EXPLANATORY MEMORANDUM TO

THE VALUE ADDED TAX (INCREASE OF REGISTRATION LIMITS) ORDER 2024

2024 No. 307

1. Introduction

1.1 This explanatory memorandum has been prepared by His Majesty's Revenue and Customs (HMRC) on behalf of the Treasury and is laid before the House of Commons by Command of His Majesty.

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

2. Declaration

2.1 Nigel Huddleston MP, Financial Secretary to the Treasury confirms that this Explanatory Memorandum meets the required standard.

2.1 Elinor Paterson, Deputy Director for VAT Infrastructure, at HMRC confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Anne Hurst at HMRC Telephone: 03000 540845 or email: anne.hurst@hmrc.gov.uk can be contacted with any queries regarding the instrument.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 This legislation increases the VAT registration threshold for taxable supplies from £85,000 to £90,000, and the VAT deregistration threshold for taxable supplies from £83,000 to £88,000. It also increases the VAT registration and deregistration thresholds for acquisitions in Northern Ireland from EU Member States to £90,000.

Where does the legislation extend to, and apply?

4.2 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is the United Kingdom.

4.3 The territorial application of this instrument (that is, where the instrument produces a practical effect) is the United Kingdom.

5. Policy Context

What is being done and why?

5.1 The VAT registration and deregistration thresholds will increase by £5,000. This will allow small businesses to continue to trade without the additional administrative and financial cost of dealing with VAT.

What was the previous policy, how is this different?

5.2 Between 1994 and 2017, VAT registration thresholds were increased on an annual basis. In 2018, the thresholds were frozen to allow consideration of the design of the policy. This freeze was extended in subsequent Budgets until 2026. This legislation allows a further increase in thresholds to be implemented.

6. Legislative and Legal Context

How has the law changed?

6.1 The Value Added Tax Act 1994 (VATA 1994) Schedule 1 paragraph 15 allows the Treasury to change the VAT registration value for taxable supplies. This legislation is increasing its value from £85,000 to £90,000. This instrument also increases the value for cancellation of registration, which is being raised from £83,000 to £88,000.

6.2 VATA 1994 Schedule 9ZA paragraph 45 allows the Treasury to change the VAT registration and deregistration value for acquisitions in Northern Ireland. This legislation is increasing its value from £85,000 to £90,000.

Why was this approach taken to change the law?

6.3 VATA 1994 provides a power to make changes to the threshold in secondary legislation. The thresholds have been changed by secondary legislation every year between 1980 and 2017.

7. Consultation

Summary of consultation outcome and methodology

7.1 Previous changes to the values of VAT registration and deregistration thresholds have not required a consultation. There is no change to tax policy or legislation, and no significant operational changes as a result of this legislation.

8. Applicable Guidance

8.1 There are no significant changes which would require additional guidance. Current guidance will be amended to reflect the changes in values enacted by this legislation.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A Tax Information and Impact Note covering this instrument will be published on gov.uk[1].

9.2 The impact on business will be one-off costs to familiarise themselves with the new rules. It is expected that in 2024-25, 28,000 fewer businesses will be registered for VAT as a result of this measure. The legislation positively impacts small or micro businesses, charities and voluntary bodies by reducing the administrative and financial burden of meeting obligations for VAT.

9.3 There is no, or no significant, impact on the public sector because this legislation will only impact small or micro-businesses.

[1] Tax Information and Impact Note: https://www.gov.uk/government/collections/tax-information-and-impact-notes-tiins

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The approach to monitoring this legislation is through information collected from tax returns and receipts.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 This is the first use of the power in paragraph 45 of Schedule 9ZA to VATA 1994.

12. European Convention on Human Rights

12.1 Nigel Huddleston, The Financial Secretary to the Treasury has made the following statement regarding Human Rights:

"In my view the provisions of the Value Added Tax (Increase of Registration Limits) Order 2024 are compatible with the Convention rights.".

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").