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A LUMI CLIENT GUIDE — VAT

VAT reclaim: *do's and don'ts*

Five places small businesses get VAT wrong — and what to do instead. Written in plain English for owner-managed companies, sole traders and start-ups across Hampshire.

MISTAKE 01

Missing the £90,000 *rolling* threshold

You must register for VAT once your VATable turnover passes £90,000 in **any** 12-month period — not your accounting year, not the tax year. HMRC looks at a rolling window, so check it every month.

1 **Count the right sales**

Standard, reduced and zero-rated sales all count towards the threshold. Exempt sales do not.

2 **Watch the 30-day rule**

Once you cross £90,000 you have 30 days to register. Miss it and you'll owe the VAT you should have charged, plus penalties.

3 **Look ahead, not just back**

If you expect to pass £90,000 in the next 30 days alone — a big contract, say — you must register straight away.

Do: keep a running 12-month sales total in Xero and review it monthly. **Don't:** assume you're fine because your year-end figure was under the limit.

MISTAKE 02

Exempt sales and *over-claiming*

Exempt sales carry no VAT — which also means you can't reclaim VAT on the costs that relate to them. Mix exempt and VATable sales and you're "partially exempt": only a proportion of your input VAT is recoverable.

COMMONLY EXEMPT

- ✕ Insurance
- ✕ Financial services
- ✕ Residential lettings
- ✕ Private education
- ✕ Medical services

WHAT TO DO

- ✓ Identify which costs relate to exempt income
- ✓ Apply the partial-exemption calculation each quarter
- ✓ Recalculate at year-end (the annual adjustment)
- ✓ Repay any VAT over-claimed before HMRC asks

Do: tell your accountant if you have any exempt income, however small. **Don't:** reclaim VAT on everything by default — HMRC charges interest and penalties on over-claims.

MISTAKE 03

Entertainment: *staff yes, clients no*

The rule is simple and often ignored: VAT on entertaining clients or customers cannot be reclaimed. VAT on entertaining your own staff usually can.

CAN RECLAIM

- ✓ Staff-only events (team lunch, Christmas party)
- ✓ Annual staff party — up to £150 per head
- ✓ Meals while travelling on business
- ✓ Subsistence — working meals, not entertainment

CANNOT RECLAIM

- ✕ Client or customer meals and drinks
- ✕ Corporate hospitality (events, sporting days)
- ✕ Gifts of food, drink or tobacco to clients
- ✕ The client share of mixed staff-and-client events

> **Do:** code client entertainment to a separate, VAT-blocked account in Xero. **Don't:** split a client dinner receipt and reclaim "your half" — it's still entertainment.

MISTAKE 04

Personal use: reclaim the *business share* only

If something is used partly for business and partly personally, you reclaim VAT on the business proportion only. Estimate it honestly and keep a note of how you got there — HMRC may ask.

Mobile phone

60% business / 40% personal? Reclaim 60% of the VAT.

Company car

Leased with any private use: 50% of the VAT on the lease. Bought outright with any private use: usually none. Fuel and maintenance follow business-use rules.

Laptop or tablet

Reclaim the business proportion. A short written note of your estimate is enough evidence.

Home office

Utility and broadband VAT can be partly reclaimed based on business use — floor area and hours are the usual basis.

Do: record the business percentage on the bill in Xero. **Don't:** reclaim 100% and hope — mixed-use claims are one of the first things HMRC checks.

MISTAKE 05

Leaving *pre-registration* VAT behind

Newly registered? You can usually reclaim VAT on goods bought up to **4 years** before registration that you still hold, and on services bought up to **6 months** before — provided you have the VAT invoices and they were for the business.

> **Do:** gather invoices for equipment, stock, set-up costs and professional fees before your first return. **Don't:** file your first return without a pre-registration review — it's the one you can't repeat.

WANT VAT HANDLED FOR YOU?

VAT returns are included from *Core, £250 a month*

Registration, scheme selection, MTD-compliant quarterly returns and a pre-registration reclaim review — all done by an ICAEW Chartered Accountant, with Xero included unless specifically agreed otherwise. All prices exclude VAT.

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