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GROWING BUSINESSES

ZMARTLY FACTSHEET SERIES

When to Register for VAT: Decision Guide

When you must register for VAT, when it pays to register early, and which scheme keeps your admin light and your cash flow healthy. A clear decision guide built around the £90,000 threshold, every figure checked against GOV.UK.

Tax year **2026/27** · Prepared by **Harvey Dhillon** · Last reviewed **6 January 2026** · Sources: gov.uk

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

01 When you must register

You must register for VAT once your taxable turnover crosses £90,000. Taxable turnover means your standard, reduced and zero-rated sales added together — it does not include VAT-exempt income or sales outside the scope of UK VAT. Two separate tests can trigger registration, and both use that same figure.

- Backward look: taxable turnover over £90,000 in any rolling 12 months — tell HMRC by the end of the next month
- Forward look: more than £90,000 expected in the next 30 days alone — register straight away
- It is a rolling test, checked at the end of every month, not your accounting year
- You can deregister when your expected taxable turnover for the next 12 months falls below £88,000

GOOD TO KNOW
Miss the deadline and HMRC can backdate your registration and charge the VAT you should have collected, plus a penalty.

02 A simple decision flow

Run the same four steps whenever your turnover is getting close to the line:

- Total your last 12 months' taxable turnover. Over £90,000? You must register, effective from the first day of the second month after you crossed it
- Look at the next 30 days. Expecting more than £90,000 in that window alone? Register immediately, effective from the date you became aware
- Only over the line because of a one-off spike? You may apply for exception if turnover will stay below the £88,000 deregistration figure for the next 12 months
- Under both tests? You do not have to register, but you may still choose to

GOOD TO KNOW
The forward-look test catches people out: a single large contract can force registration even when your past 12 months were tiny.

03 Should you register before you have to?

You can register at any turnover, even from your first day of trading. Whether it pays off comes down almost entirely to who your customers are.

- Mostly VAT-registered business customers: usually a win — they reclaim the VAT you charge, while you reclaim VAT on your own costs

- Mostly the public or non-registered customers: adding 20% either raises prices or eats margin, so often best to wait
- Registering early can recover VAT on start-up and stock spend, and make a young business look more established
- You take on quarterly returns and Making Tax Digital records either way

GOOD TO KNOW
Once registered you can reclaim VAT on goods bought up to 4 years before (still on hand) and services from the 6 months before — so keep those invoices.

04 The VAT rates

Not everything is taxed at the standard rate, and the difference matters when you work out your taxable turnover:

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

GOOD TO KNOW
Zero-rated and exempt are not the same: zero-rated sales still count towards the £90,000 threshold and still let you reclaim input VAT.

05 Choosing your VAT scheme

Once registered you do not have to use the standard method. On the standard scheme you charge 20%, reclaim VAT on costs and pay the difference each quarter. Three optional schemes can cut admin or smooth cash flow:

- Flat Rate Scheme: pay a fixed percentage of gross turnover for simpler admin (join up to £150,000); but limited cost businesses pay 16.5% and rarely benefit
- Cash Accounting: account for VAT when you are paid, not when you invoice — join up to £1.35m, leave above £1.6m
- Annual Accounting: one return a year with instalments — join up to £1.35m, leave above £1.6m
- Cash and Annual Accounting can be combined; the Flat Rate Scheme has its own built-in cash basis

GOOD TO KNOW
The Flat Rate "limited cost" rule: if your goods cost under 2% of turnover (or under £1,000 a year) you pay 16.5%. There is a 1% discount in your first year of registration.

06 Making Tax Digital for VAT

Every VAT-registered business must keep digital records and file VAT returns through MTD-compatible software, whichever scheme you choose.

GOOD TO KNOW
Spreadsheets are fine if they connect to bridging software, but the link to HMRC must be digital end to end.

Common questions

What is the VAT registration threshold for 2026/27?

£90,000 of taxable turnover in any rolling 12-month period. You must also register if you expect to pass £90,000 in the next 30 days on its own. The deregistration threshold is £88,000.

Should I register for VAT voluntarily?

Often yes if your customers are mostly VAT-registered businesses, because they reclaim the VAT you charge while you reclaim VAT on your own costs and start-up spend. If you sell mainly to the public, adding 20% can cost you sales, so it is usually better to wait until you must register.

Which VAT scheme should I choose?

The standard scheme suits most businesses with regular reclaimable costs. The Flat Rate Scheme simplifies admin for low-cost service businesses, but limited cost traders pay 16.5% and rarely benefit. Cash Accounting helps if you invoice on long payment terms, and Annual Accounting gives one return a year with steady instalments. Compare them on your real numbers first.

KEEPABLE WORKBOOK

Print this part and work through it

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

Your VAT decision checklist

Work through this whenever your turnover is approaching £90,000, or when you are weighing up registering early. Tick each box as you confirm it.

- [ ] Total your last 12 months' taxable turnover to the end of last month
- [ ] Re-check that rolling total at the end of every month
- [ ] Look ahead: is more than £90,000 expected in the next 30 days alone?
- [ ] Exclude exempt and out-of-scope income from the figure
- [ ] If over the line, note your effective date and tell HMRC by the end of the next month
- [ ] Register immediately if the 30-day forward test is met
- [ ] Start charging VAT from your effective date, not the approval date
- [ ] Decide on early registration: are your customers businesses or the public?
- [ ] Add up reclaimable start-up and stock VAT, and keep the invoices
- [ ] Compare standard vs Flat Rate on your real numbers (watch the 16.5% limited cost rate)
- [ ] Consider Cash Accounting if you invoice on long payment terms
- [ ] Set up MTD-compatible digital records and diarise your first return and payment

Figures verified against GOV.UK for 2026/27: registration £90,000, deregistration £88,000, standard rate 20%, Flat Rate limited cost 16.5%.

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 6 January 2026.

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