customs to change the level of the instalments if business has increased or decreased significantly.

Leaving the Scheme

Any business can leave the scheme voluntarily at any time by writing to Customs.

A business can no longer be in the scheme once its annual taxable turnover exceeds £825,000.

Advantages of the Scheme

- A reduction in the number of VAT returns needed each year from four to one.
- Because the liability to be paid each month is known and certain, cash flow can be managed more easily.
- There is an extra month to complete the VAT return and pay any outstanding tax.
- It should help to simplify calculations where the business uses a retail scheme or is partially exempt.

Potential Disadvantages

Interim payments may be higher than needed because they are based on the previous year. However, they can be adjusted if the difference is significant.

A business is obliged to notify Customs if the VAT liability is likely to be significantly higher or lower than in the previous year.

How We Can Help

We can help you to plan your VAT administration and consider with you whether the annual accounting scheme would be beneficial for your business.