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TAX & HMRC INTERMEDIATE 10 min

How to monitor turnover for VAT

A practical guide to tracking taxable turnover, applying the rolling 12-month VAT test and acting before registration becomes urgent.

If you run a UK limited company or work as a sole trader, you are legally required to register for VAT once your taxable turnover exceeds the registration threshold. At the time of writing, the threshold is £90,000. The rules are not especially complicated, but the calculation catches people out because it is not based on your tax year or accounting year. This guide explains what counts, how to check it each month, and what to do when you cross the line.

8 STEPS

01 Work out what counts as taxable turnover

Taxable turnover is the total value of everything your business sells that is not VAT-exempt. It includes standard-rated, reduced-rated and zero-rated supplies. It does not include VAT-exempt supplies or true disbursements.

The important point is that this is turnover, not profit. Expenses, subcontractors, software costs and overheads do not reduce the figure. If you invoice £95,000 and spend £80,000 delivering the work, your taxable turnover is still £95,000.

> Do not use profit, cash left in the bank, or your corporation tax profit as the VAT threshold figure.

02 Check the rolling 12-month total every month

The VAT threshold is measured on a rolling 12-month basis, counted backwards from the end of each month. It is not measured against the tax year, your company year end or the calendar year.

At the end of each month, add up taxable turnover for the previous 12 months. For example, at 31 July 2026 you would check turnover from 1 August 2025 to 31 July 2026. The next month, the window moves forward to 1 September 2025 to 31 August 2026.

> A strong month can push you over the threshold even if your latest annual accounts look comfortably below it.

03 Remember the 30-day forward-looking test

There is a second test. You must also register if you have reasonable grounds to believe your taxable turnover will exceed £90,000 in the next 30 days alone.

This usually matters when you win a large contract or receive a bulk order. The trigger is not when payment arrives. It is when you know, or should reasonably know, that the supplies will breach the threshold.

> Large contracts need VAT consideration before the invoice is raised, not after the money lands.

04 Set up a simple monthly monitoring routine

On the first working day of each month, run a taxable sales report for the previous 12 months from your bookkeeping software. Xero, FreeAgent and QuickBooks can all produce date-filtered sales or turnover reports.

If you are using spreadsheets, keep one tab for monthly taxable sales and a second column for the rolling 12-month total. The key is consistency: check it every month, not only when you think you might be close.

> Once the rolling total reaches around £85,000, start planning rather than waiting for a deadline.

05 Act promptly when you cross the threshold

If your rolling 12-month taxable turnover exceeds £90,000 at the end of a month, you normally have 30 days from the end of that month to notify HMRC and apply for VAT registration.

Your effective date of registration is usually the first day of the second month after you crossed the threshold. For example, if the 12 months to 31 August 2026 exceed the threshold, you must notify HMRC by 30 September 2026 and registration normally takes effect from 1 October 2026.

> From your effective registration date, you must charge VAT on taxable supplies.

06 Understand the cost of late registration

Late registration is not just paperwork. HMRC can backdate your registration to the date you should have registered, making you liable for VAT on sales made since that date.

If your customers are VAT-registered businesses, you may be able to issue VAT-only invoices. If they are consumers or non-VAT-registered businesses, the VAT often comes out of your own margin. Penalties and interest can also apply.

> Missing the registration point can turn a pricing issue into a direct cash cost.

07 Consider voluntary registration before the deadline

You can register voluntarily below the threshold. This can make sense if most customers are VAT-registered, if you have significant input VAT to reclaim, or if growth means you expect to cross the threshold soon anyway.

Registering on your own timetable gives you time to update invoices, review pricing, choose the right VAT scheme and make sure your software is ready for Making Tax Digital.

> Voluntary registration is a planning decision, not an automatic recommendation.

08 Ask about the temporary breach exception if it was a one-off

If you cross the threshold because of a genuine one-off spike, and you can show your taxable turnover will not exceed the deregistration threshold in the next 12 months, you may be able to ask HMRC for an exception from registration.

This is not automatic, and HMRC does not have to agree. It is mainly relevant where an unusually large project temporarily distorts the figures.

> Do not ignore the breach while hoping it was temporary. The exception has to be dealt with properly.

KEY TAKEAWAYS

The safest habit is a monthly rolling check. If the figure is moving towards the threshold, plan early: pricing, invoicing, VAT scheme choice, software setup and customer communication all become easier when handled before registration is urgent.

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