

22 April 2009

DRAFT – SUBJECT TO MINISTERIAL APPROVAL

NOT FOR WIDER CIRCULATION.

A FAIRER DEAL FOR SMALL BUSINESSES ON VAT THRESHOLD

Who is likely to be affected?

1. Businesses whose taxable turnover is close to the current VAT thresholds for registration and deregistration.

General description of the measure

2. The measure increases the taxable turnover threshold which determines whether a person must be registered for VAT from £67,000 to £100,000.

3. The taxable turnover threshold which determines whether a person may apply for deregistration will be increased from £65,000 to £99,000. The existing conditions for determining entitlement or liability to deregistration remain unchanged.

4. The registration and deregistration threshold for relevant acquisitions from other European Union Member States will also be increased from £65,000 to £97,000.

Operative date

5. The new registration and deregistration thresholds will have effect on and after 1 May 2009.

Current law and proposed revisions

6. The increase in the taxable turnover threshold means that a person will have to apply for registration if:

- at the end of any month, the value of the taxable supplies made in the past 12 months or less has exceeded £100,000; or
- at any time there are reasonable grounds for believing that the value of the taxable supplies to be made in the next 30 days alone will exceed £100,000.

7. If at the end of any month, a person's taxable turnover in the past 12 months or less exceeds £100,000 but HM Revenue & Customs is satisfied that it will not exceed £99,000 in the next 12 months, that person will not have to be registered.

8. Schedules 1 and 3 to the Value Added Tax Act 1994 will be amended by statutory instrument to give effect to these changes.

Further advice

9. If you have any questions about this change, please contact the National Advice Service on 0845 010 9000. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

DRAFT RELATED COMMENTARY FOR INCLUSION IN PRESS NOTICE

Tax simplification

The Government today announces the next stage in its rolling programme of tax simplification to further enhance UK productivity and competitiveness.

To ease the burden of VAT on micro businesses, the VAT registration and deregistration thresholds will be raised significantly from 1 May 2009, the Chancellor announced today. The increase takes the VAT registration threshold to the highest level permitted under EU law, that of 100,000 euros. The increase is just one of a package of dramatic changes intended to support business enterprise and growth.

HMRC also announced that it will be working further with business and the professional bodies to explore whether it is possible to cushion the impact of VAT registration on growing businesses.

MINISTERIAL BRIEFING

As you know, last year HMRC consulted on future changes to the VAT registration thresholds.

Plenty of comments were received as regards a number of options and on the desirability of change.

Respondents generally supported the idea of a significant increase in the VAT registration threshold.

Ignoring the strength of feeling is not a viable option in the current economic environment.

Looking at EU law and the impact of the recent movements in the exchange rate between sterling and the euro we are in a unique position.

Following last year's consultation the Treasury has sought and received confirmation that the UK's VAT registration limit can be increased by reference to the current sterling/euro exchange rate.

Obviously we hope that the exchange rate will improve but Treasury have advised that the VAT registration limit would not need to be reduced if this occurs.

Otherwise the subsequent change would have a serious negative PR impact for the Chancellor as did the reduction in the rate from 17.5% to 15% announced in the PBR.

Lastly we recommend that the Chancellor express his specific thanks to the Chairman of the Tax Advice Network for the insightful commentaries on his TaxBuzz blog www.taxbuzz.co.uk