



Autumn Budget 2017

VAT registration threshold

- In response to the Office of Tax Simplification's (OTS) recommendations, the government will consult on the design of the VAT registration threshold.
 - In the meantime, the threshold will stay at £85,000 for 2 years from April 2018.
1. All businesses with taxable turnover of over £85,000 have to register for VAT and charge VAT on their sales. This is the highest threshold in the EU and OECD keeping over 3 million businesses out of VAT. 23% (1 million) of businesses who have a taxable turnover under £85,000 choose to register for VAT voluntarily.
 2. The OTS review, laid before parliament on 7 November 2017, found that the high threshold causes distortions. Businesses operating below the threshold have a competitive advantage over those that have grown larger and must account for VAT. Some businesses deliberately suppress their turnover, both legally and illegally, to avoid going over the threshold, which also holds back SME growth.
 3. In its review of VAT, the OTS discussed these distortions and recommended that 'the government should examine the current approach to the level and design of the VAT threshold, with a view to setting out a future direction of travel'.
 4. Maintaining such a high threshold is estimated to cost UK taxpayers around £2 billion per year. As a comparison, the threshold in Germany is about £15,600 and in Spain there is no threshold.

Budget announcement

5. In response to the OTS's recommendations, the government will consult on the design of the VAT registration threshold. In the meantime, the threshold will stay at £85,000 for the next two years from April 2018.

Impacts

6. The government is carefully considering the future of the VAT threshold and how to address the distortions and barriers to growth it currently causes. In 2018-19, 99.8% of unregistered businesses will be unaffected as a result of this measure.
7. From April 2019, the government will implement the Making Tax Digital programme. This will initially only be compulsory for businesses above the VAT threshold, and only for VAT records.