

VAT: Registration & Schemes

When you must register for VAT, when it pays to register voluntarily, and which VAT scheme keeps your admin light and your cash flow healthy.

Tax year 2025/26 · Reviewed by Kiran Boparai · Last reviewed 6 June 2026 · Sources: gov.uk

VAT THRESHOLD

£90,000

VAT RATES

20% · 5% · 0%

FLAT RATE (LIMITED COST)

16.5%

01 When you must register

You must register for VAT once your taxable turnover passes £90,000 in any rolling 12-month period — or if you expect to pass it within the next 30 days. It is a rolling test, not your accounting year.

i Miss the deadline and HMRC can backdate your registration and charge the VAT you should have collected.

02 Registering voluntarily

You can register before you reach the threshold. Whether it pays off depends on who your customers are:

- You can reclaim VAT on your costs and start-up spend
- It can look more established to business customers
- But you must add 20% to your prices — which hurts if you sell to the public

i Voluntary registration usually pays off when your customers are themselves VAT-registered.

03 The VAT rates

Not everything is taxed at 20%:

- Standard rate 20% — most goods and services
- Reduced rate 5% — domestic fuel, some energy-saving work
- Zero rate 0% — most food, children's clothes, books
- Exempt — insurance, finance, some education (no VAT, and you cannot reclaim)

i Zero-rated and exempt are not the same — zero-rated still lets you reclaim input VAT.

04 Standard vs Flat Rate Scheme

On the standard scheme you charge 20%, reclaim VAT on costs, and pay the difference. The Flat Rate Scheme pays

a fixed percentage of gross turnover and simplifies admin — but "limited cost traders" with low goods spend pay 16.5%, which rarely beats standard.

i The Flat Rate Scheme suits low-cost service businesses — check the limited-cost rule before joining.

05 Cash and annual accounting

Two schemes that ease the admin and cash-flow burden:

- Cash Accounting — account for VAT when you are paid, not when you invoice
- Annual Accounting — one return a year with instalments
- Both are open to businesses under £1.35m turnover

06 Making Tax Digital for VAT

Every VAT-registered business must keep digital records and file through MTD-compatible software.

i Spreadsheets are fine if they connect to bridging software — but the link to HMRC must be digital.

Common questions

What is the VAT registration threshold?

£90,000 of taxable turnover in any rolling 12-month period for 2025/26. You must also register if you expect to pass it within the next 30 days.

Should I register for VAT voluntarily?

Often yes if your customers are VAT-registered businesses, because you can reclaim VAT on costs without losing competitiveness. If you sell to the public, adding 20% can cost you sales.

Is the Flat Rate Scheme worth it?

It simplifies admin, but limited-cost traders pay 16.5% of gross turnover, which often beats little. Compare it against the standard scheme on your real numbers first.

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