VAT registration threshold: call for evidence

Indirect Tax

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HM Treasury have launched a wide ranging call for evidence on the design of the VAT threshold, and the ATT and CIOT would like to hear your views

Following the Spring Statement on 13 March, a call for evidence and short online survey were released to explore whether the design of the VAT registration threshold could better incentivise growth.

The call for evidence, which was previously announced at Autumn Budget 2017, follows a report last year by the Office of Tax Simplification (OTS) setting out concerns that the current level of the VAT threshold and its cliff edge nature distort taxpayer behaviour. In particular, small businesses may choose to keep their turnover below the threshold, either by legitimately limiting their expansion or illegally under-recording their takings.

The call for evidence explores:

- How the current threshold might affect business growth.
- The administrative, financial and competitive burdens created by the VAT regime at the point of registration, and why businesses might manage their turnover to avoid registering.
- Possible policy solutions.

The current UK VAT threshold (frozen at £85,000 until April 2020) is the highest in the EU and the OECD. However, in his foreword to the call for evidence the Financial Secretary to the Treasury acknowledges that the UK threshold is high for a reason.

Although the call for evidence states that any discussion around the design of the threshold must necessarily include its level, it goes on to look at a number of

possible structural alternatives to simply lowering the threshold, including:

The current EU proposals for SMEs – these include simplification measures and a smoothing mechanism which would allow businesses to exceed the threshold by 50 per cent for a single year without registering.

Administrative smoothing measures previously proposed by the OTS – extending the first period for which a business has to account for and pay VAT to six months, or applying the threshold test over two years rather than one.
Financial smoothing measures – some countries currently apply measures to reduce the VAT burden for smaller or newly registered businesses, or apply different thresholds to different sectors.

In an unusual development, alongside the formal call for evidence, the Treasury have also released a short online survey. This survey, which should only take around seven minutes to complete, is intended for small businesses who would prefer a quicker way to engage on the subject of the VAT threshold.

The call for evidence closes on 5 June 2018. The ATT and CIOT will be publishing their own, more detailed, online survey to gather evidence from members during April – please keep an eye out for more details in the Friday email to members and on the ATT/CIOT websites. Alternatively, comments on any aspect of the call for evidence can be emailed to either atttechnical@att.org.uk or technical@ciot.org.uk.