THE BEAUTY ACCOUNTANT

EST 2018

BEAUTY IN NUMB3R5

EBOOK

FINANCE TIP: COSTLY MISTAKES

THIS MISTAKE WILL HAVE YOU RECEIVING AN INSTANT PENALTY FROM HMRC...

HOW THE BEAUTY INDUSTRY WILL BOUNCE BACK FASTER THAN FASHION

HOW TO MANAGE VAT

Are you struggling to keep up with VAT payments and dreading the quarterly returns? Perhaps you're panicking about where to find the money for the dreaded VAT bill or you're tempted to reduce business activity to stay away from the VAT threshold. Yes, managing VAT can be stressful – particularly if hitting the threshold comes as a surprise.

You have to review your turnover on a 12 month rolling basis to determine whether you have reached the VAT threshold (£85,000for the 2019/20 tax year). Do not get caught out by this as there are penalties if you do not register in time – and you will need to catch up on any overdue VAT. Your accountant should be able to keep an eye on this for you and provide you with the right tools and information that you need to get ahead. If they haven't mentioned this to you reach out and ask them today.

It is so important to understand how the VAT system affects your business and what help there is for you. HMRC has schemes in place – especially for smaller businesses – that have been designed to reduce the administrative burden.

The flat rate scheme

The flat rate scheme is available and allows businesses to pay a smaller rate of VAT to HMRC based on a percentage of the VAT 'inclusive' turnover. What this means is that if the flat rate available to you is 13% (for businesses offering hair and beauty treatments) you will be charged 13% of the business income plus the VAT element. One thing to be aware of with the flat rate scheme is that you are unable to claim back the VAT on purchases, as this is already considered when HMRC sets the flat rate or your particular type of business. You can check if you qualify for a flat rate by using the gov.uk website, or get in touch and I can help you to decide if the flat rate is for you. Don't forget – in the first year of a claim, you also receive an additional 1% so make sure you include this on your return.

THE ANNUAL ACCOUNTING SCHEME

The annual accounting scheme helps small businesses by reducing paperwork, as VAT submissions are only required once a year under this scheme. It is a great way to budget for your business.

During the year under this scheme, businesses are required to pay instalments based on an estimated liability for the year with a balancing payment due with the return. The downfall to this scheme is that HMRC calculates the estimated liability, which may be more than the actual liability that you believe will become due.

A lot of individuals take the VAT responsibilities very personally when really it is just another business cost, such as insurance, a leasehold or rent. I try to encourage my clients to think about it in a positive way and to see the business thriving when they hit the VAT threshold.

Friendly disclaimer:
"The information contained in this article is for guidance and information purposes only. It should not be relied upon as full and complete accounting, tax or legal advice. For specific advice relevant to your own situation, contact us or another professional direct"

"It is so important to complete the tax return as soon as you can once the tax year ends to allow you more time to budget and plan for any tax that you will need to pay."

VAT CHECKLIST

Ensure that you review turnover at the end of every month and count back 12 months to see if you have reached the VAT threshold.

Do a cost benefit analysis to see if you re better off on a flat rate scheme.

Keep all VAT receipts as you can reclaim the VAT on purchases if you are on the standard rate scheme. This will reduce your VAT bill.

Set aside 20% of your sales income as you go so that you have the funds ready to pay. The chances are that you will end up with some
money left over if you do this for every sale when it comes to pay.

Be very careful and seek advice if you are thinking of splitting splitting your business. HMRC has the power to decide if a business should be treated as one and there are certain criteria to meet to correctly split a business into two. Doing so to simply avoid VAT is not ideal and HMRC can sting you with late registration penalties and can look back up to 20 years if they think a business has been artificially separated.

Consider using the services of an accountant.