

Raising the VAT threshold

The VAT threshold determining when a business must register to charge VAT, is stuck at £85,000. This was the level Ministers were told the EU required. With rapid inflation this is now a small amount. If a business makes a profit of 10% it has to register when it reaches £8500 of profit. Many small businesses now seek to keep their turnover below the ceiling, putting off taking on extra business. They do not want the extra costs of setting up a VAT system, reporting to HMRC, and dealing with VAT inspections when they want to be growing their business and serving customers. Some businesses look for ways to exceed the turnover threshold by accepting cash and not declaring any of that transaction for tax, so there is a loss to the tax authorities.

At a time when we need growth and when we need extra capacity of many kinds to supply more and help curb inflation, it would be a good idea to raise the threshold. Putting it up to £250,000 would be a big win, allowing many more businesses to do a bit more without the tax complication, and reducing tax evasion. Overall there would be more revenue growth as the extra business generated produced more taxable employment, more purchases of VATable items used by the businesses and their customers, and more profits tax on the successful businesses.