

# A guide to

# The Annual Accounting Scheme

## A SIMPLE GUIDE TO THE ANNUAL ACCOUNTING SCHEME

This is a basic guide prepared by the Technical Advisory service for members and their clients. It is an introduction only and should not be used as a definitive guide, since individual circumstances may vary. Specific advice should be obtained, where necessary.

## UNDERSTANDING THE ANNUAL ACCOUNTING SCHEME

As an overview, the Annual Accounting Scheme allows you to complete just one VAT return per year. The VAT is paid in instalments, thus avoiding a VAT liability at the end of the year. This is one amongst a number of schemes offered by HM Revenue & Customs (HMRC) aimed at easing the administrative burdens small businesses face.

The scheme provides a number of advantages, such as:

- less administrative burden by only requiring the submission of one VAT return per annum
- a cash flow advantage as the instalments can be smaller than the larger quarterly payments
- a longer time limit for submitting your annual VAT return is two months.

Please note that this scheme can be used together with 'Cash accounting scheme' and the 'Flat rate scheme'. Repayment traders can enter the scheme, though it would generally put them at a cash flow disadvantage as they will only receive a repayment once a year. In addition, the scheme can be used with other retail schemes, margin schemes, Tour Operators Margin scheme and for partially exempt businesses.

### Eligibility for the scheme

A business is eligible for the scheme providing you expect the value of your taxable supplies in the next year not to exceed £1,350,000.

The previous restriction of waiting for one year before registering under this scheme for newly registered businesses with taxable turnover exceeding £150,000 has been removed from 1 April 2006.

The taxable supplies figure is the total of your standard, reduced and zero rated supplies excluding VAT. For this purpose, exempt supplies or sale of capital assets can be ignored. If you exceed the threshold for the scheme, provided that the estimates were made on reasonable grounds, HMRC will not levy a penalty.

The scheme can be used until your taxable supplies including the disposal of stock and capital assets does not exceed £1,600,000. Once this figure has been exceeded, excluding 'one-off' increases in sales, you will have to leave the scheme at the end of your current tax period.

You cannot join the scheme if:

- you are part of a VAT group or divisional registration
- you have stopped using the annual accounting scheme in the previous 12 months

- you have an increasing VAT debt, unless it is small and have agreed with HMRC to clear it
- you are insolvent

## APPLYING FOR THE SCHEME

The scheme does not automatically apply, application is made by completing and submitting form VAT 600AA. This application form can be obtained from the following:

[http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?\\_nfpb=true&\\_pageLabel=pageLibrary\\_ShowContent&id=HMCE\\_CL\\_000068&propertyType=document](http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?_nfpb=true&_pageLabel=pageLibrary_ShowContent&id=HMCE_CL_000068&propertyType=document)

The application form together with a direct debit mandate (if applicable) has to be sent to:

Annual Accounting Registration Unit  
Deansgate  
62-70 Tettenhall Road  
Wolverhampton  
WV1 4TZ

Please note that if you wish to join the 'Flat Rate Scheme' as well as this scheme there is a joint application form available, which is submitted to the address mentioned above. The joint application form can be obtained from the following:

[http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?\\_nfpb=true&\\_pageLabel=pageLibrary\\_ShowContent&id=HMCE\\_CL\\_000073&propertyType=document](http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?_nfpb=true&_pageLabel=pageLibrary_ShowContent&id=HMCE_CL_000073&propertyType=document)

When joining the scheme, the start date will be usually be from the beginning of the VAT period in which the application to enter the scheme has been made. Unless the application has been applied for later within the VAT return period, the proceeding period marks the entry into the scheme. This is better demonstrated by examples.

### Example 1

The VAT quarter starts 1 May and ends 31 July. An application to enter the scheme was approved on 1 June, therefore the annual VAT return starts from 1 May. The annual accounting year ends 30 April.

### Example 2

The VAT quarter starts 1 May and ends 31 July. An application to enter the scheme was approved on 27 July, as the VAT return for that period will have already have been issued the annual VAT return will start from 1 August. The annual accounting year ends 31 July.

The accounting year end can be changed by request, which leads to shorter period VAT returns.

If you wish to leave the scheme notice must be made in writing to the Annual Accounting Registration Unit.

## USING THE SCHEME

The mechanics of the scheme is to allow you to make usually 9 interim payments. Then a balancing payment is made together with the submission of the VAT return, 2 months after the VAT year end.

The nine instalments are calculated as 10% of your last VAT returns liability. They are paid in month 4 through to month 12. The final payment would be submitted with the VAT return two months after the VAT year end, i.e. month 14.

Quarterly instalments can be requested, however, the default position is monthly. Each quarterly instalment will be 25% of last years VAT return liability. Quarterly instalments are paid in month 4, 7 and 10. The final payment would be submitted with the VAT return two months after the VAT year end, i.e. month 14.

If the instalments are incorrect, too low, too high, or your business changes, amendments to the payments can be made. In addition, extra voluntary payments can be made. Any request for a change must be informed to the Annual Accounting Registration Unit.

The conditions of using the scheme are

- interim payments are made by the date notified by HMRC
- interim payments are made by either Direct Debit, Standing Order or other electronic means
- the annual VAT return and the balancing payment are sent by the date shown on the VAT return

### **Record keeping and administration**

In regard to record keeping, the same rules apply as to all VAT registered businesses, details of which can be found in VAT Notice 700/21.

### **FURTHER CONSIDERATION**

Further details can be found on the HMRC website, as a source of reference please refer to the VAT Notice 732, produced by HM Revenue & Customs (HMRC).

[http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?\\_nfpb=true&\\_pageLabel=pageLibrary\\_ShowContent&propertyType=document&columns=1&id=HMCE\\_PROD\\_010163](http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?_nfpb=true&_pageLabel=pageLibrary_ShowContent&propertyType=document&columns=1&id=HMCE_PROD_010163)

This is a guide for ACCA members to assist in understanding the Annual Accounting Scheme and to provide assistance when dealing with clients or informing colleagues. This document has no regulatory status and provides an overview of the scheme.

### **COURTESY OF**



### **ACCA LEGAL NOTICE**

**This Guide is an example only. It may not address all of the issues for each specific client. You should undertake additional research into any client matters not dealt with in the examples and amend your advice accordingly.**

**While every care has been taken in the preparation of this Guide, neither the writer nor ACCA accept any responsibility for any loss occasioned by reliance on the Guide.**