

## — VAT · LIFE AFTER REGISTRATION

# VAT After You Are Registered

The schemes, the quarterly returns and the traps that quietly cost money once you are inside the VAT system. Schemes, MTD and the penalty regime, each figure checked against current GOV.UK guidance.

STANDARD VAT  
RATE**20%**FLAT RATE JOIN  
LIMIT**£150<sub>k</sub>**LIMITED COST  
RATE**16.5%**

• [START HERE](#)

# Once you are registered, the choices begin


Registration is not the end of the job, it is the start of a set of choices. Charge VAT, reclaim VAT, file every quarter and pay the difference. The scheme you pick and the deadlines you hit decide whether VAT is tidy admin or a quiet drain on cash. The figures below are current for the 2026/27 tax year.


## At a glance, the numbers that drive your VAT




<p>STANDARD RATE</p> <p><b>20%</b></p> <p>On most sales</p>	<p>FLAT RATE JOIN</p> <p><b>£150k</b></p> <p>Turnover, ex VAT</p>	<p>CASH ACCOUNTING</p> <p><b>£1.35m</b></p> <p>Pay VAT when paid</p>	<p>FIRST LATE-PAY PENALTY</p> <p><b>3%</b></p> <p>At day 15, then day 30</p>
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 **HOW TO USE THIS**  
The default standard scheme is fine for most businesses. The other schemes exist to save admin or smooth cash flow, but the wrong one can quietly cost you. **Read Section 02 before you tick the Flat Rate box.** The checklist on page 7 walks you through which scheme suits you.

 **What you'll need** ABOUT 15 MINUTES

-  **Your VAT certificate** with your number, registration date and first return period
-  **Your expected turnover** for the next year, plus a rough split of standard and zero-rated sales
-  **Your typical costs**, in particular how much you spend on **goods** versus services

01 THE DEFAULT

# The standard scheme, how VAT actually works

Unless you opt into one of the schemes that follow, you are on the standard scheme. Charge VAT on your sales, reclaim it on your costs, and pay HMRC the difference every quarter.

You add **output VAT** at 20% to your standard-rated sales and collect it from your customers. You reclaim the **input VAT** you were charged on business costs. Each quarter you pay HMRC the difference, or claim a refund if you paid more VAT than you collected.

STEP	WHAT HAPPENS	EXAMPLE
<b>Output VAT</b>	You add 20% to standard-rated sales and collect it	<b>£10,000 sales, £2,000 VAT</b>
<b>Input VAT</b>	You reclaim VAT charged on your business costs	<b>£3,000 costs, £600 VAT</b>
<b>Pay the difference</b>	Output VAT less input VAT goes to HMRC	<b>£2,000 – £600</b>
<b>VAT due this quarter</b>	<b>Output less input VAT</b>	<b>£1,400</b>

Source: GOV.UK, How VAT works and VAT rates. Standard rate 20%, reduced rate 5%, zero rate 0%. Figures illustrative.



**RECLAIM THE VAT YOU ARE OWED**

Most VAT on genuine business costs is reclaimable, from stock to software to professional fees. Keep a valid **VAT invoice** for every claim. You generally cannot reclaim VAT on business entertainment or on the purchase of a car for mixed use.



**FILE AND PAY EVERY QUARTER, ON TIME**

A standard VAT return covers a three-month period. Both the **return and the payment** are usually due one calendar month and seven days after the period ends. Miss either and the penalty regime in Section 04 starts to bite.



**KEEP DIGITAL RECORDS FROM DAY ONE**

Under Making Tax Digital you must keep your VAT records digitally and file through compatible software, from your very first return. Set this up before your first deadline, not the night before it (see Section 04).

02 SIMPLER, BUT WATCH OUT

# The Flat Rate Scheme and its trap

The Flat Rate Scheme swaps the input-output sum for one simple calculation, you pay a fixed percentage of your gross turnover. Simpler admin, yes, but for many low-cost businesses it costs more than the standard scheme.

You can join if your VAT turnover is **£150,000 or less** (excluding VAT). Instead of reclaiming input VAT on each cost, you pay a flat percentage set for your trade sector on your **gross** (VAT-inclusive) turnover, and keep the difference.



**THE LIMITED COST BUSINESS TRAP**

If you spend very little on **goods**, HMRC treats you as a **limited cost business** and your flat rate is **16.5%** of gross turnover, whatever your sector. You count as limited cost if your goods cost less than 2% of turnover, or less than £1,000 a year. Most consultants and service firms fall straight into this, and usually lose money versus the standard scheme.



**Worked example · a £350-a-day consultant, low costs**

Net fees for the year (200 days at £350)	<b>£70,000</b>
Output VAT charged at 20%	<b>£14,000</b>
Gross turnover, VAT included	<b>£84,000</b>
Flat Rate, limited cost business at 16.5% of gross	<b>- £13,860</b>
Input VAT reclaimable on tiny costs (standard scheme)	<b>about £300</b>
Standard scheme VAT paid (£14,000 less £300)	<b>£13,700</b>

**Flat Rate costs more by**

**about £ 160**



**RUN THE SUM BEFORE YOU OPT IN**

The Flat Rate Scheme can still win if your sector percentage is well below 16.5% and you genuinely buy enough goods to avoid the limited cost rate, and there is a **1% discount** in your first year. So work out your bill both ways on the same figures before you opt in. If you are a low-cost service business the standard scheme is usually cheaper, and we run this comparison for you in the free review on page 7.

03 SMOOTH YOUR CASH FLOW

# Cash and annual accounting

Two more schemes change the timing, not the amount, of your VAT. Cash accounting helps if customers pay slowly. Annual accounting cuts four returns to one. You can use cash accounting alongside annual accounting.

## Cash accounting

You pay VAT to HMRC only when your **customer pays you**, and reclaim VAT only when you **pay your supplier**. This helps cash flow, especially if you raise invoices that take weeks to settle, because you are not funding the VAT before the cash arrives.

## Annual accounting

You file **one VAT return a year** instead of four, and make advance payments towards the bill across the year (monthly or quarterly), with a balancing payment or refund when you file. Less paperwork, but you do not see your true position until year end.

SCHEME	WHAT IT CHANGES	JOIN IF TURNOVER IS
Cash accounting	Pay VAT when paid, reclaim when you pay, not on the invoice date	£1.35m or less
Annual accounting	One return a year, with advance instalments through the year	£1.35m or less
Standard (default)	Account for VAT on the invoice date, file every quarter	Any turnover

Source: GOV.UK, VAT Cash Accounting Scheme and VAT Annual Accounting Scheme. Both join thresholds are estimated VAT taxable turnover of £1.35 million or less.



### CASH ACCOUNTING SUITS SLOW PAYERS

If your customers routinely pay 30, 60 or 90 days after invoice, cash accounting stops you handing HMRC VAT you have not yet collected. It is one of the simplest cash-flow wins available to a growing business.



### ANNUAL ACCOUNTING HIDES SURPRISES

Filing once a year is less admin, but if your sales jump the advance instalments based on last year can leave a **large balancing payment** at year end. It suits steady, predictable businesses, less so fast-growing ones.



### THESE SCHEMES CHANGE TIMING, NOT THE BILL

Cash and annual accounting move **when** you pay, not **how much**. The Flat Rate Scheme is the only one of the four that changes the amount of VAT you hand over, which is why its trap matters most.

04 DIGITAL RETURNS AND PENALTIES

# Making Tax Digital and the penalty regime

Every VAT-registered business must keep digital records and file through compatible software. Miss a return and you collect points. Miss a payment and the charges stack up fast. Here is exactly how.

**Making Tax Digital for VAT** is mandatory for all VAT-registered businesses, whatever your turnover. You must keep your VAT records digitally and submit returns through MTD-compatible software, not by typing figures into the old online form.

## 🕒 Late submission: a points system

FILING FREQUENCY	POINTS NEEDED FOR A PENALTY	PENALTY AT THRESHOLD
Monthly returns	A point for each late return, penalty at 5 points	£200
Quarterly returns	Penalty at 4 points	£200
Annual returns	Penalty at 2 points	£200

Source: GOV.UK, Penalty points and penalties if you submit your VAT Return late. Each late return adds a point; once you hit the threshold each further late return is another £200.

## 🕒 Late payment: charges that stack

WHEN VAT IS STILL UNPAID	WHAT YOU ARE CHARGED	RATE
Days 1 to 15	No late payment penalty if paid in full by day 15	Nil
Day 15	First penalty, on the VAT still unpaid at day 15	3%
Day 30	A further first-penalty charge on what is unpaid at day 30	+3%
From day 31	Second penalty, accruing daily on the outstanding balance	10% / yr

Source: GOV.UK, How late payment penalties work if you pay VAT late. Rates apply from 1 April 2025. Late payment interest is charged on top from the due date until you pay.



**INTEREST IS CHARGED ON TOP**

On top of the penalties above, HMRC adds **late payment interest** from the day the VAT was due until the day you pay. A short delay is cheap; letting a bill drift past day 31 is not.

05 TICK IT OFF

# Which VAT scheme suits you

Print this page. Work through it to settle on a scheme and to stay clear of the traps. Tick what applies, then weigh up where most of your ticks land.

## Your numbers

- Confirm your **VAT registration date** and first return period
- Estimate **turnover** for the next year, excluding VAT KEY
- Split sales into **standard, reduced and zero-rated**
- Total your typical **input VAT** on business costs
- Work out how much you spend on **goods** versus services DECIDES FRS

## Standard vs Flat Rate

- Calculate your VAT bill under the **standard scheme**
- Calculate it under your **Flat Rate** sector percentage
- Check if you are a **limited cost business** at 16.5% THE TRAP
- Compare the two and pick the **cheaper** result
- Remember the **1% first-year discount** on the Flat Rate

## Cash flow and timing

- Note how long your **customers take to pay** on average
- If they pay slowly, consider **cash accounting** CASH WIN
- Decide if **one annual return** would cut useful admin
- Check your turnover is **£1.35m or less** for either scheme
- Avoid annual accounting if your sales are **growing fast**

## Stay compliant

- Set up **MTD-compatible software** before your first return MANDATORY
- Diary every **return and payment** deadline for the year
- Pay within **15 days** of the due date to avoid penalties
- Keep **valid VAT invoices** for everything you reclaim
- Keep VAT records for at least **6 years**



### DECIDE ONCE, REVIEW YEARLY

Your best scheme can change as you grow. Re-run the comparison each year, and whenever your costs or turnover shift materially. What suited you at £90,000 may cost you at £200,000.



— FREE VAT SCHEME REVIEW

# We work out which scheme costs you **least**

Book a free, no-obligation review and a CIMA-qualified accountant will run your figures through every scheme, flag the Flat Rate trap if it applies, and tell you in plain English which one leaves the most cash in your business.

- ✓ A side-by-side comparison of standard versus the Flat Rate Scheme on your numbers
- ✓ A clear check on whether you are a limited cost business at 16.5%
- ✓ A plain-English steer on cash accounting, MTD and your filing deadlines

**HD** Reviewed by **Harvey Dhillon**, ACMA CGMA

 Reviewed by a **CIMA-qualified** accountant (ACMA, CGMA)

★★★★★ **4.9** on Google · 56 reviews



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**About this guide.** Reviewed by Harvey Dhillon, ACMA CGMA. Figures verified against GOV.UK for the 2026/27 tax year. This guide is general information, not advice for your specific circumstances; rates and thresholds can change. Always confirm your position with a qualified accountant before acting. © Zmartly 2026.