



VAT Schemes

There are 3 small business schemes...

Annual Accounting Scheme

Using the Annual Accounting Scheme, you pay VAT on account throughout the year in nine monthly or three quarterly instalments. These instalments are based on the VAT you paid in the previous year. If you have been trading for less than a year, the instalments are based on an estimate of your VAT liability.

You only need to complete one VAT Return at the end of the year.

Cash Accounting Scheme

Usually VAT is payable when an invoice is issued. In contrast, using the Cash Accounting Scheme, you do not need to pay VAT until your customer has paid you. But you also cannot reclaim VAT on your purchases until you have paid for them.

Flat Rate Scheme

The Flat Rate Scheme is designed to help small businesses reduce the amount of time they spend accounting for VAT.

Using the Flat Rate Scheme you do not have to calculate the VAT on each and every transaction. Instead, you simply pay a flat rate percentage of your turnover as VAT.

There are other schemes too...

- VAT Schemes for Retailers
- Margin Schemes for Second Hand Goods
- Tour Operators Margin Scheme

Or you could decide not to use any scheme and simply account for VAT as you enter Sales and Purchase Invoices based on their tax point (invoice date).

The Flat Rate Scheme is popular with Small Businesses because of the following benefits:

- easier record-keeping - no need to separate out the gross, VAT and net in your accounts
- more time for you - less work doing the books so you can get on with running your business
- fewer rules to follow - no more problems about what VAT you can and cannot reclaim on your purchases
- peace of mind - less chance of mistakes, so fewer worries
- certainty - you always know how much of your takings you will need to pay to us

You can only use the Flat Rate Scheme if your turnover is below £150,000. *There's a one per cent reduction in the flat rate percentages for your first year of VAT registration.*

<http://www.hmrc.gov.uk/vat/start/schemes/flat-rate.htm>

Ask for help when choosing a VAT scheme as the scheme can have a significant effect on your cash flow

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