EXPLANATORY MEMORANDUM TO

THE VALUE ADDED TAX (INCREASE OF REGISTRATION LIMITS) ORDER 2015

2015 No. 750

1. This Explanatory Memorandum has been prepared by Her Majesty's Revenue and Customs on behalf of Her Majesty's Treasury 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. Purpose of the instrument

The instrument increases the VAT registration and deregistration thresholds in respect of both taxable supplies (Schedule 1 to the Value Added Tax 1994 ("the Act")) and acquisitions from other member States (Schedule 3 to the Act) in line with inflation. The increases take effect on 1 April 2015.

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

The laying of the instrument before the House of Commons breaches the '21 day rule'. The instrument could not be laid before Parliament earlier because it forms part of a wider package of measures announced as part of today's Budget. These measures are to take effect from 1 April 2015, 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 Context

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. Under Article 286 (Council Directive 2006/112/EC of 28 November 2006) if a member state had a VAT threshold on 17 May 1977 it may raise the threshold in order to maintain the value of the exemption in real terms.

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, as measured by the Retail Price Index (RPI), from £81,000 to £82,000. This instrument also makes corresponding increases to the limit for cancellation of registration from £79,000 to £80,000 in the case of taxable supplies, and £81,000 to £82,000 in the case of acquisitions from other member States.

5. Territorial Extent and Application

This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

The Financial Secretary to the Treasury, David Gauke, has made the following statement regarding Human Rights:

"In my view the provisions of the Value Added Tax (Increase of Registration Limits) Order 2015 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 £81,000 and is one of the highest in the EU. The high threshold is an advantage to small firms, although they can choose to register voluntarily if trading below the registration limit. The deregistration threshold for taxable supplies is currently £79,000 – set lower than the registration threshold to avoid businesses trading around the threshold level having constantly to register and deregister.

7.2 The thresholds for certain Income Tax accounting methods (Three Line Accounts and Cash Basis) reflect changes to the VAT registration threshold. Increasing these thresholds to £82,000 has a negligible impact on Income Tax receipts and administrative burdens.

8. Consultation outcome

In line with the Tax Consultation Framework a consultation has not taken place because this instrument gives effect to a straightforward change to thresholds.

9. Guidance

The overview of Tax Legislation and Rates document published today details the changes to the VAT thresholds. The Supplement to Notices 700/1 and 700/11, in addition to any relevant HMRC web content, will be updated as soon as possible following the announcement of the change. The change in VAT thresholds will also be included in the Supplement to VAT Notes 1 2015 giving details of all changes to VAT announced in the Chancellor's Budget.

10. Impact

A Tax Information and Impact Note has not been prepared for this instrument as it contains no substantive changes to tax policy.

11. Regulating small business

11.1 The legislation applies to small business.

11.2 To minimise the impact of the requirements on firms employing up to 20 people, the approach taken is to revalorise the VAT registration threshold in line with inflation.

12. Monitoring & review

Success of this measure will be achieved by maintaining the value of the VAT threshold and thereby continuing to remove the requirement for the smallest businesses

to register. The change will prevent around 2,000 small businesses from having to register for VAT.

13. Contact

Steven Williams at Her Majesty's Revenue and Customs (Tel: 03000 572469 or email: steven.williams1@hmrc.gsi.gov.uk) can answer any queries regarding the instrument.