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BOOKKEEPING & ADVISORY

08



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VAT Made Simple

When to register, how VAT works, the different schemes and Making Tax Digital for VAT

Zen Bookkeeping & Advisory
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VAT can feel complicated, but the basics are straightforward once you understand them. This guide explains when you have to register, how VAT works day to day, the schemes that could save you time or money, and how Making Tax Digital for VAT works.

> *"I started Zen to make finance feel calm and clear for business owners. I hope this guide answers your questions, and if anything doesn't quite fit your situation, I'm always happy to talk it through with you."*
>
> **Ann Williams**
> Founder, Zen Bookkeeping & Advisory

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01 Do you need to register?

£90,000
compulsory registration threshold (rolling 12 months)

£88,000
deregistration threshold

30 days
to register once you go over the threshold

- You must register if your VAT-taxable turnover for the last 12 months goes over **£90,000**, or if you expect it to go over £90,000 in the next 30 days alone.
- Check the total every month: it's a rolling 12 months, not your accounting year.
- You can **register voluntarily** below the threshold, which can help if your customers are VAT-registered businesses or you buy a lot of standard-rated supplies.

! Don't miss it

If you register late, HMRC can backdate your registration, and you may have to pay the VAT you should have charged out of your own pocket, plus penalties.

02 How VAT works

Once registered, you add VAT to your sales (**output VAT**) and reclaim the VAT on your business purchases (**input VAT**). Each VAT return, you pay HMRC the difference, or reclaim it if you've paid more than you've charged.

VAT rate	Examples
Standard rate: 20%	Most goods and services
Reduced rate: 5%	Domestic fuel and power, children's car seats, some energy-saving materials
Zero rate: 0%	Most food (but not catering or hot takeaway food), books and newspapers, children's clothes
Exempt	Insurance, most financial services, some education and health services, many residential property lets

You can usually reclaim VAT on goods bought up to 4 years before registering (if you still have them) and on services up to 6 months before.

03 Which VAT scheme is best?

Scheme	How it works	Who it suits
Standard accounting	Account for VAT on invoices issued and received, quarterly	Most businesses
Cash accounting	Pay VAT only when customers pay you; reclaim only when you pay suppliers. Join if turnover is up to £1.35 million.	Businesses with slow-paying customers
Annual accounting	One VAT return a year with advance payments through the year. Join if turnover is up to £1.35 million.	Businesses wanting less admin and steady budgeting
Flat Rate Scheme	Pay a fixed percentage of your gross turnover to HMRC, set by your sector. Join if turnover (excluding VAT) is up to £150,000.	Service businesses with few purchases
Retail schemes	Work out VAT on takings rather than each sale	Shops selling goods at different VAT rates

! Limited cost traders

On the Flat Rate Scheme, if you spend very little on goods, you may be a "limited cost trader" and have to use a rate of **16.5%**, which often makes the scheme worse than standard accounting. Check before you join.

04 Making Tax Digital for VAT

All VAT-registered businesses must keep **digital records** and submit VAT returns using MTD-compatible software, whatever their turnover.

- VAT returns and payment are usually due **one month and seven days** after the end of each VAT period.
- Late returns earn **penalty points**; a £200 penalty is charged once you reach the threshold (4 points for quarterly returns).
- Late payment penalties apply if tax is unpaid after 15 days, with further charges at 30 days, and interest is charged too.
- Records must be linked digitally: no copying figures by hand between spreadsheets and software.

05 Your VAT checklist

- [ ] I check my rolling 12-month turnover every month.
- [ ] My invoices show my VAT number, date, VAT rate and amount.
- [ ] I keep VAT receipts for purchases I reclaim.
- [ ] I use MTD-compatible software with digital links.
- [ ] I've checked which VAT scheme suits my business best.
- [ ] Returns and payments are diarised one month and seven days after each period.

✦ Zen tip

The right VAT scheme can save real money or hours of admin. We review your scheme when you register and as your business changes.

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How Zen can help

We register you, choose the best scheme for your business and file accurate VAT returns on time, every time.

- VAT registration
- VAT scheme reviews
- MTD VAT returns
- Bookkeeping
- VAT queries and HMRC liaison
- Partial exemption and complex VAT

Book a free, no-obligation call

Tell us about your business and we'll explain how we can help, with a tailored fixed-fee quote for just the services you need.

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