EXPLANATORY MEMORANDUM TO THE

VALUE ADDED TAX (INCREASE OF REGISTRATION LIMITS) ORDER 2005

2005 No. 727

1. This explanatory memorandum has been prepared by HM Customs and Excise and is laid before the House of Commons by Command of Her Majesty.

This memorandum contains information for the Select Committee on Statutory Instruments.

2. Description

2.1 The instrument increases the VAT registration and deregistration thresholds in respect of both taxable supplies (Schedule 1 to the Value Added Tax Act 1994) and acquisitions from other member States (Schedule 3 to the Value Added Tax Act 1994) in line with inflation. The increase takes effect on 1 April 2005.

3. Matters of special interest to the Select Committee on Statutory Instruments

3.1 The laying of the instrument before the House of Commons breaches the '21 day rule'. The instrument has been made by the Treasury in exercise of its powers under paragraph 15 of Schedule 1 and paragraph 9 of Schedule 3 to the Value Added Tax Act 1994 (c.23) ("the Act"). Section 97(5) of the Act provides, with certain exceptions that are not applicable to the instrument, that a statutory instrument made under any provision of the Act shall be subject to annulment in pursuance of a resolution of the House of Commons.

3.2 The instrument implements measures announced as part of today's Budget. These measures are to take effect from 1 April 2005, the beginning of the first month after the Budget to ensure that the maximum number of businesses will benefit from the change. Consequently, it was not possible to lay this instrument before the House of Commons 21 days before commencement.

4. Legislative Background

4.1 Under paragraph 15 of Schedule 1 and paragraph 9 of Schedule 3 to the Act the Treasury may by Order increase the VAT registration and deregistration thresholds in respect of both taxable supplies and acquisitions from other member States by such sums as they see fit.

4.2 The effect of this instrument is to increase the VAT registration limits for taxable supplies and for acquisitions from other member States in line with inflation from £58,000 to £60,000. This instrument also makes corresponding increases to the limit for cancellation of registration from £56,000 to £58,000 in the case of taxable supplies and £58,000 to £60,000 in the case of acquisitions from other member States.

5. Extent

5.1 This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

6.1 It is the view of the Economic Secretary to the Treasury that the provisions of this instrument are compatible with the Convention rights.

7. Policy background

7.1 The UK's VAT registration threshold (above which persons making taxable supplies are required to register and account for VAT) is currently set at £58,000 and is the highest in the EU. The deregistration threshold is currently £56,000 - set lower than the registration threshold to avoid businesses trading around the threshold level having constantly to register and deregister. Historically, the thresholds have normally been increased in successive Budgets broadly in line with inflation to maintain their real value.

8. Impact

8.1 A Regulatory Impact Assessment has not been prepared for this instrument, as this is an annual revalorisation of the VAT registration threshold and has no impact on business, charities or voluntary bodies.

9. Contact

Jack Warr at Customs and Excise Tel: 020 7147 0633 or e-mail: jack.warr@hmce.gsi.gov.uk can answer any queries regarding the instrument.