

CHAPTER 2

REGISTRATION

2.1 Introduction

Not all businesses need to be registered for VAT. However if a person is in business making taxable supplies, he will be required to be registered by HMRC if, either

- 1) the value of **taxable supplies made in the previous 12 months exceeds the annual registration threshold**; or
- 2) if at any time there are **reasonable grounds** for believing that the value of taxable supplies to be made in the **next 30 days on their own, will exceed the annual registration threshold**.

[VATA 1994, Sch 1
Para 1](#)

“**Person**” means sole trader, partnership or company.

The “**annual registration threshold**” is currently £70,000. This applies to persons registering for VAT on or after 1 April 2010. The threshold changes every year with the Budget.

“**Taxable supplies**” means supplies which are taxable at the standard, lower or zero rate.

Whilst the above are **compulsory registration** tests, it is possible to **voluntarily register** for VAT.

Any business whose taxable turnover is below the annual threshold can apply to register voluntarily. Business may voluntarily register for a number of reasons;

- a) **Credibility**. VAT registered business have a degree of credibility that non-registered traders may not have. Some businesses will only deal with other VAT registered businesses.
- b) **To recover input VAT**. Only VAT registered businesses are entitled to reclaim input VAT on purchases.
- c) **To avoid late registration penalties**. HMRC charge penalties if businesses register late for VAT. Voluntary registration avoids any potential penalty exposure.

The **disadvantages** of registering for VAT are;

- a) **Output tax will be charged on all sales**. This increases prices (normally by $17\frac{1}{2}\%$). This is a problem if customers are members of the public who cannot recover the input tax.
- b) **VAT accounting**. VAT registered businesses have to file VAT returns (usually on a quarterly basis). This is an additional compliance burden.

Intending traders may voluntarily register for VAT. These are traders who have not actually commenced trading but who intend to trade within the foreseeable future. These traders would apply to HMRC for a VAT number before they commence trading. This allows them to **recover VAT** from HMRC whilst the business is being set up.

[VATA 1994, Sch 1 Para 9](#)

2.2 Types of Registration

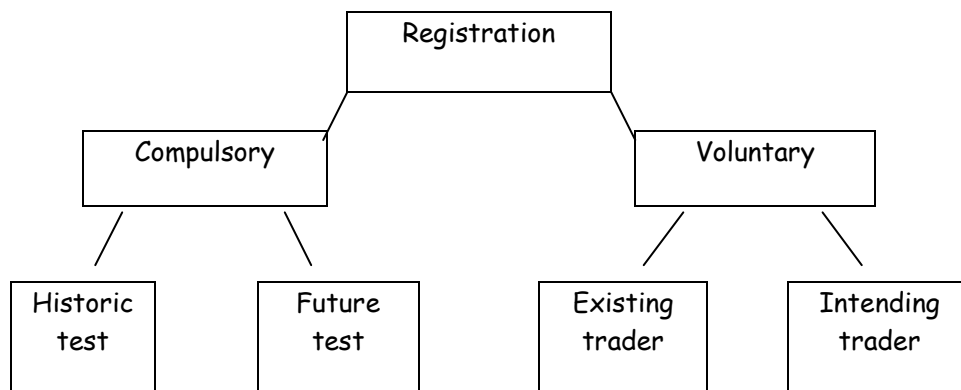
Compulsory registration can be broken down into the "historic test" and the "future test".

The "historic test" - at the end of every calendar month, the business looks at taxable supplies in the previous 12 months. If taxable supplies in this period have exceeded the registration threshold, the business has an obligation to register.

[VATA 1994, Sch 1 Para 1](#)

The "future test" - at any point in time, the business looks forward 30 days. If taxable supplies **in the next 30 days alone** are expected to exceed the registration threshold, the business has an obligation to register.

The historic test is more likely to apply than the future test.



2.3 Historic test

Businesses are required to register for VAT if at the end of any calendar month, the value of **taxable supplies in the last 12 months exceeds** the registration threshold (currently £70,000).

[VATA 1994, Sch 1 Para 1](#)

If the threshold has been exceeded, HMRC must be notified **within 30 days from the end of the month in which the limit is breached**. Notification is done on form VAT 1.

[VATA 1994, Sch 1 Para 11 to 17](#)

The business will then charge VAT on supplies **from the first day of the following month**.

[SI 1995/2518 Reg 5](#)

Illustration 1

A trader is in business making taxable supplies. At the end of April 2010, taxable supplies in the previous 12 months amounted to £59,500. There is therefore no requirement for the business to be registered.

The business will then reassess its position at the end of May 2010. At the end of May 2010, taxable supplies in the previous 12 months amounted to £66,000; again this is below the limit so there is no need to register.

The business will then reassess its position at the end of June 2010. At the end of June 2010 taxable supplies in the previous 12 months amounted to £70,500; this is now above the limit so the business will be required to register.

The trader must register for VAT no later than 30 days from the end of June 2010, i.e. by **30 July 2010**.

The trader must charge VAT on supplies from **1 August 2010**.

Example 1

John started trading in 1 March 2010. His taxable supplies are £11,000 per month.

- 1) **By what date must John notify HMRC of his requirement to be registered for VAT?**
- 2) **From what date should John charge VAT on his supplies?**

Illustration 2

New Business Ltd commenced trading on 1 July 2009. The taxable sales were as follows:

		£			£
2009	July	4,000	2010	March	5,000
	August	4,000		April	5,000
	September	4,000		May	6,500
	October	4,000		June	7,500
	November	4,000		July	11,500
	December	5,000		August	10,000
2010	January	5,000		September	12,500
	February	5,000		October	14,000

We need to find out when the compulsory registration limit of £70,000 is exceeded.

Taxable supplies in the first 12 months of trade (July 2009 to June 2010) are £59,000. We therefore move forward one month and test again.

Taxable supplies in the 12 months from August 2009 to July 2010 are £66,500 (note that we do NOT count July 2009 as by doing so we would count 13 months). Again we must move forward one month and re-test.

Taxable supplies in the 12 months from September 2009 to August 2010 are £72,500.

The compulsory registration date will 30 September 2010. VAT will be charged on supplies from 1 October 2010.

2.4 Future Test

This is a test which applies at any time. Every day, the trader must ask himself whether there are reasonable grounds for believing that the value of **taxable supplies in the next 30 days alone will exceed the registration limit**.

[VATA 1994,
Sch 1 Paras 1
and 6](#)

Notification must again be made on form VAT 1 **within 30 days of the day on which the trader realises that his supplies in the next 30 days will exceed £70,000**.

Registration has an immediate effect. The trader must charge VAT straightaway (even though he does not have a VAT number at that point).

This future test is intended to catch substantial orders.

Illustration 3

A trader makes annual supplies just below the threshold, so he is never caught by the historic test.

On 10 July 2010 he received an order for goods worth £75,000 which he will meet in the next 4 weeks.

Therefore on 10 July 2010, the trader knows that in the next 30 days alone his taxable supplies will exceed £70,000.

He must notify HMRC within 30 days from 10 July 2010 (ie, by 9 August 2010). He must charge VAT immediately (ie, he will add VAT to the sales invoice for £75,000).

2.5 Common Misconception

There is a common misconception in relation to the historic and the future tests.

Illustration 4

Brian is in business making taxable supplies. His sales in the 11 months to 30 September 2010 were £59,000. He has never registered for VAT.

In October 2010 Brian's budgeted sales are £12,000.

In this situation the future test does **not** apply, because there is no point at which Brian can say that in the next 30 days **on their own**, his turnover will exceed £70,000. On 1 October 2010 he anticipates taxable supplies for October will be £12,000, and £12,000 alone does not exceed £70,000.

The historic test will however apply at the end of October. The taxable supplies made in the 12 months to 31 October 2010 amount to £71,000.

The business has exceeded the threshold in October 2010. Brian must notify HMRC by 30 days from the end of October, ie, by 30 November 2010. VAT will be chargeable on supplies from 1 December 2010.

2.6 Taxable supplies

A taxable supply is a supply of goods or services made in the UK other than an exempt supply.

In determining whether the registration limits have been exceeded, it is therefore necessary to take into account the VAT-exclusive value of all standard and zero-rated supplies of goods and services.

[VATA 1994, s.4\(2\)](#)

Supplies of **capital assets** of the business are disregarded. Capital assets may be tangible or intangible and include premises, plant, machinery, office machinery, computers, office furniture, company cars and goodwill.

[VATA 1994, Sch 1 para 1\(7\)\(8\)](#)

2.7 Deregistration

Once a business is registered for VAT, it is not always the case that it will remain registered for VAT.

[VATA 1994, Sch 1 Para 11](#)

In certain situations a business may be required to deregister or may voluntarily deregister. Examples of **compulsory deregistration** would be:

- **Sale of business;**
- **Changing status** - for example, a business might change from a sole trader to a limited company.
- **Ceasing to make taxable supplies** - a business may cease trading or may switch from making taxable supplies to making exempt supplies.

Voluntary deregistration is available where a business is expected to make **taxable supplies in the next 12 months of less than £68,000.**

[VATA 1994, Sch 1 Para 1\(3\)](#)

When deregistering, VAT must be accounted for on the final VAT return of any assets forming part of the business assets which are on hand at the last day of registration as if they were supplied in the course or furtherance of the business unless

- (a) the business is transferred as a going concern to another taxable person;
- (b) the taxable person has died, become bankrupt or incapacitated and the business is carried on by another person; or
- (c) the VAT on the deemed supply would not be more than £1,000.

The following are excluded from the charge to VAT on deregistration:

- Goods bought from unregistered businesses.
- Motor cars (except qualifying cars on which input tax has been claimed).
- Goods used wholly for business entertainment.
- Goods that have been directly attributed to an exempt business activity.
- Goods not bought for business purposes.

2.8 Exemption from registration

Where a person who makes (or intends to make) taxable supplies satisfies HMRC that any such supply is zero-rated, they may grant exemption from registration.

[VATA 1994, Sch 1 para 14](#)

Exemption saves a person the trouble and expense of having to keep proper records and accounts for VAT purposes and from filing quarterly returns.

However, traders who make zero-rated supplies will usually wish to voluntarily register for VAT in order to recover input tax suffered on purchases.

2.9 Pre-registration input tax

Where:

- 1) **goods** acquired for the business (a maximum 4 years prior to registration) that are **still owned at the date of registration**;
- or
- 2) **services** are supplied for the purpose of the business **in the six months prior to registration**,

[SI 1995/2518 Reg. 111](#)

input tax on these items can be **recovered on a trader's very first VAT return** once he has registered for VAT.

Credit for input tax may be available in respect of certain post-deregistration supplies. Where services are supplied after the date of deregistration, but those services relate to taxable supplies that were made when the trader was still VAT registered, the input tax on those services is recoverable if a claim is made.

[SI 1995/2518 Reg. 111](#)

Answer 1

The registration threshold (£70,000) will be exceeded by the end of his 7th month of trading (ie by 30 September 2010).

HMRC should be notified by 30 October 2010.

John should charge VAT from 1 November 2010.