



## **Introduction to the VAT annual accounting scheme**

The purpose of this official VAT scheme is to simplify your VAT accounting procedures and so reduce the cost to you of complying with your VAT obligations.

The annual accounting scheme will reduce administration time and the associated cost of preparing and submitting quarterly VAT returns. The scheme can also help you manage your cash flow.

Businesses that use the scheme are only required to file one VAT return at the end of each year. They will usually make nine interim VAT payments during the year, based on their estimated total liability for the year, followed by one balancing payment with the return.

### **Annual accounting scheme requirements**

You can only apply to join the annual accounting scheme if you anticipate that your taxable supplies in the next 12 months will not exceed £1,350,000. You can join the scheme either at the same time as applying for a new VAT registration or at any subsequent time.

In order to qualify to join the scheme, you must be up to date with your VAT payments, solvent and new to the scheme (ie: you haven't used annual accounting in the last 12 months). And your business cannot be a division of a company or a part of a group of companies.

### **Notifying HMRC**

Businesses who wish to join the scheme must apply to HMRC. The necessary form(s) can be downloaded from HMRC's website. There are two separate application forms available, the first (VAT600AA) should be used by businesses wishing to join the scheme.

The second form is for applicants who wish to join the annual accounting and flat rate schemes at the same time (VAT600 AA/FRS).

### **Significant business changes**

Businesses that are registered to use the annual accounting scheme must inform HMRC of significant changes to their business including:

- If turnover is, or is likely to be, much higher or lower than the previous year.
- If VAT taxable turnover is or is expected to be more than £1.6 million, for instance if a business buys another business.
- If the amount of VAT payable will, or has, increased by at least 10% since the last time a business's instalments were calculated.



## **Advantages & Disadvantages of the scheme**

### Advantages

- Only one VAT return per year needs to be completed. This can significantly reduce the amount of VAT compliance and administrative work.
- Businesses using the annual accounting scheme benefit from having an extra month for submission and payment of the (annual) VAT return.
- The VAT return can be prepared at the same time as the annual accounts.
- The regular interim payments throughout the year help businesses manage cashflow.

### Disadvantages

- The regular monthly (or quarterly) payments are based on the previous year's liability and may be higher than necessary where turnover has fallen. However the payments can be reduced if the difference is significant.
- You may have greater difficulty in remembering the nature of unusual transactions if you are not maintaining your accounting paperwork correctly throughout the year, as is required for normal quarterly accounting.
- Seasonal or other variations may have an adverse effect on cashflow.
- Businesses that regularly reclaim VAT are unlikely to be suited to the scheme and will only get one VAT repayment per year.

## **Making VAT payments**

Most businesses that are registered for the scheme make nine monthly interim payments. However, you can ask to make payments quarterly.

The nine interim payments will each be set at 10% of the total amount of VAT paid to HMRC in the previous year. For new businesses that have been VAT registered for less than 12 months the payments will be 10% of the estimated total annual amount of VAT due to HMRC. The payments are due by the end of months four to 12 of the annual accounting year.

Businesses that choose to pay VAT by quarterly instalments will make three payments of 25% each based on the previous year's VAT liability. For new businesses that have been VAT registered for less than 12 months the quarterly payments will be 25% of the estimated total annual amount of VAT due to HMRC. The payments are due by the end of months 4, 7 and 10 of the annual accounting year.

The balance of actual VAT payable is due two months after the end of the business' annual accounting year.



## **Filing the annual return**

The annual VAT return is completed in exactly the same way as regular monthly or quarterly VAT returns. The only difference is that after calculating the annual VAT payment due, the interim monthly or quarterly payments are deducted to calculate the end-of-year balancing payment due to or from HMRC.

## **Other official 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.

### ***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.

### ***Flat rate scheme***

You can use the annual accounting scheme in conjunction with the flat rate scheme. Businesses that use the flat rate scheme calculate the amount of VAT due by applying a predetermined flat rate percentage to the business turnover of the VAT period. We have a separate tax guide on this topic.

## **Leaving the scheme**

You can leave the scheme at any time by notifying HMRC usually at the end of your next VAT accounting period.

You must also leave the scheme if your VAT taxable turnover exceeds £1.6 million.

HMRC can also remove businesses from the scheme for a number of reasons, including:

- You have calculated VAT incorrectly.
- You have been convicted of a VAT offence.
- You have received a penalty for VAT evasion.

Businesses that leave the annual accounting scheme are unable to rejoin it for at least 12 months.

## **VAT rate changes**

Businesses operating the annual accounting scheme will need to ensure that they have properly accounted for the increase in the standard VAT rate on 4 January 2011 from 17.5% to 20%.

## **How we can help**

We would welcome the opportunity to advise you on any of the issues related to registering for the annual accounting scheme. We can also help you with your VAT



record keeping generally and especially to ensure you retain all the related necessary information to avoid penalties and problems down the line.