

VAT Annual Accounting Scheme

What is annual accounting?

Under annual accounting, you make agreed payments on account and need complete only one VAT return per year. The purpose of the scheme is to aid cashflow and budgeting and reduce the paperwork involved.

Who can use the scheme?

Annual accounting is open to you if you have been registered for at least a year, or immediately for businesses with a taxable turnover of up to £150,000, and during the last twelve months your credits for input tax have not exceeded your total output tax. Your expected turnover in the coming year should not exceed £1,350,000 and you should be up-to-date with your VAT returns.

You have to apply to use the scheme, using form VAT600 at the back of Notice 732. You can at the same time apply to join the Flat Rate Scheme

You may withdraw from the scheme voluntarily at any time by application in writing to your local VAT office.

What are the advantages of annual accounting?

The advantages of annual accounting are:

- Only one VAT return per year, with an extra month for submission
- The return can be prepared at the same time as the annual accounts
- Cashflow is known in advance
- Monthly payments spread the load
- It simplifies the operation of retail or partial exemption schemes

Are there any disadvantages?

Possible disadvantages are:

- Interim payments based on previous years may be higher than necessary (but can be reduced if the difference is significant)
- Seasonal or other variations may create an adverse effect on cashflow

How are the payments structured?

Businesses with a net turnover between £100,000 and £1,350,000 will make nine monthly interim payments of 10% of the previous year's VAT payments, commencing on the last day of the fourth month of the VAT year.

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Those with an annual taxable turnover of £100,000 or less make quarterly interim payments of 20% of the previous year's net liability (no interim payments are required if the annual VAT payable is less than £2,000).

In both cases, the interim payments may be adjusted to take into account any expected changes in turnover and trading. The balance of VAT due for the year is payable two months after the year end, together with submission of the VAT return.

Payments must be made by direct debit, or by a choice of electronic payment methods.

What if my turnover goes over £1,350,000?

There is a 25% tolerance built into the scheme. This means that once you are using annual accounting, you can normally continue to use it until the end of the year in which the value of your taxable supplies exceeds £1,687,500.

Are there other conditions?

HM Revenue & Customs may expel you from the scheme in certain circumstances, including:

- Failure to submit the return by the due date
- Failure to make any payment on time, unless in circumstances beyond your control

Conclusion

Annual accounting merits consideration by all small businesses. In most cases, the advantages will outweigh any potential disadvantages.

Examples

The following examples compare annual accounting with conventional accounting for VAT. It has been assumed that sales are spread evenly throughout the year. If there are seasonal or other variations, annual accounting can show either a greater advantage or disadvantage depending on the accounting date chosen.

Example I - Business with turnover £90,000 net; VAT for year £10,000; accounting date 30 June

Month	Conventional accounting £	Annual accounting £	Cumulative difference £
September 2011			
October	2,500	2,000	(500)
November			
December			
January 2012	2,500	2,000	(1,000)
February			
March			
April	2,500	2,000	(1,500)
May			
June			
July	2,500		(4,000)
August		4,000	-

Example II - Business with turnover £240,000; net VAT for year £20,000; accounting date 30 June

Month	Conventional accounting £	Annual accounting £	Cumulative difference £
September 2011			
October	5,000	2,000	(3,000)
November		2,000	(1,000)
December		2,000	1,000
January 2012	5,000	2,000	(2,000)
February		2,000	-
March		2,000	(2,000)
April	5,000	2,000	(1,000)
May		2,000	1,000
June		2,000	3,000
July	5,000		(2,000)
August		2,000	-

Check with us if you would like further help or advice in this area.