



McCabe Ford Williams

### Selecting the right VAT Scheme

VAT SCHEME	ADVANTAGES	DISADVANTAGES
<p><b>Annual Accounting</b> – 9 monthly instalments are paid throughout the year. One VAT Return is completed at the year end. Balancing payment/refund is made after the return is submitted.</p>	<ul style="list-style-type: none"> <li>✓ Reduced paperwork as one return is prepared.</li> <li>✓ Easier to manage cash flow.</li> <li>✓ 2 months to file the return.</li> <li>✓ Additional payments can be made if required.</li> </ul>	<ul style="list-style-type: none"> <li>✗ Not suitable for some companies as repayment is made annually.</li> <li>✗ Estimated payments on last year's results may not prove very accurate.</li> </ul>
<p><b>Cash Accounting</b> – VAT is paid/reclaimed once payment is made/received.</p>	<ul style="list-style-type: none"> <li>✓ No VAT adjustment required on bad debts</li> <li>✓ Easier to manage cash flow.</li> <li>✓ Simpler VAT system (no adjustment for write offs).</li> </ul>	<ul style="list-style-type: none"> <li>✗ May not be suitable for companies who make purchases on credit.</li> <li>✗ If you change scheme then you will need to account for all outstanding VAT on creditors and debtors</li> </ul>
<p><b>Flat Rate Scheme</b> – A flat rate % is applied to the sales and no input VAT is reclaimed (Except for capital purchases over £2,000).</p>	<ul style="list-style-type: none"> <li>✓ Easier record keeping.</li> <li>✓ Lower output VAT rates depending on the trade.</li> <li>✓ Fewer rules to follow and peace of mind.</li> <li>✓ Extra 1% reduction for new registrations for a year.</li> </ul>	<ul style="list-style-type: none"> <li>✗ Not suitable for companies who reclaim significant input VAT.</li> <li>✗ No zero rates/exempt sales apply as the flat rate % is applied to all sales.</li> </ul>