Registering for VAT

Business Information Factsheet
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Introduction

Value Added Tax (VAT) is a tax levied on the sales of goods and services. It is charged by traders who are registered for VAT, and is one of the Treasury's major sources of tax revenue. VAT must be charged at different rates according to the category of goods and services supplied, and some supplies are exempt from VAT altogether.

Traders are required to register for VAT when their 'taxable turnover' exceeds the VAT registration threshold, which is a figure that is fixed (and usually rises) in the Chancellor's Budget. 'Taxable turnover' is the total value of the sales of goods and services that are liable for VAT (known as taxable supplies).

HM Revenue & Customs (HMRC) is responsible for ensuring that VAT-registered traders comply with the legislation relating to VAT and meet their responsibilities with regard to registering and accounting for VAT and paying the tax due.

The legislation covering VAT is complex and it is important to seek professional advice or contact HMRC for guidance to ensure compliance with current law.

This factsheet explains the VAT process and requirements for registration, how to calculate taxable turnover, the important issues to be aware of in relation to registering for VAT, and when and how to register. It also explains the process for de-registering for VAT and VAT inspections.

Which businesses must register for VAT?

Under the VAT tax system, all goods and services that are liable for VAT at the various rates applicable in the UK are known as taxable supplies, and whether or not traders are required to register for VAT depends on the total sales value of their taxable supplies, which is called their 'taxable turnover'.

However, some types of supply are exempt from VAT and do not form part of taxable turnover, so should be excluded from calculations when determining whether or not VAT registration is required. Taxable supplies include most types of goods and services usually supplied by traders, while exempt supplies are typically services rather than goods and include some property transactions as well as financial services, education, insurance, and health and welfare services.

Most traders 'produce' taxable supplies even if they are not registered for VAT, but they are only required to register for VAT and charge it at the appropriate rate on the goods and services they sell when their taxable turnover exceeds the amount of the mandatory VAT registration threshold, which for the tax year 2020/21 is £85,000.

VAT registration is required when a trader's taxable turnover in any rolling 12-month period exceeds the current mandatory VAT registration threshold, or the trader knows that taxable turnover is likely to exceed the threshold during the next 30 days, for example due to the trader winning a large contract.

Once their taxable turnover exceeds the VAT registration threshold, the trader becomes a 'taxable person' and is legally required to register for VAT.

The term 'taxable person' applies not only to individual sole traders but also to partnerships and separate legal entities such as limited companies, limited liability partnerships, clubs, associations, charities and trusts. The term refers to any seller of goods and services (whatever the legal status of their business) who should be registered for VAT.

VAT registration is by taxable person not by business, so if a self-employed individual owns and runs more than one business and together these have a taxable turnover that exceeds the VAT registration threshold, they must register for VAT.

Voluntary VAT registration

It is also possible to register voluntarily for VAT before the taxable turnover reaches the mandatory registration threshold, unless all supplies made are exempt from VAT. Voluntary registration is common in cases where firms are set up that will primarily supply other VAT-registered firms, because this enables any VAT 'input tax' paid on supplies that are purchased for business use to be reclaimed from HMRC in the form of a VAT refund.

If VAT registration is applied for when setting up a business, it also enables the input tax paid on the expenses incurred at start up to be reclaimed.

Calculating taxable turnover

When calculating taxable turnover to establish whether or not the mandatory VAT registration threshold has been reached in any rolling 12-month period, traders should include in their calculation:

- The total value of UK sales made that are not VAT-exempt.
- Goods that have been bartered, part-exchanged or given as gifts.
- The value of any business goods taken for personal use.
- Building work over £100,000 that the firm did for itself.

There are three rates of VAT currently applicable to taxable supplies in the UK. The standard rate (20%) applies to most goods and services supplied, while the reduced rate (5%) and the zero rate (0%) are applied to items such as domestic energy-saving products and children's clothes respectively.

From 15 July 2020 to 12 January 2021, the reduced rate of 5% also applies to food and non-alcoholic drinks sold by restaurants, pubs and similar premises as well as tourist accommodation and admission to attractions across the UK. This temporary reduction is intended to help businesses recover from the coronavirus outbreak.

Zero-rated items should be included in the calculation of taxable turnover, but items that are exempt from VAT or that have been supplied outside the UK should be excluded.

Issues to be aware of when considering applying for VAT registration

Important points to note about VAT registration include that:

- If a trader's taxable supplies are zero rated, they can apply for exemption from registration. However, this means that they cannot recover input tax that they are charged by their suppliers.
- If a trader makes both taxable and exempt supplies, they may be 'partly exempt' from VAT. Input tax can only be reclaimed on the inputs that go towards the taxable supplies.
- A trader cannot register for VAT if they only make exempt supplies.
- HMRC may grant a trader 'exception from registration' if their taxable turnover only exceeds the VAT registration threshold temporarily.
- Traders are assessed for VAT liability from the time that their taxable turnover exceeds the registration threshold, but they cannot start to charge VAT to their customers before they have been issued with a VAT registration number by HMRC. Registration should not be delayed therefore, but should be applied for as soon as a trader thinks that they will need to register.
- Fines may be imposed by HMRC if traders fail to register at the correct time, and traders will also be liable for any VAT that they should have charged in the interim.

How to register for VAT

Most taxable persons including sole traders, partnerships and private limited companies can register for VAT online, and as part of that process will not only register for VAT but will also create a VAT online account (also known as a Government Gateway Account), which is required for submission of VAT Returns.

Go to www.gov.uk/vat-registration/how-to-register to register for VAT online.

Some traders cannot register for VAT online and must apply by post. This includes traders who:

- Intend to apply for a 'registration exception', for example if their turnover has only temporarily exceeded the VAT registration threshold.
- Import goods from another European Union country (known as 'acquiring' goods).
- Are joining the Agricultural Flat Rate VAT scheme.

Traders can choose to appoint an accountant or agent to deal with VAT matters on their behalf, and can then apply for a VAT online account when they have been issued with a VAT registration number.

HMRC issues traders who register for VAT with a VAT registration certificate that includes a VAT registration number, usually within 30 days of receipt of their application for registration.

The date of registration shown on the certificate is known as the 'effective registration date', which is the date the taxable turnover exceeded the VAT registration threshold (or the date from which registration was requested if voluntary VAT registration has been applied for) and traders must charge and account for VAT from this date onwards.

From April 2019, most VAT-registered businesses with taxable turnover above the VAT registration threshold must sign up for 'Making Tax Digital (MTD) for VAT. Under MTD rules, VAT records and returns must be managed digitally using software that meets HMRC specifications.

For more information about registering for MTD, go to www.gov.uk/guidance/sign-up-for-making-tax-digital-for-vat. For information about software that is compatible with MTD, go to www.gov.uk/guidance/find-software-thats-compatible-with-making-tax-digital-for-vat. See also BIF542 Making Tax Digital for VAT.

Cancelling a VAT registration

A trader's VAT registration must be cancelled (sometimes referred to as 'de-registering') if they are no longer eligible to be registered for VAT, for example if they cease to make taxable supplies or cease to trade altogether.

An application to cancel a VAT registration can also be made if a trader's taxable turnover falls below the VAT de-registration threshold, which for the 2020/21 tax year is £83,000. Note that the VAT de-registration threshold is slightly lower than the VAT registration threshold.

An application for de-registration can either be made online through the trader's VAT online account, or by post using form VAT 7.

For more information about de-registering, go to www.gov.uk/government/publications/vat-notice-70011-cancelling-your-registration.

Applications for de-registration must be made within 30 days of the reason for the cancellation arising, or a penalty may be imposed by HMRC.

A final VAT return must then be filed by the trader to account for stock and other assets held up to and including the de-registration date.

VAT inspections

HMRC has the power to carry out VAT inspections to:

- Examine business records.
- Inspect business premises.
- Assess underpaid tax and charge penalties for failing to register for VAT or to make returns or payments on time.

The frequency of VAT inspections depends on how large or complex the business is, and whether it has ever submitted late or incorrect VAT returns.

HMRC must give seven days' notice if it wishes to visit a trader's premises, unless it deems an unannounced visit is necessary. Go to www.gov.uk/vat-visits-inspections for more information.

Hints and tips

- It is important to keep up to date with changes to the VAT rules. HMRC provides regular videos, webinars, online courses and email updates. Go to www.gov.uk/government/

collections/hmrc-webinars-email-alerts-and-videos for more information and to subscribe to the email service.

- The mandatory VAT registration and de-registration thresholds are usually raised every year in the Chancellor's Budget and applied in the forthcoming tax year.
- Traders should check the amount of their taxable turnover regularly to ensure that it does not exceed the mandatory VAT registration threshold, and apply to register for VAT as soon as they think this will be necessary to avoid penalties.

Further information

BIF015 An Introduction to Tax, National Insurance and VAT
BIF045 Charging and Accounting for VAT
BIF234 VAT (Value Added Tax)
BIF386 Invoices and Receipts
BIF483 Tax Deadlines in 2021
BIF505 VAT Margin Schemes
BIF506 VAT Retail Schemes
BIF510 Using VAT MOSS
BIF542 Making Tax Digital for VAT

Useful contacts

HM Revenue & Customs (HMRC) is the Government department responsible for the collection of taxes in the UK.
Tel: 0300 200 3700 (VAT: general enquiries)
Website: www.gov.uk/government/organisations/hm-revenue-customs

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