

Should I add VAT to my first invoice?

VAT is a complex topic, and the question "Should I add VAT to my first invoice?" is common among new business owners. This article provides a brief overview of VAT, addressing some of the most common questions new business owners have.

Best Practices for Organising Receipts/paperwork

What is VAT?

VAT stands for Value Added Tax, which is added to most products and services sold by VAT-registered businesses. The standard VAT rate is 20%, but some services are charged at a reduced rate of 5% (e.g. domestic utilities) or even 0%, while others are exempt.

The various rates and rules make it essential to consult a VAT expert before making decisions, especially if your business involves exporting to the EU.

Do you need to register for VAT as soon as you set up your business?

The answer is no you are not legally required to register for VAT upon starting your business.

However, once your turnover for the last 12 rolling months exceeds the VAT threshold you must register for vat. The threshold is currently £90,000 for 12 months. You are expected to register before your turnover reaches the threshold limit i.e. within 30 days of the end of the month when you expect to go over the threshold.

If you fail to do so you must pay VAT on sales made since the date you should have registered, and you may also need to pay a penalty.

How do you register for VAT?

There are three ways to register:

1. Online using a government gateway account
2. Using an agent
3. Register by post

Why would I voluntarily register for VAT if my business turnover is under the threshold?

Even if your sales are below the threshold, you might choose to register voluntarily. This can be advantageous if you anticipate quickly exceeding the threshold, as you

can claim VAT on setup costs, helping with cash flow and profitability during the startup phase.

Additionally, if you sell to other VAT-registered businesses, they can reclaim the VAT you charge, making your pricing more straightforward when you eventually need to register.

What paperwork is involved in relation to VAT?

Once your business is registered for VAT you will be provided with VAT Registration Number (VRN). From the date that your VRN certificate is issued, you must add VAT to all of your client invoices and keep all of your incoming invoices from suppliers that bear VAT.

A VAT invoice requires:

- VAT Registration Number
- The net price of each product or service
- The VAT rate (20%, 5% or 0%) of each product or service being charged
- The subtotal of the sale excluding VAT
- The total amount of VAT being charged on the sale

As a VAT registered business, you will be required to submit quarterly VAT returns showing all of the VAT outputs (on your sales) and VAT inputs (purchases) made in the quarterly period defined. Filing VAT returns and VAT compliance is arguably more streamlined with the new Making Tax Digital initiative. The VAT return must be completed and submitted one month, and 7 days of the end of the relevant period and payment made at the same time/

What is Making Tax Digital for VAT?

MTD is a key part of the government's tax strategy to help reduce the tax gap by requiring businesses and individuals to:

- Keep digital records
- Use software to submit returns
- Submit updates every quarter bringing it close to real time

From April 2022, when you register for VAT, you will be automatically registered for MTD. You will need to comply with MTD for VAT rules as soon as you are registered. Most accounting packages will have this functionality built in. However, if you are using spreadsheets this will not be the case and therefore you will need to purchase bridging software which will link your spreadsheet to HMRC's systems to enable the return to be filed.

HMRC have developed a series of webinars/videos to help you understand MTD. HMRC email updates, videos and webinars for Making Tax Digital - GOV.UK (www.gov.uk)

If you require more detailed information or specific advice, please get in touch. We work with a range of expert associates who will be happy to support you, own fields and will be happy to support you, whatever your challenge is.