



VAT REGISTRATION THRESHOLD

Issued 5 June 2018

ICAEW welcomes the opportunity to comment on the *VAT registration threshold call for evidence* published by HM Treasury on 13 March 2018.

This response of 5 June 2018 has been prepared on behalf of ICAEW by the Tax Faculty. Internationally recognised as a source of expertise, the Faculty is a leading authority on taxation. It is responsible for making submissions to tax authorities on behalf of ICAEW and does this with support from over 130 volunteers, many of whom are well-known names in the tax world.

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MAJOR POINTS

1. VAT was introduced in 1973 as a 'simple tax'. The original VAT registration threshold was £5,000 which, if indexed at RPI since then, would result in a VAT threshold of about £50,000. However, since its introduction, VAT has become vastly more complicated to administer (even if the actual return is relatively simple) and is a significant burden that falls disproportionately on smaller businesses. In the 1990s the Government sought to address this problem of increased complexity and burdens by raising the VAT limit materially, thus lifting more smaller businesses out of the VAT system.
2. In **our response** last year to the Office for Tax Simplification review of VAT, we said that "The VAT registration threshold is in practice a major simplification measure for smaller businesses and we believe it should be retained at its current level or consideration be given to increasing it further, perhaps with measures to ease businesses into the VAT to avoid the 'cliff edge' effect – see below and Appendix 2."
3. To help inform our response to this call for evidence we undertook a short member survey based on the questions set out in the call for evidence. We received 70 replies. While we appreciate that this not a statistically valid response, it does support the conclusion of our earlier submission to the OTS (which itself was based on a poll conducted during a webinar) that about two thirds of respondents would prefer the threshold to stay the same or be increased.
4. A full summary of the responses to the survey can be seen at Appendix 1. Nearly half (49%) of the respondents thought that the VAT registration threshold should be raised, as compared to a sixth (16%) who thought that it should be lowered. The remaining third (35%) considered that the current level of £85,000 is about right.

RESPONSE TO SPECIFIC QUESTIONS

The current VAT Threshold and the impact on business growth

Q1 What experience or knowledge do you have of small businesses managing their turnover to remain below the VAT threshold?

5. There are many examples of where this happens. This may be best illustrated by the following examples that have been sent to us by our members in response to this call for evidence.
6. "I was listening to a couple of individuals in the construction trade the other day in a coffee bar, one of whom was near the VAT threshold and he said that he did not take on any work for a couple of months in order not to exceed the VAT threshold."
7. "I have been out of general practice for some years now but when I was in it the cliff edge was definitely an issue. I can think of a café owner, a married couple partnership, that made a point of keeping their turnover below the threshold and simply closed the café and took a holiday when they got near it. All their sales were potentially standard-rated and most of their inputs zero-rated so they were perhaps an extreme case. I think that moving the threshold would not sort anything out: it would just move the cliff-edge. For those in small business it means an extra layer of administration and it mucks up their cash flow. They like to know what in the bank is theirs and not to have to be constantly dealing with large outgoing

cheques to HMRC. To my mind the problem is essentially insoluble and in the ‘too difficult’ box. I’d leave things where they are and put up with it.”

8. “I’m not sure this is going to add much to the overall debate, but I am aware of a number of small accountancy practices who try and keep their turnover under the VAT registration limit. Given the sort of work I do, and the fact that I prefer to engage through the accountant rather than directly with the client, this occasionally causes difficulty when the accountant’s turnover is relatively near the threshold. My fee would therefore take them over the threshold and require them to register, despite the fact that my fee is only a flow-through recharge as far as their profits are concerned. Obviously, where this is unresolvable, the upshot is that I can engage with the client rather than through the accountant, but it does highlight an absurdity in the system, that the threshold makes people simply want to do less business!”
9. “I feel very strongly that a move to decrease the VAT threshold is ill-conceived and would adversely affect the number of start-up businesses. I fear the true motivation lies in raising more revenue for the government. In over 30 years in practice I have never seen any evidence in the threshold creating an artificial barrier to growth. Businesses that are capable of growing, rapidly exceed the limit. I see a decreased threshold will drag more businesses into the VAT net at an earlier stage and create a hurdle to setting up. Bigger businesses that might complain about the competition from un-registered businesses should have the economies of scale and financial stability to withstand it. Small unregistered businesses such as these creates the flexibility and dynamism we need for the economy to cope with major shocks and we shouldn’t shackle them with additional regulation.”
10. “I write as honorary taxation adviser to a national organisation of churches, to which there are more than 2,000 affiliated churches. Some of these churches operate cafes as part of their mission and community outreach, but I imagine that the turnover of most of them would be significantly less than the present £85,000 VAT threshold. If, however, there were to be a significant reduction in the threshold, this could potentially affect the continuing effectiveness of this kind of activity as well as impose administrative burdens. Therefore, speaking on behalf of such churches, and indeed the wider church and charitable community, I would very much hope that it will not be considered necessary to reduce the existing threshold.”
11. “We have seen a number of sole traders decline work in order to keep below the VAT threshold.”

Q2 Are there, in your experience, particular types, regions or sectors of businesses where this is particularly prevalent?

12. The businesses most likely to want to keep their turnover below the VAT registration threshold are those whose sales are primarily of services, with little input VAT to claim. This is because such businesses will have to declare around one sixth of their income as output VAT and may have little input VAT to offset it. Consequently, they have a lot to lose and little to gain from VAT registration, when taken from a purely financial perspective.
13. A specific example of this was received from one of members, who said: “This has been seen in the guest house sector and small travel agents (the latter to avoid the Tour Operators Margin Scheme issues), with businesses stopping trading as the threshold got closer.”
14. Businesses in the hospitality sector also have a better opportunity than most to take a decision to close for a few weeks each year, to ensure that they remain below the VAT registration threshold.

Q3 What is your experience of competition challenges faced by registered traders just over the threshold, compared to unregistered businesses? If challenges exist, what effect do they have on the ability of registered businesses to grow?

15. Smaller businesses registered for VAT making supplies to consumers usually have to keep their prices down to enable them to compete with non-VAT registered businesses in the same sector. If the VAT registered business does not have sufficient input tax to reclaim (eg catering) then this impacts their profit margins.
16. Distance sales of goods and electronic services into the UK from outside the UK without the supplier charging UK VAT (and paying it via the MOSS or direct registration).

Q4 As the OTS suggest, does the current threshold contribute to the size of the hidden economy, and how?

17. Although we are unaware of any specific examples, it seems inevitable that some small businesses will probably be evading tax and suppressing their declared income from the actual figure to ensure that it remains below the VAT registration threshold.

Q5 In your experience, does the current threshold have any effect on growth and/or productivity? If so, how significant is that effect?

18. The examples at Q1 show that there is an effect on growth. However, it is difficult to estimate how significant this might be.

Administrative Burden

Q6 Does the administration of VAT discourage businesses from registering?

19. VAT is a considerable admin burden so it is likely to discourage businesses from registering.

Q7 If so, what are the main aspects of VAT administration that are putting businesses off registering

20. Additional record keeping requirements, including the need to account for VAT and issue VAT invoices and prepare and submit VAT returns, plus additional costs of bookkeepers and accountants.
21. It would be a significant extra challenge for many newly formed businesses to apply the VAT regulations much sooner, or even immediately. In the early stages of a business they would be wholly committed to building their income and dealing with a raft of other requirements including PAYE, HR, insurance etc.
22. For those making intra-EU supplies of goods the reporting of VAT, EC Sales Lists and possibly Intrastat is cumbersome, as filing deadlines are not the same etc.

Q8 For businesses that have gone from being unregistered to registered, is there a difference between the perception and reality of VAT administration? Was the administration easier or harder than anticipated?

- ***If harder, why was that? (For example, a struggle to understand what your obligations were, or you made mistakes).***
 - ***If easier, why was that? (For example, received the right support from HMRC, at the right time).***
23. We do not have direct experience of this issue, but in our view both the perception and reality are that VAT is complicated.
 24. The answers to question 9 of the ICAEW survey in Appendix 1 include a few examples of perceived difficulties.

Q9 How well do current simplification schemes address these issues?

25. Simplification schemes may have limited benefits for some businesses, but these are insignificant or often not relevant to many.

26. The flat rate scheme currently affords small businesses some relief insofar as they are only required to account for a flat rate percentage of their turnover as output tax. These rates are less than the standard rate of VAT. However, the Government has recently acted to reduce the benefits of the flat rate scheme for limited cost traders, which have made it less attractive to many businesses, whether or not they are caught by the new rules.
27. One area which could be examined would be the extension of the flat rate scheme concept and a reduction in the rates of tax payable for smaller businesses so as to compensate for the impact of a reduction in the VAT threshold. For example, this could take the form of reducing the flat rate percentage by 50% in the first year and 25% in the second year of VAT registration.

Q10 Ipsos MORI research suggests that dealing with VAT returns are likely to be the most time consuming aspect of VAT administration. What is it about VAT returns that are particularly time consuming for small businesses?

28. What is the most time consuming aspect of VAT will vary from business to business. For the smallest and least complex businesses, it is reasonable to believe that dealing with VAT returns is likely to be the most time consuming aspect of VAT compliance.

Q11 Will new technology, such as the introduction of MTD, facilitate changes or simplifications in VAT administration? If so, what are they, and what changes would you like to see in response?

29. MTD for VAT should in principle help to lead to administrative simplification but the proposed imposition of digital record-keeping and quarterly reporting for most businesses will result in greater admin complexity and costs, especially for smaller businesses below the VAT threshold. We very much welcomed the recent announcement that businesses trading below the VAT registration limit will not be required to keep digital records by April 2019 and believe that this position should be placed on a longer term footing pending the successful roll-out of MTD.
30. It will probably be easier for new businesses, as they would adopt the required systems at the start. For existing businesses using spreadsheets, this will be seen as an additional cost and added and unnecessary complication.
31. The principle underpinning MTD should be that over time the compliance burden should fall, a benefit being that data is input only once. However, at this juncture we do not think that a compelling case has been made about how the overall compliance burden will fall.

Financial and Competitive burden

Q12 In your experience, what, if any, are the sectors that are particularly affected by the financial costs and competitive disadvantages of registration discussed in 3.15-3.20?

32. As indicated in the call for evidence document, the businesses most affected will be those whose sales are primarily of services, with little input VAT to claim. Unless they can recover some or all of the VAT now charged from their customers through higher prices, such businesses are likely to lose up to one sixth of their income as soon as they exceed the VAT registration threshold.

Q13 In your view, do these financial costs and competitive disadvantages lead to businesses managing their turnover below the threshold? How significant is this effect on SME growth?

33. This will happen in some circumstances, particularly if the turnover of a business is unlikely to grow significantly above the VAT registration threshold.

34. For example, a business selling standard rated services with a gross income of £100,000 will only retain £83,333 after declaring output VAT. If it has little input VAT to recover, it may be financially better off to keep turnover below £84,000 and deregister from VAT. Under MTD, such a business would also retain the option to keep manual records, which may in itself be of benefit if it only issues one or two invoices per month.
35. When a business crosses the registration threshold, it pays VAT on its entire turnover, not merely the excess over the thresholds. Unless the business is able to add 20% VAT to the prices it charged to its customers and see no change in its underlying sales, a situation which in practice is likely to be unusual, it will have to absorb some or all of the VAT charge and accordingly the businesses' net turnover will fall, subject to recovery of any input VAT on purchases which would otherwise not be recoverable.
36. This means that crossing the threshold is disadvantageous until the turnover increases sufficiently to absorb the VAT on the first £85,000. With an £85,000 threshold, the VAT exclusive turnover falls below £85,000 until turnover increases to £102,000.

EU SME proposal

Q14 What in your view would be the likely impacts of the EU's proposal on the administration of VAT for SMEs, and how in particular will it help incentivise SME growth?

37. The most significant effect is likely to be the benefit of increased VAT registration thresholds in EU countries to a level that is closer to the UK level than ever before, with the consequent reduction in administration burdens on small businesses located in EU countries that decide to adopt the increase.
38. The proposal to look at turnover across a two-year cycle may have a beneficial effect in certain circumstances. For example, if a business was offered a contract that would make it exceed the annual threshold towards the end of one year, but still keep it below the threshold over a two year cycle, it may decide to accept the contract that it may otherwise decline.

Q15 Are there constituent parts of the proposal which are particularly attractive or unattractive? If so, what are they and why?

39. The option for businesses to only submit VAT returns annually where their turnover is below £1,770,000 may be particularly attractive after the introduction of MTD, if this also removed the requirement for quarterly digital reporting by such businesses. It would reduce the administrative VAT burden on the smaller UK businesses at a time when they would be seeking to compete with similar sized EU businesses after Brexit.

Administrative smoothing

Q16 Do you think the mechanisms described in paragraph 4.8 would help businesses better manage the administration of VAT, upon registration? If so, would the positive effect be significant?

40. The mechanisms described in 4.8 may be helpful to some businesses, and could be significant in limited circumstances. If the decision is taken to implement such mechanisms, we suggest that they be made optional.

Q17 Would any of these solutions be sufficient to change the behaviour of businesses that take measures to remain under the threshold?

41. It is possible in certain circumstances, but we would expect this to be small.

Q18 Are you aware of any simplification schemes from around the world, that work particularly well? If so what are they?

42. We are not aware of any.

Financial smoothing

Q19 What is your experience of the type of mechanisms outlined in paragraphs 4.10-4.15? Would they be effective in incentivising business growth in the UK? If so, how and why?

43. We have no direct experience of any of these schemes. However, we would advise against any changes that would make VAT administration more complicated.

Q20 In your view, are there any other solutions that could work? What are they and why would they work?

44. We have also set out in Appendix 2 a suggested approach to ease the ‘cliff edge’ effect of exceeding the VAT registration threshold.

45. A variation could be made to the flat rate scheme by reducing the flat rate percentages to be applied in the first few years of VAT registration. For example, the percentage applied to turnover could be reduced to 50% of the normal amount in the first year and 75% in the second year.

46. We have also received the following suggestions from our members:

47. “What about a phased introduction of VAT to smoothen out the impact of the cliff edge. Businesses between 0 and the registration threshold have to charge VAT at 0%, businesses between the registration threshold and say £150,000 have to charge VAT at 10% and businesses above £150,000 have to charge VAT at 20%.”

48. “Giving businesses an exemption from registration for a starting up period – say 12 months.”

49. “This could be done by giving a VAT credit on a reducing basis as turnover increases (depending upon the type of business) to reduce the immediate financial impact of having to charge VAT. This will need (currently) to be EU compatible.”

Q21 The EU Commission SME proposal introduces the idea of essentially two thresholds. The first, lower threshold exempts small businesses from the financial obligations of VAT. The second, higher threshold exempts slightly larger businesses from some of the administration of VAT. What do you think about this proposal?

50. We believe that this would add new complications for certain businesses that could be categorised under either threshold. As such, we do not recommend it.

Q22 Assuming the UK has the freedom to do so, would increasing or decreasing the threshold simply move the threshold problems or alleviate them?

51. We received three comments in response to this question that reflect a spread of views.

52. “Reducing it to £40,000 would eliminate the majority of traders taking positive action to remain below the threshold but would be politically unpopular. Making it too high, say £250,000, would impact on revenue receipts. Increasing it to £100,000 would simply shift the problem.”

53. “I don’t think it would have any affect other than decreasing it would discourage some businesses from setting up and impose a further burden on others.”

54. “If the threshold is removed entirely as a number of member states have done eg Spain, Netherlands and a number are under €20 000 (Germany, Denmark, Greece, Cyprus...) the threshold problem goes away and also would allow tax authorities to better identify the ‘hobby’ businesses eg property lets, e-bay traders etc. I would prefer this option. In a report from 2015, the French Court of Auditors noted that reducing the threshold in France (which

for certain supplies is just behind the UK) to €40 000 for all businesses would generate an extra tax revenue of €2.4 billion per year.”

55. ICAEW made the following comments about raising the VAT registration threshold in response to the OTS project on the simplification of VAT.
56. The impact of raising the registration threshold would reduce the administrative burden of the tax for smaller businesses which would no longer need to file VAT returns. For those affected by partial exemption or more complex VAT issues, this would be particularly significant. As there is no VAT registration threshold for non-established businesses this would give UK established businesses supplying customers in the UK, such as on-line retailers, a more significant advantage when setting prices of consumer goods and services than their overseas competitors.
57. If the threshold was raised without the option of voluntary registration, there would be an increase in costs for those businesses that are no longer able to register in order to recover VAT on their inputs. In industries such as financial services and supplies to customers outside the EU, they currently attract input tax credit provided the supplier is VAT registered. If that benefit were to be removed, that would place such suppliers at a disadvantage relative to their overseas competitors supplying services to customers outside the EU.
58. If voluntary registration were no longer possible, there would be significant transitional problems for those who were already registered (including to existing capital goods scheme calculations), but who were below the limit. It would be likely that those businesses would need to be allowed to continue to be VAT registered.
59. Raising the VAT threshold would not remove the problems for businesses considering the need to register, either compulsorily or voluntarily, but merely moves the bar to a different level. There would continue to be distortive effects to the economy due to the “cliff edge” effect, but at a higher level of turnover and therefore affecting fewer businesses. However, the higher the threshold the greater the potential for a distortion of competition in favour of those who are not registered for VAT.
60. ICAEW made the following comments about lowering the VAT registration threshold in response to the OTS project on the simplification of VAT.
61. The high VAT threshold is in practice a major tax simplification for smaller businesses. As noted the original VAT registration threshold was £5,000 which, if indexed at RPI since then, would result in a VAT threshold of about £50,000. But the complexity of VAT, and the associated admin burdens and costs, have continued to increase and impose disproportionate costs on smaller businesses. It was for this reason that in the early 1990s the Government raised the VAT limit materially, thereby lifting many more smaller businesses out of the VAT system. The current Government is also concerned not to impose further burdens on smaller businesses and also increase growth. If the threshold is lowered it would appear to just add more burdens on those businesses least able to cope with it and stifle growth, which is the opposite of what a simplification project should be recommending. We recommend that consideration is given to the cliff edge effect and how it could be mitigated, which might be easier to achieve if and when we are no longer subject to the EU VAT directives.
62. For very small businesses selling to the public, the additional 20% on selling prices would mean higher prices. Consequently, if the business had to reduce its own margins, a higher volume of business would be needed to become profitable. By not forcing a business to register for VAT during its low income start-up period, the VAT registration threshold effectively helps business to become established, thereby helping to contribute to growth.

63. Reducing the VAT registration threshold could therefore reduce the success rate of start-up businesses selling to non VAT registered customers, unless a compensating factor were to be introduced to mitigate the effect on those affected businesses.

APPENDIX 1**ICAEW SURVEY**

ICAEW prepared its own simple survey, based on the questions in the HM Treasury call for evidence, to which it received 70 replies. The responses were as follows:

Q1: Which of the below best describes you?

Answered: 70

Skipped: 0

	Responses	
Agent	77.14%	54
UK VAT registered business	7.14%	5
UK non-VAT registered business	11.43%	8
Other (please specify)	4.29%	3
TOTAL		70

Q2 If you are an agent, what proportion of your clients are VAT registered?

Answered: 69

Skipped: 1

	Responses	
None of my clients are VAT registered	1.45%	1
1 - 24% of my clients are VAT registered	24.64%	17
25 - 49% of my clients are VAT registered	26.09%	18
50 - 74% of my clients are VAT registered	18.84%	13
Over 75% of my clients are VAT registered	15.94%	11
All of my clients are VAT registered	4.35%	3
Not applicable	8.7%	6
TOTAL		69

Q3 What proportion of your VAT registered clients VAT returns do you complete?

Answered: 66

Skipped: 4

	Responses	
1 - 24%	42.42%	28
25 - 49%	13.64%	9
50 - 74%	6.06%	4
Over 75%	18.18%	12
I complete all of my clients VAT returns	6.06%	4
TOTAL		66

Q4 In your experience, does the VAT threshold act as barrier to growth?

Answered: 70

Skipped: 0

	Responses	
Yes	41.43%	29
No	27.14%	19
Somewhat	31.43%	22
TOTAL		70

Q5 How common is it, in your experience, for businesses to monitor their turnover to ensure they trade below the VAT threshold?

Answered: 70

Skipped: 0

	Responses	
Very common	18.57%	13
Fairly common	44.29%	31
Fairly uncommon	30%	21
Very uncommon	7.14	5
TOTAL		70

Q6 In which sectors is it common for businesses to monitor their turnover to stay below the VAT threshold?

Answered: 69

Skipped: 1

	Responses	
Retail	30.43%	21
Hospitality	28.99%	20
Mini-cab/taxi service	8.7%	6
Provision of home maintenance services (eg plumber, carpenter)	71.01%	49
Other (please specify)	30.43%	21
TOTAL		69

Q7 In your opinion, what are the main reasons for businesses not wishing to trade above the VAT threshold? Please select more than one if appropriate.

Answered: 70

Skipped: 0

	Responses	
The administrative burden	68.57%	48

ICAEW REPRESENTATION VAT REGISTRATION THRESHOLD

Impact on profit margins	87.14%	61
Fear of non-compliance	14.29%	10
Fear of additional enquiries by HMRC	15.71%	11
TOTAL		70

Q8 Are you aware of businesses using any of the following methods to trade below the VAT threshold?

Answered: 61

Skipped: 9

	Responses	
Declining work	78.69%	48
Reducing prices	16.39%	10
Closing the business for a period of time	45.9%	28
Restricting business opening hours	29.51%	18
Deliberately concealing income	6.56%	4
TOTAL		61

Q9 Do VAT registered traders have any other additional challenges to face compared to unregistered businesses? Please state below.

Responses

For those filing themselves HMRC systems are not easy to deal with and for those having to file Intrastat and EU Sales Lists there are three separate systems each with its own requirements - a disincentive to supplying goods outside the UK

No

Small businesses have the additional administration burden which can only increase with MTD. This will lead to additional costs and less profitability

Making tax digital

Risk of HMRC inspection leading to penalties

Yes, they have to fill the forms in. There is no need for a one man band to have to register. If they do have to register their income will fall.

More frequent updating of books, generally more pressure on running the business

Managing the VAT element of their cash flow. Applying the VAT legislation correctly to their business transactions - can be very complex.

Managing cash flow

Completion of Statutory returns

No

Can make some businesses harder to be profitable, especially in the social enterprise sector where partial exemption is a problem

Admin burden. MTD.

Passing on VAT to unregistered customers

Administration and Cash Flow

Red tape

The complexity of the system, and the variety of options available (e.g. different schemes) can be confusing to non-financial traders, especially if they do not have much detailed management information concerning their business or business sector.

You mean apart from VAT being the most horrendously complex tax legislation even for professionals?

It's just another onerous administrative burden. New business start-ups must focus on new business opportunities not worrying about Vat compliance

No

Additional accountancy costs for the extra work that needs to be undertaken i.e. submitting VAT returns etc.

Administration and the new MTD will apply to them sooner

Complex VAT legislation and extra professional fees

Not to my knowledge

Unregistered and black market businesses can offer the same service at 20% reduced cost. Or the client has to absorb the VAT margin himself. Joe Bloggs public will simply go with the cheapest option.

It's just a confusing, distorting, system that generates a huge amount of incentive for people to cheat. And when people get used to 'dodging' VAT - as a huge proportion of tradesmen do, in my experience - then it encourages them to dodge other taxes. It's just such a high rate and is an 'all or nothing' cliff-edge threshold, and the threshold sits just at the level between 'doing OK' and 'starting to do really well', for many people, so many people feel it's very unfair - especially as it's based on sales not profit, so it hits the trader, yet they can't pass that on to the customer! PLEASE scrap the threshold entirely, scrap all zero/exempt/complications, and make the compliance system simple/flexible. If you're going to have a consumption tax, do it properly (like NZ or Oz) and just tax everything and make all businesses comply! Vast administrative savings, vast improvement in 'social cohesion' (it would be fairer), better compliance, easy to do with modern technology... The difference for big/small businesses could simply be allowing different compliance mechanisms (eg: low value sole-traders could do it through their annual tax return/PoA, bigger businesses would have to do it through more frequent submissions)... Or, if you can't radically reform the whole VAT/consumption tax system, just shift the threshold up to something well above the 'sole-trader' zone and focus on established businesses, say 5+ employees and PROFITS above £100k (you can still use a profit THRESHOLD but then tax turnover...why not?...at least then you avoid distorting the small/growing business progression)! To be absolutely honest, if we're looking at radical tax-reform though, I'd completely scrap consumption taxes (and many others) and replace them with increased resource/pollution taxes in order to reflect the true cost to society of those things (and to encourage more benign economic activity)...but that's a whole different question! Thanks for asking, anyway. Good luck!

Where sales are to consumers, price competitiveness. This is the elephant, when the threshold is crossed VAT is payable on ALL sales, not just the excess above the threshold. In short 17% off the bottom line. Few businesses can absorb that. Those that could don't wish to.

Offering a competitive price especially to customers who cannot recover input tax and are also prepared to pay cash.

Uncompetitive pricing if customers are not businesses.

Software, admin, cost of compliance

Making Tax Digital

Cash flow issues

Price competitiveness due to inclusion of VAT

Burden of admin and the cost

Dealing with HMRC

Competing on price with non VAT registered businesses when dealing with the general public - i.e. non VAT Registered end users.

Not particularly

Concerns about compliance, what records are required, dealing with unusual transactions, e.g. trading online/dealing with overseas customers/suppliers

Being competitive when dealing with customers who cannot reclaim the VAT

Apart from the vat, no,

Getting the correct rates of VAT for returns when dealing with exports and imports

Competition for work quoting to general public who are obviously not vat registered.

None

In my view the key disadvantages are cost of compliance and the pricing for retail clients

Yes the customer will always use a non-VAT service saving 20%. My clients always lose out. Someone with a 90k turnover add 20% as opposed to a80k turnover.

No

As no other space to say this, I am aware that if the threshold was substantially reduced many self-employed people who would then have to register but are nearing retirement age would close down particularly if required to file VAT returns under MTD.

Additional administration time. Possible additional software costs.

A lot of smaller entities simply do not understand the detail of VAT, in particular, the differences between the rates of VAT eg, zero rate, exempt, outside the scope.

It is difficult for small registered traders to compete with unregistered businesses, if they have private customers, as it makes them relatively expensive, or they have to reduce their prices to compete.

Compliance & penalties

Once VAT registered the business has to maintain the approved form of records and ensure all taxable supplies made are identified; also MTD will apply in 2019

Extra 20% cost to clients who cannot recover VAT

No

Need to complete the VAT returns, which they often do not really understand

Q10 How do you feel about the current VAT threshold?

Answered: 68

Skipped: 2

	Responses	
It's about right	35.29%	24
It's too high	16.18%	11
It's too low	48.53%	33
TOTAL	68	

APPENDIX 2

SOLVING THE VAT CLIFF EDGE PROBLEM

What is the problem?

When a business crosses the registration threshold, it pays VAT on its entire turnover, not merely the excess over the thresholds. Accordingly the proprietor's net turnover drops. This means that crossing the threshold is disadvantageous until the turnover increases sufficiently to absorb the VAT on the first £85,000. With a £85,000 threshold, the VAT exclusive turnover falls below £85,000 until turnover increases to around £102,000, i.e.

Turnover	VAT	Net Turnover
£85,000	Nil	£18,000
£85,001	£14,167	£70,834
£90,000	£15,000	£75,000
£100,000	£16,667	£83,333
£102,000	£17,000	£85,000
£110,000	£18,333	£91,667

What might be the solution?

Limit the tax to the excess over £85,000. That still provides no incentive to increase turnover, i.e. to build the business. Accordingly an alternative would be to limit the tax to, say, 80% of the excess, i.e.

Turnover	Excess	VAT	Limited to 80% of Excess	Cost to Government
£85,000		Nil	Nil	
£85,001	£1	£14,167	£1	£14,166
£90,000	£5,000	£15,000	£4,000	£11,000
£100,000	£15,000	£16,667	£12,000	£4,667
£102,000	£17,000	£17,000	£13,600	£3,400
£105,000	£20,000	£17,500	£16,000	£1,500
£107,370	£22,370	£17,895	*£N/A	
£110,000	£25,000	£18,333	£N/A	-

*80% of £22,370 = £17,896 so the limitation ceases to apply. The break-even point is accordingly just below £107,370.

It will be seen that the cost to the government decreases as turnover increases. A £15,000 increase in a business's turnover reduces the cost to the government by approximately 67%.

The cap should not apply where a business voluntarily registers for VAT as it will have made a commercial decision to accept the cliff-edge. In practice most businesses that voluntarily register for VAT are able to increase their prices to absorb the VAT, so there is no need for relief. The problem arises with those businesses that are forced into the tax system but do not have the ability to raise their prices to absorb the VAT because most of their customers are not VAT registered traders and so cannot recover the VAT.