

**EXPLANATORY MEMORANDUM TO**  
**THE VALUE ADDED TAX (INCREASE OF REGISTRATION LIMITS) ORDER**  
**2017**

**2017 No. 290**

**1. Introduction**

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

**2. Purpose of the instrument**

- 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 ("the Act")) and acquisitions from other member States (Schedule 3 to the Act) in line with inflation. The increases take effect on 1 April 2017.

**3. Matters of special interest to Parliament**

*Matters of special interest to the Select Committee on Statutory Instruments*

- 3.1 None.

*Other matters of interest to the House of Commons*

- 3.2 As this instrument is subject to negative resolution procedure and has not been prayed against, consideration as to whether there are other matters of interest to the House of Commons does not arise at this stage.

**4. Legislative Context**

- 4.1 The effect of this instrument, under paragraph 15 of Schedule 1 and paragraph 9 of Schedule 3 to the Act, 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, from £83,000 to £85,000. This instrument also makes corresponding increases to the limit for cancellation of registration from £81,000 to £83,000 in the case of taxable supplies and £83,000 to £85,000 in the case of acquisitions from other member States.

**5. Extent and Territorial Application**

- 5.1 The extent of this instrument is the United Kingdom.  
5.2 The territorial application of this instrument is the United Kingdom.

**6. European Convention on Human Rights**

- 6.1 The Financial Secretary to the Treasury, Jane Ellison, has made the following statement regarding Human Rights:  
"In my view the provisions of the Value Added Tax (Increase of Registration Limits) Order 2017 are compatible with the Convention rights."

## **7. Policy background**

### *What is being done and why*

- 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 £83,000 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 £81,000 – set lower than the registration threshold to avoid businesses trading around the threshold level having constantly to register and deregister.
- 7.2 This instrument makes changes to keep the registration and deregistration limits updated in line with inflation.

## **8. Consultation outcome**

- 8.1 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**

- 9.1 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 2017 giving details of all changes to VAT announced in the Chancellor's Budget.

## **10. Impact**

- 10.1 The impact on business, charities or voluntary bodies is that revalorisation of the threshold will prevent around 4,000 small businesses from having to register for VAT by the end of the 2017/2018 financial year. If the threshold remains at the current level, this would result in a one-off implementation cost in the first year to those 4,000 businesses entering the VAT system, estimated to be around £150,000 and significant ongoing administrative burdens, estimated to be around £1.35m.
- 10.2 There is no impact on the public sector.
- 10.3 A Tax Information and Impact Note covering this instrument will be published on the website at <https://www.gov.uk/government/collections/tax-information-and-impact-notes-tiins>.

## **11. Regulating small business**

- 11.1 The legislation applies to activities that are undertaken by small businesses.
- 11.2 To minimise the impact of the requirements on small businesses (employing up to 50 people), the approach taken is to revalorise the VAT registration threshold in line with inflation.

## **12. Monitoring & review**

- 12.1 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 4,000 small businesses from having to register for VAT.

### **13. Contact**

- 13.1 Kevin Coyle at Her Majesty's Revenue and Customs (email: [Kevin.Coyle@hmrc.gsi.gov.uk](mailto:Kevin.Coyle@hmrc.gsi.gov.uk)) can answer any queries regarding the instrument.