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HMRC has launched a new digital tool to help businesses estimate the potential impact of their VAT registration. This will be useful for established business owners and those planning to start a business.

## VAT registration

Registration for VAT is required if a business's taxable turnover (including zero-rated sales) exceeds £90,000 for the previous 12 months or is expected to exceed this threshold in the next 30 days.

For a business that only makes sales to the general public, the cost of VAT registration can be particularly onerous if it is not possible to increase prices to cover the VAT charged while the cost of VAT on sales becomes an additional cost for the business.

However, a business supplying VAT-registered customers may find it beneficial to register voluntarily even though turnover is below £90,000.

## Using the estimator

The estimator tool can be used as many times as needed, with HMRC suggesting it will take around 20 minutes to complete on first use. To use the estimator:

- Select the time period – in months – for the VAT estimate.
- Enter business income for the period, excluding any income from employment.
- If any income is exempt from VAT, zero-rated or at a reduced rate, estimate the appropriate proportion in each case.

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- Enter business costs, including those outside the scope of VAT such as salaries.
- Remove the proportion of costs outside the scope of VAT, exempt from VAT, zero-rated or at a reduced rate.
- Then a final, but very important question, about how VAT will be accounted for – added to selling prices or absorbed into current prices.

Running the numbers for a VAT-registered business that has gone £10,000 over the registration threshold (standard rated sales of £100,000) with £10,000 in standard rated expenses, and with all sales to the general public, results in the business being £15,000 worse off annually compared to not being VAT registered. Take into account the extra tax and NICs due on the £10,000 of additional income, and it is clear the business would probably have been better off trying to stay within the £90,000 threshold.

HMRC's VAT registration estimator tool can be found [here](#).

## **We can help**

Please call us on **01753 888 211** or email [info@nhllp.com](mailto:info@nhllp.com) if you need guidance with any of the issues raised in this Broadcast. We would be happy to help.