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GROWING BUSINESSES

ZMARTLY FACTSHEET SERIES

VAT After You Are Registered

The schemes, the quarterly returns and the traps that quietly cost money once you are inside the VAT system. Pick the right scheme, hit every deadline, and VAT stays tidy admin instead of a slow drain on cash.

Tax year **2026/27** · Prepared by **Harvey Dhillon** · Last reviewed **5 April 2026** · Sources: gov.uk

VAT THRESHOLD	VAT RATES	FLAT RATE (LIMITED COST)
£90,000	**20% · 5% · 0%**	**16.5%**

01 The standard scheme, how VAT actually works

Unless you opt into one of the schemes that follow, you are on the standard scheme. You add 20% output VAT to your standard-rated sales and collect it from customers, you reclaim the input VAT you were charged on business costs, and each quarter you pay HMRC the difference, or claim a refund if you paid more than you collected.

- Output VAT: add 20% to standard-rated sales and collect it
- Input VAT: reclaim the VAT charged on genuine business costs
- Pay the difference to HMRC every quarter, one month and seven days after the period ends

GOOD TO KNOW
Keep a valid VAT invoice for every claim, and keep your records digitally under Making Tax Digital from your very first return.

02 The Flat Rate Scheme and its trap

The Flat Rate Scheme swaps the input and output sum for one calculation, you pay a fixed percentage of your gross turnover and keep the difference. You can join if your VAT turnover is 150,000 pounds or less, excluding VAT. Simpler admin, yes, but for many low-cost businesses it costs more than the standard scheme.

- You pay a flat percentage set for your trade sector on gross, VAT-inclusive, turnover
- If your goods cost less than 2% of turnover, or less than 1,000 pounds a year, you are a limited cost business at 16.5%
- Most consultants and service firms fall straight into the 16.5% rate and lose money versus the standard scheme

GOOD TO KNOW
The Flat Rate Scheme can still win if your sector percentage is well below 16.5% and you genuinely buy enough goods, and there is a 1% discount in your first year. Run both numbers before you opt in.

03 Cash and annual accounting

Two more schemes change the timing, not the amount, of your VAT, and you can use them together. Cash accounting lets you pay VAT only when your customer pays you, and reclaim only when you pay your supplier, which helps if invoices take weeks to settle. Annual accounting cuts four returns to one, with advance payments across the year and a balancing payment or refund when you file.

- Cash accounting: account for VAT on payment, not on the invoice date
- Annual accounting: one return a year, with instalments through the year
- Both are open to businesses with turnover of 1.35m pounds or less

GOOD TO KNOW

These schemes move when you pay, not how much. Annual accounting suits steady businesses, less so fast-growing ones, where a sales jump can leave a large balancing payment.

04 Making Tax Digital and the penalty regime

Every VAT-registered business must keep digital records and file through MTD-compatible software, whatever its turnover. Miss a return and you collect points, with a penalty once you hit the threshold for your filing frequency. Miss a payment and the charges stack: nothing if you pay in full by day 15, a first penalty from day 15 and again at day 30, then a second penalty accruing daily from day 31, with late payment interest on top throughout.

GOOD TO KNOW

A short delay is cheap. Letting a VAT bill drift past day 31 is not, because the second penalty then runs daily until you pay.

Common questions

Which VAT scheme should I be on?

Most businesses are fine on the standard scheme, charging 20%, reclaiming VAT on costs and paying the difference each quarter. The other schemes exist to save admin or smooth cash flow. Cash accounting suits slow-paying customers, annual accounting suits steady businesses, and the Flat Rate Scheme only suits low-admin traders whose sector percentage genuinely beats the standard sum. Run the numbers both ways before you switch.

What is the limited cost business trap in the Flat Rate Scheme?

If you spend very little on goods, under 2% of turnover or under 1,000 pounds a year, HMRC treats you as a limited cost business and your flat rate is 16.5% of gross turnover whatever your sector. Most consultants and service firms fall into this and pay more than they would on the standard scheme, so always compare the two on your own figures first.

When are my VAT return and payment due?

A standard VAT return covers a three-month period, and both the return and the payment are usually due one calendar month and seven days after the period ends. Pay in full by day 15 of being late to avoid a penalty. From day 15 a first late payment penalty applies, with a further charge at day 30, and a second penalty accrues daily from day 31, plus interest.

KEEPABLE WORKBOOK

Print this part and work through it

Everything below is built to keep. Print it, fill it in, and take it to any conversation, including ours.

Which VAT scheme suits you

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

- [ ] Confirm your VAT registration date and first return period
- [ ] Estimate turnover for the next year, excluding VAT, and split sales into standard, reduced and zero-rated
- [ ] Total your typical input VAT, and work out how much you spend on goods versus services
- [ ] Calculate your VAT bill under the standard scheme and under your Flat Rate sector percentage
- [ ] Check whether you are a limited cost business at 16.5%, then pick the cheaper result
- [ ] If customers pay slowly, consider cash accounting; if you want less admin, consider one annual return
- [ ] Check your turnover is 1.35m pounds or less for cash or annual accounting
- [ ] Set up MTD-compatible software before your first return and diary every return and payment deadline
- [ ] Keep valid VAT invoices for everything you reclaim, and keep VAT records for at least 6 years

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

NEXT STEP

Get expert eyes on your tax

Book a free 30-minute Tax Health Check — we review your situation, sense-check the figures and show you where you could save.

Scan to book a free call

For guidance only — this factsheet does not constitute professional advice and is not a substitute for advice based on your specific circumstances. Whilst every care has been taken in its preparation, it may contain errors for which we cannot be responsible. Figures are for the 2026/27 UK tax year (England, Wales & Northern Ireland) and may change. Scottish taxpayers face different income tax rates; dividend rates are UK-wide. Last reviewed 5 April 2026.

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