

8.7

ACCOUNTS AND FINANCE

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KEEPING ACCOUNT

1 : Don't Get Personal!

- Open at least one bank account for the business only. Don't mix personal money and 'business' money. Don't 'borrow' from the business.
- Make sure two people sign each cheque, so there's a check on the cheques! (Fill in the stub with details of date, amount and person paid: it's easier than trying to remember later.)

2 : Use The Bank

- Any cash you get, pay it into the bank. Make sure all money goes through the bank account - in and out, (then you've got a record).
- Safety - don't keep cash in your pocket or in a drawer, pay it in.
- Then, check the bank! Go through the bank statements and make sure you agree with every entry, in and out.

3 : Don't Throw Anything Away

- Keep all cheque books and paying-in books, even when used up. Keep all invoices, receipts and statements. If you have to send an invoice back with a payment, keep a copy.

4 : Keep Up To Date

- 'Doing the books' always seems harder the **more** there is to do. If you can spend ten minutes a day, it's easier than an hour at the end of the week. But an hour at a weekend is easier than a day at the end of the month.

- If bored, share the work - it's more fun with two! And there's someone there to check your sums at the end, so that you don't carry mistakes forward.

5 : The VAT Man Cometh

- Don't forget the VAT man. Ask for a VAT receipt if the things you buy have VAT on them. Get training to fill in VAT separately in your cash book. Check turnover regularly, and register for VAT if you exceed the current limit. If you don't, there may be a problem later. The VAT man never forgets!

6 : Don't Get Complicated

- Only use the minimum books that you need. Don't buy a complicated system 'off the shelf' if it's too much for you.

7 : Computerised Accounts

- If you do intend to use a computerised accounts system then do some research and find the system that is best for your organisation. Make sure that you get full training on how to operate the system. Some systems will come with training included in the purchase price and you should ask at the time of purchase.

THE 'BOOKS'

What You Will Need (Probably)

A cash book (or day book) (or bank account book) to record:

- Cash receipts and payments into the bank
- Cheque payments (and cash withdrawals by cheque)
- Standing orders and direct debits

A petty cash book to record:

- Cash withdrawals by cheque
- The 'float' of cash kept in the office
- Small day-to-day cash payments, e.g. stamps, milk, window cleaner

A wages book to record (for each staff member):

- Gross earnings
- Tax paid, National Insurance contributions, pension contributions
- Net pay
- Employer's National Insurance contributions (keep up to date, requirements are laid down by the DSS and Inland Revenue and may change from time to time, e.g. in the Budget)

Books To Use To Record When You Make Payments

If you buy something today (and pay for it) make sure it is recorded in the cash book **and** if you bought something last week (and got an invoice), then pay for it today, the payment is recorded in the cash book too.

Books To Use To Record Sales And Purchases

You may wish to note all sales as they are made, each day, (and send out invoices later) and record all purchases made each day, (that you will be paying for later). In that case, use:

- A sales day book, to record all sales as they happen
- A purchases day book, to record all purchases as they happen

This will give you a picture of what happens in the business each day, as it happens, rather than when you or your customers pay for goods and services.

Books To Use When Sales And Purchases Take Place Regularly

You will probably want to record sales to regular customers and purchases from regular suppliers, as it will help you keep track of who owes whom at any time.

You will need:

- A sales ledger to record a personal account for each of your regular customers
- A purchases ledger to record a personal account for each of your regular suppliers. ('Impersonal accounts', e.g. totals of income and expenditure, equipment purchase and disposal, can go in a general ledger.)

Finally your book keeping system should suit your accountant!

If you know you're going to have your accounts drawn up and/or audited every year, it will be helpful to have a system that your accountant will understand at a glance. Take their advice: choose an accountant at the start of your financial year and check that the accountant approves of your system, or can advise something better that suits them.

It will save you money when you come to pay your accountancy and/or audit fees!

KEEPING BOOKS

Why Keep Books?

1 : Legal Requirement

If you are a Company Limited by Guarantee (or a Registered Charity) you must keep accounts and have an annual audit.

2 : Reporting

You may be asked to explain what happened to grants and loans to funding and sponsoring bodies. You will have to report back to your members, and may have to report to the community if you're a community enterprise.

3 : Information For You

It helps you keep track of bills you owe; who owes money to you; and how much you have to play with.

4 : Financial Control

If you've got good records, then you know how much you've got. If you are in control of cash going in and out, you are more in control of your business. It helps you make decisions and plan the future: you will know how much you've earned so far, and that will give a good idea of how much you can expect to earn. Also, right here and now, you will know how much you have to spend.

5 : Facing 'Experts'

If you understand your books, you can meet bank managers and accountants with confidence. They won't be able to 'baffle you with science'.

Why Do Some Businesses Fail?

Surveys show that a major reason is lack of good financial control!

'But book-keeping isn't fun!'

It has to be done. It's a matter of life and death to your business!

We need to answer these questions:

- Has our business made a profit? (Are sales greater than costs?)
- How much money do we have to use, now? (Excluding money we owe)
- Who owes our business money? How much? (Allowing for some not paying!)
- Who do we owe money to? How much? (And when? Can we delay payments to some?)

TAX AND NATIONAL INSURANCE FOR EMPLOYEES

If the social enterprise has employees, you'll need to set up payroll arrangements. You have to work out and deduct your employees' Income Tax and National Insurance contributions from their wages and pay them to the Inland Revenue. You must also pay Employer's National Insurance contributions on staff wages and benefits.

The PAYE System

Income tax is deducted from an employee's pay through the Pay As You Earn system, PAYE. You have to register as an employer with the Inland Revenue. You will be sent a PAYE reference number and a New Employer's Starter Pack. The pack comprises booklets and a CD-ROM that contain all the forms, tables and information you need to operate your payroll system and take you through everything step by step.

In the starter pack you'll find a form P11. You use this each payday to record the income tax and National Insurance due from each employee and the employer's National Insurance contributions you must pay, whether weekly or monthly.

The pack also contains a booklet - Paying Someone for the First Time - which explains in simple terms how to fill in a P11 and how to use the tables to work out how much tax and National Insurance is due. The CD-ROM contains an interactive learning package to help newcomers to running a payroll.

You'll need to find out the employee's National Insurance number and their tax code before you can fill in the form.

If they have worked before, ask the employee for parts 2 and 3 of the P45 form provided by their previous employer. This gives their National Insurance number and tax code, as well as details of their tax and pay to date in the current tax year.

If the employee doesn't have a P45, ask for their National Insurance number and get them to fill in the top part of the P46 form from your New Employer's Starter Pack. Use the table in the Paying Someone for the First Time booklet to work out the tax code to use from the information they've provided.

Then call the Inland Revenue New Employer's Helpline, who will tell you whether you need to send the P46 to the tax office.

Once you've filled in the P11, you know how much net pay goes to the employee and how much is due to the Inland Revenue. Other deductions such as pensions can also affect the size of the pay packet.

If you're asked, you may have to subtract student loan deductions from an employee's pay packet and pay them to the Inland Revenue. Record the student loan payments deducted in the relevant column of form P11 and add the deductions to the Income Tax and National Insurance that you are due to pay to the Inland Revenue.

You may also need to pay working tax credits to particular employees. Tax credits are funded by the Government and designed to top up low earnings. They are administered by the Inland Revenue, which will notify you if you have to pay tax credits to any of your staff and how much to pay. You record the tax credits paid to the employee in the appropriate column on the form P11 from the New Employer's Starter Pack.

You deduct the money you pay in tax credits from what you pay over each month or quarter to the Inland Revenue in income tax, National Insurance and, where applicable, student loan deductions.

If these payments are less than the tax credits you have been told to pay, you can apply to the Inland Revenue in advance for funding, using form TC711.

One-to-one advice on payroll matters is available from the Inland Revenue's New Employer's Helpline Business Support advisers, who offer consultations at a location convenient to you as well as running workshops. Call the Helpline for more details - its in the phone book.

Paying The Employees' Tax And National Insurance And Employer's National Insurance

Tax and National Insurance contributions are paid to the Inland Revenue every month unless your business collects less than £1,500 a month, when it can be done quarterly.

Keep records of your total monthly or quarterly payments to the Inland Revenue on form P32 available in the New Employer's Starter Pack.

Tax and National Insurance contributions must be paid to the Inland Revenue by the 19th of each month. But if you collect less than £1,500 a month in income tax, National Insurance and student loan repayments, you can pay quarterly by January 19th, April 19th, July 19th and October 19th.

You will automatically receive a payment booklet from your Inland Revenue Accounts Office to send with your payments if you pay by post. You can also pay by BACS direct credit, your bank's telephone or Internet banking, Girobank Billpay or CHAPS.

The Payslip

Employees have to be given a payslip or statement when they are paid. This sets out their gross and net pay and the amounts of tax, National Insurance and other deductions.

The itemised payslip or statement must show:

- Their gross wages or salary before you make any deductions
- Details of deductions from their pay which vary from one period to the next (income tax and National Insurance contributions, for example)
- Details of any fixed deductions which stay the same every pay period (such as trade union subscriptions)
- Their net wages or salary after tax
- A breakdown of payments if parts of the salary are paid in different ways
- The amount of Working Tax Credit paid, if applicable

Instead of itemising every fixed deduction in each pay statement, you can include them all on an annually updated standing statement. If there are any changes which affect the fixed deductions, you must inform the employee in writing or give them a new standing statement.

Employees' Pay Records At End Of Tax Year

There are other forms that have to be sent to the Inland Revenue - and given out to your staff - at the end of every tax year.

The tax year runs from April 6th to April 5th and you can get all the necessary forms from the Inland Revenue Employer's Orderline. You send them to your tax office or file online at www.inlandrevenue.gov.uk

Don't forget to keep a copy for your own records.

For each employee for whom you have prepared a form P11 (see Working Out Tax And NI For Employees) you will need to fill in form P14. This is a three-part form; the top two copies must reach the Inland Revenue by May 19th each year. The bottom copy is a P60, which details the employee's total pay and tax and National Insurance contributions. You must give this bottom copy to the employee by May 31st each year.

Along with the P14 form, you have to complete a P35, which summarises all the P14s you have prepared. You will be sent a P35 automatically towards the end of the tax year and you must complete and return the P35 with your P14s.

Forms P11D and P11D(b) need to be filled in for all directors, and every employee who earns £8,500 or more a year and has been paid expenses or benefits that are taxable. It lists the taxable expenses and benefits provided to the employee during the tax year. You must send in the form to the Inland Revenue and give a copy to the employee by July 6th each year.

A P9D form must be sent to the Inland Revenue for each employee earning less than £8,500 a year who has been paid taxable expenses or benefits. You must submit the form and give a copy to the employee by July 6th each year.

Tax Forms When An Employee Leaves Or Dies

In both cases, you complete a P45 form.

When an employee leaves, fill in a P45 with details of their gross pay, tax code and tax deducted in the year to the date of leaving. You then send one part of the form to the Inland Revenue and give the other three parts to the employee.

If an employee dies, complete a P45 and send all four parts of it to your Inland Revenue office.

Business Vehicles And Tax

The tax you pay related to vehicles used by the business depends on a variety of elements, including the legal form the business takes and the employment status of the people using them.

Every vehicle is subject to a payment of vehicle excise duty unless it was manufactured more than 30 years ago. The rates vary, depending on the type of vehicle (for example, cars, vans or heavy-goods vehicles). Check with the Driver and Vehicle Licensing Agency.

Personal taxation on use of cars for business works in different ways depending on whether a person is self-employed or they are an employee, including directors of limited companies.

If you are self-employed, you've got two choices. You can claim the actual expenses of using a vehicle for business when you're working out your profits. If you take this option, you can also claim capital allowances if you own the vehicle. Alternatively, you can

use the rates from the Approved Mileage Allowance Payments (AMAP) scheme to calculate your vehicle expenses using a fixed rate for each business mile. Rates depend on the level of mileage - full details are on the Inland Revenue website. Under this system, you can't claim for any interest you pay on a loan to buy the vehicle or capital allowances.

If you are employed, the rules are different. If the business makes a car available to an employee for their private as well as business use (a 'company car'), the employee will normally be taxed on it as a benefit. Remember: you'll be treated as an employee for tax purposes if your business is a limited company.

Employees aren't taxed on the use of the vehicle if they earn less than £8,500 in a tax year. Qualifying earnings include wages or salary, payments for business expenses and the value of benefits received such as the company car. No tax is due if the car is a pool car of the business. This is a vehicle routinely used by more than one employee and not kept at an employee's home when not being used for business nor used privately in any other way.

Otherwise, employees are taxed on the benefit, the charge being a percentage of the vehicle's list price. For almost all cars, the tax depends on the level of carbon dioxide emissions and the fuel it uses. There is generally a lower tax charge on more energy-efficient cars. If employees receive any fuel for private use which they don't pay for themselves, they will also be taxed on this benefit.

If employees use their own cars for business purposes, they can be reimbursed under the Approved Mileage Allowance Payments (AMAP) scheme at up to set

rates per business mile. The rates depend on the number of business miles they travel. If you pay the employee no more than the maximum calculated using these rates, you can make the payment free of tax and National Insurance.

Businesses that make vehicles available to employees for their private use must report the taxable value of the benefit to the Inland Revenue on form P11D annually. Employers must also pay Class 1A National Insurance on the taxable value of cars and fuel made available to employees for their private use. There are also VAT rules on business vehicles.

If the business buys a car, it can claim a capital allowance. If the business leases vehicles, the cost can be deducted from taxable profits.

The rules are complex. You should check the position with the Inland Revenue or consult your accountant. In both cases, you must keep adequate records to back up the figures on your tax return.

Special Tax Rules For The Construction Industry

There are different rules for the payment of income tax and National Insurance if you are in the construction industry. These rules are called the Construction Industry Scheme.

In the construction industry, businesses fall into two main categories: contractors and subcontractors (though it is possible for a business to be both a contractor and a subcontractor).

Broadly, a contractor is any person, business or public body who pays others for work carried out within the Construction Industry Scheme.

A subcontractor is any person or business which has agreed to carry out construction operations for another person, business or public body which is a contractor.

Subcontractors must hold either a registration card (CIS4) or a Subcontractor's Tax Certificate (CIS5 or CIS6), all of which must be obtained from the Inland Revenue.

Contractors must make a deduction of 18% from the pay of subcontractors with a registration card and forward the deductions to the Inland Revenue. The deductions are then held against account of the final amount of tax and National Insurance owed by the subcontractor.

Subcontractors with a Subcontractor's Tax Certificate should be paid gross, which means no deductions are made.

SOURCES OF INFORMATION AND HELP

Sources of information and help about tax, National Insurance, work-related benefits and business rates.

Tax And National Insurance (The PAYE System)

For more information read the Inland Revenue publications: *Employed Or Self-employed? (IR56)*; *Are Your Workers Employed Or Self-employed? (IR148)*
Contact Inland Revenue Employer's Orderline 08457 646 646
www.inlandrevenue.gov.uk/employers

For further advice on IR35
Contact the Inland Revenue
IR35 Helpline 0845 303 3535

The Inland Revenue offers a guide for people starting up: *Starting Up In Business (P/SE/1)*
Contact Inland Revenue Helpline for the Newly Self-Employed 08459 15 45 15
www.inlandrevenue.gov.uk/startingup

You must register as an employer with the Inland Revenue New Employer's Helpline, they will also send you the New Employer's Starter Pack
Contact 0845 60 70 143

For information on Tax Credits read *Employer's Guide To Tax Credits (E6)*
Contact 08457 646 646
www.inlandrevenue.gov.uk/employers

The Inland Revenue can provide detailed information on how to pay tax and National Insurance
www.inlandrevenue.gov.uk/howtopay

The New Employer's Starter Pack offers more guidance on the procedures
Contact the Inland Revenue New Employers' Helpline 0845 60 70 143

Read: *Employer's Payment Record (form P32)*
Contact 08457 646 646
www.inlandrevenue.gov.uk/employers

For more information read: *Pay Statements: What They Must Itemise (PL704)*
Contact 0870 150 2500
www.dti.gov.uk/er

The Inland Revenue Employer's Orderline provides all relevant forms and guides
Contact 08457 646 646
www.inlandrevenue.gov.uk/employers

For more guidance on completing the forms, check the booklets and CD-ROM contained in the New Employer's Starter Pack
Contact 0845 60 70 143

For more information read: Details Of Employee Leaving Work (form P45)
Contact 08457 646 646
www.inlandrevenue.gov.uk/employers

Corporation Tax

The Inland Revenue Publications How To Calculate Your Taxable Profits (IR222) and Capital Allowances (IR206) provide more information
Contact Inland Revenue 0845 60 70 143
www.inlandrevenue.gov.uk/leaflets

Visit www.ir-portal.gov.uk/calculators/mrr for a calculator you can use to work out how much corporation tax is payable.

For more information read:
A General Guide To Corporation Tax Self-Assessment (CTSA/BK4)
Contact 0845 300 6555
www.inlandrevenue.gov.uk/leaflets

Capital Gains Tax - An Introduction (CGT1)
Contact 0845 60 70 143
www.inlandrevenue.gov.uk/leaflets

Tax On The Use of Vehicles By Employees

You must arrange your vehicle excise duty on any business vehicles
Contact the Driving and Vehicle Licensing Agency 0870 240 0010
www.dvla.gov.uk

The Inland Revenue can give you further information on business vehicles and tax
Contact the New Employer's Helpline 0845 60 70 143

If you're self-employed, call the Self Assessment Helpline
Contact 0845 9000 404
www.inlandrevenue.gov.uk/cars

Inland Revenue leaflet IR124 provides more information on the Approved Mileage Allowance Payments (AMAP) scheme
Contact Inland Revenue Employer's Orderline 08457 646 646
www.inlandrevenue.gov.uk/cars

Tax In The Construction Industry

You can get further details on the Construction Industry Scheme from the Inland Revenue
Contact 0845 733 5588 for contractors
0845 300 0581 for subcontractors
www.inlandrevenue.gov.uk/cis

For more information read:
Construction Industry Scheme (IR14/15)
www.inlandrevenue.gov.uk/leaflets

Business Rates

For details of your local branch of the Valuation Office Agency contact 0207 506 1700
www.voa.gov.uk

For more information read:
Business Rates - A Guide
Contact Office of the Deputy Prime Minister 0870 122 6236
www.local.odpm.gov.uk

CORPORATION TAX

Your company is responsible for calculating and paying tax on its profits.

If the social enterprise is a limited company or a limited liability partnership registered with Companies House, you must, within 12 months of the end of your first accounting period, let the Inland Revenue know that it is operating - unless the Inland Revenue has already been in touch with you!

'Accounting Periods' are the basic periods for corporation tax. Your first accounting period begins when your company or limited liability partnership starts operating. You can change the date your accounting period starts at a later date. Accounting periods don't have to mirror the tax year, but they must not be longer than 12 months.

You must keep detailed records relating to all income and expenses. As a limited company, you must ensure that you run the correct Pay As You Earn (PAYE) procedures for all employees. You may also have to certify to the Inland Revenue that the directors of the company are not employed by it and receive no income from it.

Once the company is registered, it will be responsible for working out and paying any corporation tax due within nine calendar months and one day after the end of its accounting period. Fines can be charged for keeping inadequate records or paying late. The company must keep records for at least six years.

Shortly after the end of the company's accounting period, you should receive a CT600 form, which is the corporation tax return, along with a Notice to Pay from the Inland Revenue. However, if you do not receive them for any reason, it is still the company's responsibility to pay the tax and complete and send a corporation tax return. You can request a form CT600 from the Corporation Tax Self-Assessment Orderline.

Corporation tax bands are set out in the table below. The levels may be reduced for certain companies, especially if there are other companies under the same control. For example, if you own and run two companies, the thresholds will be halved for each company.

Corporation Tax (2003/04 Financial Year)

Taxable Profits	Tax Rate
£0 - £10,000	0%
£10,000 - £50,000	Rate rises gradually from 0% - 19% (marginal relief)
£50,001 - £300,00	19%
£300,001 - £1.5m	Rate rises gradually from 19% - 30% (marginal relief)
More than £1.5m	30%

VAT AND THE SOCIAL ENTERPRISE

What is VAT?

Value Added Tax (VAT) is a tax on sales of goods and services, not profits. Businesses must register for VAT if their turnover exceeds a registration threshold. Registration for VAT is compulsory for most businesses that supply goods and services amounting to more than £58,000 a year in any 12-month period (this threshold was valid for the 2005/06 tax year).

Businesses with a turnover below the £58,000 threshold can register voluntarily. Sometimes there can be a business advantage in doing this. For example, if your business pays a higher-than-average amount of input tax and charges a lower-than-average amount of output tax, it could be worth registering to reclaim the input tax you have paid.

Businesses collect VAT on the Government's behalf. All businesses pay VAT on most purchases. This is called the 'input tax'. Registered businesses charge VAT on the goods and services they sell. This is called the 'output tax'.

If a VAT-registered business receives more output tax from sales than it pays in input tax on purchases, it must pay the difference to Customs and Excise at fixed intervals. If more input tax has been paid than output tax charged, Customs and Excise will refund the difference to your business.

What VAT Rate Will I Have To Charge?

All goods and services that are not exempt are called 'Taxable Supplies'. The rate of VAT varies according to the type of product or service you offer. Goods and services (supplies) are divided into four categories for VAT purposes. They can be:

- Taxed at a standard rate (currently 17.5%)
- Taxed at a reduced rate (currently 5%)
- Taxed at a zero rate
- Exempt from VAT

Most VAT-registered businesses must add the standard rate of VAT to the value of their products and services when they are sold.

The reduced rate must be charged on: domestic fuel or power; installation of energy-saving materials; grant-funded installation of heating equipment; security goods or connection of gas supply; renovation and alteration of dwellings; residential conversions; women's sanitary products; children's car seats.

There are also specific rules on products and services that are zero-rated. In these areas, VAT is applied at 0%. Businesses that offer zero-rated products or services can still reclaim input tax they have paid on purchases. Zero-rated products include: most food (but not meals in restaurants or cafes and hot takeaway food and drink);

books; newspapers; young children's clothing and shoes; exported goods; most public transport services.

Exempt products and services include: insurance; providing credit; certain types of education and training; certain services from doctors and dentists; selling, leasing or letting land and buildings (but not garages, parking spaces or hotel and holiday accommodation).

Any business which offers some goods or services that are subject to VAT and some that aren't has 'partial exemption'. This means it can only reclaim input tax as a proportion of output tax charged. If your business will be dealing exclusively with exempt products or services, it is unlikely you will be able to claim back all your input tax.

Keeping VAT Records

Being registered for VAT means that you must keep full and accurate records.

You must start keeping records and charging VAT to your customers from the date you know that you have to be VAT registered. Each invoice or receipt must show clearly the rate and amount of VAT charged and the VAT number given to your business by Customs & Excise when it was registered. You must also make sure your VAT-registered suppliers do the same so you have evidence that you are entitled to reclaim the input tax you've paid.

You have to fill in a VAT Return showing how much VAT you have received and paid and forward payment of the balance to Customs and Excise. You must complete a VAT return for each accounting period.

This is normally every three months, but if you expect the input tax you pay to be greater than the output tax you charge, you can make monthly returns. You will automatically be sent a VAT return form to fill in before each payment is due. You must send it back to Customs and Excise no later than one month after the accounting period.

You must keep copies of all invoices or receipts and a note of VAT you have charged and paid. There is no set way to keep records, but they must be easy for Customs and Excise to inspect whenever it requests. Full records must also be kept for a minimum of six years.

Accounting Methods For VAT

Unless you arrange otherwise with Customs and Excise, your output tax must be entered on the next VAT return after you charge your customer - regardless of whether they have paid you or not. Similarly your input tax must be entered on the next VAT return after you are charged by your supplier, whether you have paid them or not.

However, there are a number of other accounting schemes that you may be able to switch to if they suit your business:

- Cash accounting
- The flat-rate scheme for small businesses
- Specific retail schemes
- Annual accounting

Cash-Accounting Scheme

If the proportion of your turnover subject to VAT does not exceed £600,000 a year, your business can use the cash accounting

scheme. This may be useful if your customers are slow-payers. You only have to record your output tax on your VAT return after your customer has paid you and your input tax is only entered on your return when you have paid your supplier. You can change to this system at the beginning of any tax period. However, you must be careful to separate any output tax or input tax dealt with under your previous system. You don't need permission from Customs and Excise to use this scheme but there are certain conditions you must meet, set out in Notice 731.

The Flat-Rate Scheme

The flat-rate scheme for small businesses is designed to reduce the time you spend accounting for VAT. It allows you to calculate your VAT payment as a fixed percentage of turnover. The percentage depends on the type of business you are in. To be eligible, the proportion of your annual turnover subject to VAT must not exceed £150,000 and total turnover must not exceed £187,500. You must apply by filling in Form VAT 600 (FRS). If you use this scheme, you will not be repaid any input tax as it is already allowed for as part of the percentage calculation.

Specialist Retail Schemes

A selection of specialist schemes are available to retailers who would otherwise find it impossible or costly to comply with standard VAT accounting rules. Specialist advice is available from Customs and Excise or your accountant.

Annual Accounting Scheme

The annual accounting system requires one VAT return to be filed each year. You can register for this scheme if:

- You have been trading for less than 12 months and the proportion of your annual turnover subject to VAT is not expected to exceed £150,000
- You have been registered for more than 12 months and the proportion of your annual turnover subject to VAT is not more than £600,000

Under the annual accounting system, VAT payments based on an estimate are usually made nine times each year, with a balancing payment due when you submit your return. By allowing you to pay a set amount each month, the scheme can help you manage your cash flow with more certainty - and you have two months to submit your return rather than one. Annual accounting can be used at the same time as the flat-rate scheme for small businesses.

VAT On Business Vehicles

There are special rules for VAT on business vehicles - and the fuel used in them. You can't normally reclaim the input tax you have to pay on a new motor car. However, VAT-registered businesses can claim it back if they can show the car is used 100% for business purposes (a pool car kept on site, for instance). You must then charge output tax if the car is sold later.

VAT incurred on the purchase of a commercial vehicle (a van, lorry or tractor, for example) can be reclaimed in full subject to the normal rules.

If the business pays for both private and business fuel, a fixed VAT charge is applicable based on the size of the vehicle (this is called the fuel scale charge). This allows the business to reclaim VAT on both the business and private elements of the fuel.

If the business does not pay for private mileage, a scale charge does not apply and VAT may be reclaimed on fuel bought for business provided you keep a detailed record of business mileage.

If you lease a car for business purposes, VAT may be reclaimed on 50% of the lease charge.

References

You must register with Customs and Excise if the value of your goods and services exceeds £58,000 in any 12-month period. You must do this within 30 days of reaching the threshold or you risk a fine. You must also register if you expect to exceed the VAT registration threshold in the next 30 days alone so you can immediately charge VAT on your invoices

Get Form VAT 1 from
Customs and Excise 0845 010 9000
www.hmce.gov.uk/forms

If you expect to charge less than £58,000 each year for your products or services but are considering voluntary registration, get further information from Customs and Excise on 0845 010 9000 - or seek advice from your accountant. For more information read: **Should I Be Registered For VAT? (Notice 700/1)**

Contact Customs and Excise National Advice Service 0845 010 9000
www.hmce.gov.uk/forms

Check if your products or services are standard-rated, reduced-rated, zero-rated or exempt

Contact Customs and Excise National Advice Service 0845 010 9000

For more information read: **The VAT Guide (Notice 700); Partial Exemption (Notice 706)**

Contact Customs and Excise National Advice Service 0845 010 9000
www.hmce.gov.uk/forms

The Customs and Excise Tariff Classification Service can tell you the rate of duty that applies to particular goods

Contact 01702 366077

For more information read: **A Brief Guide To Import Procedures (Notice 501); Deferring Duty, VAT And Other Charges (Notice 101)**

Contact Customs and Excise National Advice Service 0845 010 9000
www.hmce.gov.uk/forms

**For more information read: Keeping Records
And Accounts (Notice 700/21)**

Contact Customs and Excise National
Advice Service 0845 010 9000
www.hmce.gov.uk/forms

**For more information read: Cash
Accounting (Notice 731); Flat Rate Scheme
For Small Businesses (Notice 733); Retail
Schemes (Notice 727); Annual Accounting
(Notice 732)**

Contact Customs and Excise National
Advice Service 0845 010 9000
www.hmce.gov.uk/forms

Seek advice from your accountant or
financial adviser if you are considering
changing the VAT accounting scheme
you use.

**For more information read: Motoring
Expenses (Notice 700/64)**

Contact Customs and Excise National
Advice Service 0845 010 9000
www.hmce.gov.uk/forms

ENTERING LEDGER DETAILS EXERCISE

ABC Motorplan sells motor spares to the trade, other motor factors, garages, dealers and general public. Your job is to enter the details of income and expenditure into the ledger using the figures previously entered in the Sales And Purchase Day Books and the other transactions listed below.

Your first job is to look at all the transactions and decide what column headings you need in **both** the 'Sales' part of the ledger and the 'Expenditure' part.

Once you have done this, begin to enter the details but don't add anything up (yet).

Transaction Details

May 10

Customer buys a spare part for £69.15, paying cash.

Joe's Garage buys a part for £30.00. They have an account.

Friendly Cars buys a part for £25.00.

May 11

Monthly Rates Demand arrives for £90.

Customer buys a spare part for £4.40, paying by cheque 999008.

Joe's Garage buys a part and pays cash, £35.

May 12

You pay supplier invoice, issuing cheque 1234501 worth £385.00.

You order parts worth £205 from supplier.

Customer buys a part for £26.25, paying cash.

Friendly Cars buys a spare part for £23.10, paying by cheque 999009.

May 13

Joe's Garage takes parts worth £89.45. They have an account.

Customer buys a spare part for £20.25, paying by cheque 999010.

Customer buys a spare part for £15.75, paying cash.

Telephone Bill arrives for £205.69.

May 14

You pay wages of £195.00 net to yourself, £195 to Ted, and £140 to Billy using cheques 1234502, 1234503 and 1234504.

Customer buys part for £26.55, paying by cheque 999011.

Joe's Garage takes a part worth £30.15 on account.

May 15

Customer buys a part for £48.95, paying cash.

Friendly Cars buys two parts, one worth £20.45, the other £24.50.

You invoice Joe's Garage for £149.60.

Customer buys a part for £36.20, paying cash.

May 16

Customer buys a part for £24.75, paying by cheque 999012.

Friendly Cars buys one part for £26.26 paying with a cheque 999013 and asks you to invoice for another costing £75.00.

May 17

Invoice from supplier for £205 arrives, paid with cheque 1234505.

Joe's Cars take two parts worth £12.60 and £18.30 on account.

You issue invoice to Friendly Cars for £69.95.

Answers can be found in the appendix on pages 429 and 430