

# Business start-ups and closures: VAT registrations and de-registrations in 2007

## Guidance and Methodology

1. Each year, the Department for Business, Enterprise and Regulatory Reform (BERR) publishes estimates of the pattern of start-ups and closures in the UK, based on VAT registration and de-registration data. This year estimates for 2007 have been released for the first time, and registration and de-registration estimates for the period 1994 to 2006 have been revised. This guidance note provides details of how these estimates are produced, and the reasons for revisions to the series.

2. The estimates are published on the BERR website at <http://stats.berr.gov.uk/ed/vat/index.htm> in four separate Excel workbooks, one for each of the following sets of tables:

### **Table 1: UK, country, Government Office Region, county and district**

Table 1a: VAT registrations, 1994-2007

Table 1b: VAT de-registrations, 1994-2007

Table 1c: Net change in stock of VAT-registered enterprises, 1994-2007

Table 1d: Stock of VAT-registered enterprises, start of year 1994-2008

Table 1e: VAT registrations, de-registrations and stock of VAT-registered enterprises per 10,000 resident adults, 1994-2007

### **Table 2: UK, country, Government Office Region, county and district by broad industry**

Table 2a: VAT registrations, 1994-2007

Table 2b: VAT de-registrations, 1994-2007

Table 2c: Net change in stock of VAT-registered enterprises, 1994-2007

Table 2d: Stock of VAT registered-enterprises, start of year 1994-2008

### **Table 3: Parliamentary Constituencies**

Table 3a: VAT registrations, 1994-2007

Table 3b: VAT de-registrations, 1994-2007

Table 3c: Net change in stock of VAT-registered enterprises, 1994-2007

Table 3d: Stock of VAT registered-enterprises, start of year 1994-2008

### **Table 4: UK detailed industry (3-digit Standard Industrial Classification)**

Table 4a: VAT registrations, 1994-2007

Table 4b: VAT de-registrations, 1994-2007

Table 4c: Net change in stock of VAT-registered enterprises, 1994-2007

Table 4d: Stock of VAT registered-enterprises, start of year 1994-2008

3. A guide to using the data is included at the front of each Excel workbook. A further series covering 1980 to 1993 is also available at <http://stats.berr.gov.uk/ed/vat/index.htm>, but due to large increases in the compulsory VAT registration threshold in 1991 and 1993, these figures should not be compared directly with the 1994 to 2007 estimates.

# Methodology

## The source data

4. This series is based on data taken from the Office for National Statistics' Inter Departmental Business Register (IDBR) in May 2008.

5. The IDBR is a comprehensive database of UK businesses based on inputs from three administrative sources: traders registered for Value Added Tax (VAT) purposes and employers operating a Pay As You Earn (PAYE) scheme registered with HM Revenue and Customs (HMRC); and incorporated businesses registered at Companies House. The IDBR covers businesses in all parts of the economy, other than some very small businesses (those that are run by the self-employed, without employees and that have a low turnover) and some non-profit making organisations. With over 2 million businesses listed it represents nearly 99% of UK economic activity. For more information on the IDBR please go to [www.statistics.gov.uk/idbr](http://www.statistics.gov.uk/idbr).

## Adjustments methodology

6. Although the IDBR is updated on a daily basis, in a small number of cases there are long lags in the notification of enterprise births and deaths (VAT registrations and de-registrations) on the register. These lags particularly affect data for the most recent years.

7. By monitoring changes to records on the IDBR over time, taking extracts in May back as far as 1995, lag adjustments can be calculated. These adjustments are applied to the latest IDBR extract to produce estimates of the final volume of registrations and de-registrations once late registrations and de-registrations have been received. In the case of registrations, volumes increase over time, as late notifications come in. However, in the case of de-registrations, volumes generally fall over time. This is due to dormant businesses being reactivated<sup>1</sup>.

8. These lag adjustments are necessary to enable more accurate comparisons over time. Lag adjustments are produced using aggregate UK data only, and then applied to all geographical areas and industries. The lag adjustment factors used in this year's publication are shown in Annex B.

## Exclusions

9. It is necessary to exclude some VAT-registered enterprises from the series, to aid comparisons and reflect local changes in business start-up and closure more accurately. An estimated 73 thousand enterprises active on the IDBR at the start of 2008 are excluded from the publication. This is around 4 per cent of all VAT-registered enterprises on the IDBR. Businesses are excluded for the following reasons:

- (i) Where there are large numbers of VAT registrations at one address and the address does not represent the location of the activities of these businesses, these

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<sup>1</sup> Enterprises are defined as dormant for the purpose of this publication when they have zero employment and zero turnover. They are classed as being reactivated when their employment or turnover is no longer zero.

enterprises have also been excluded to avoid giving a false impression of growth in these locations. Their inclusion would lead to distorted levels of registrations in a few local areas where this occurs. These businesses are known as Composite and Managed Service Companies (CMSC). Further details on CMSCs can be found on the HMRC website ([www.hmrc.gov.uk](http://www.hmrc.gov.uk)).

- (ii) Enterprises that are registered at the address of the Official Receiver are excluded from the series. Some businesses are transferred to Official Receivers' addresses prior to de-registration. If these cases were included, data for local areas containing Official Receivers' offices ([www.insolvency.gov.uk](http://www.insolvency.gov.uk)) would be distorted. This is because these offices serve a much wider geographical area, and the business may not have been based in the area.
- (iii) In addition, some very small businesses (with no recorded employment or turnover) were removed from the IDBR in 2002 and 2003, as a result of quality improvements. However, over 9 thousand of the cases removed do not have a confirmed de-registration date and were therefore allocated to the years 2002 or 2003. These cases have been excluded from the series to aid comparisons over time, since their inclusion would inflate 2002 and 2003 de-registrations estimates.
- (iv) Wolverhampton Local Authority District/ Wolverhampton South West constituency: The data for this district was previously inflated due to administrative practices by HMRC. When a business owner moves abroad, the business address is moved to the address of the Wolverhampton tax office. Activity at this address has been removed from the statistics for this publication.

10. Each of these exclusions follow Office for National Statistics guidelines. Exclusions (i) and (iv) are applied to the ONS publication "UK Business: Activity, Size and Location" (<http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=933>), and enterprises covered in exclusions (ii) and (iii) would not be included in the publication in the first place.

11. From this year, the BERR and ONS publications differ in coverage. For 2008, ONS estimates use a wider definition of businesses (including PAYE businesses that are not also registered for VAT, extending the scope from the previous VAT-based only publication) which means that they produce slightly different estimates of the registered business population. ONS estimates for 2008 are 2.16 million, whilst BERR estimates give a total of 2.03 million at the start of 2008.

## **Changes from the previous series**

12. The lag adjustment factors and exclusions have been updated since the last publication in November 2007, which impacts on the estimates across the UK, although changes for individual Local Authorities, Unitary Authorities and counties are small. Annex A provides further detail of the impact of changes at a UK level.

## Limitations of using VAT registration and de-registration data to measure business start-ups and closures

13. The IDBR contains around 2.1 million enterprises in the UK, of which over 1.7 million are VAT-registered (see <http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=933>). However, BERR estimates (see <http://stats.berr.gov.uk/ed/sme/index.htm>) that there are 4.7 million enterprises in the UK (including the very smallest businesses not registered for VAT and/or PAYE), so VAT registrations and de-registrations, whilst providing a guide to trends in start-ups and closures, are likely to under-estimate the total number of starts and closures.

14. Some enterprises are in VAT-exempt areas, such as education, health and public administration, so coverage of businesses in these sectors will be particularly affected.

15. VAT registration does not always happen at the time a business starts trading. Evidence from the BERR Annual Small Business Survey 2006/07 (more information can be found at <http://www.berr.gov.uk/whatwedo/enterprise/enterprisesmes/research-and-statistics/research-evaluation/business-surveys/page38370.html>) shows that 11 per cent of VAT-registered SMEs registered prior to start-up, nearly two thirds registered within 6 months of start-up, and a small number registered 2 years or more after starting up.

## Developments for the future

16. A new Structural Business Statistics Regulation has been introduced by Eurostat, which requires the ONS to produce statistics on business births, deaths and survival rates. These statistics will be produced using definitions and methodology determined by Eurostat, which will ensure greater comparability across the EU. These statistics are being published for the first time this month and are available at: <http://www.statistics.gov.uk/pdfdir/bd1108.pdf>

17. To ensure a single methodology and source for users, this year will see the final publication of 'Business start-ups and closures: Vat registrations and de-registrations in the UK'. In future users will be directed to the ONS statistics for information on business start-up and closures. More information on the differences between the methodology and statistics has been put on our website alongside this year's 'Business start-up and closures: Vat registrations and de-registrations in the UK' publication, at: <http://stats.berr.gov.uk/ed/vat/index.htm>

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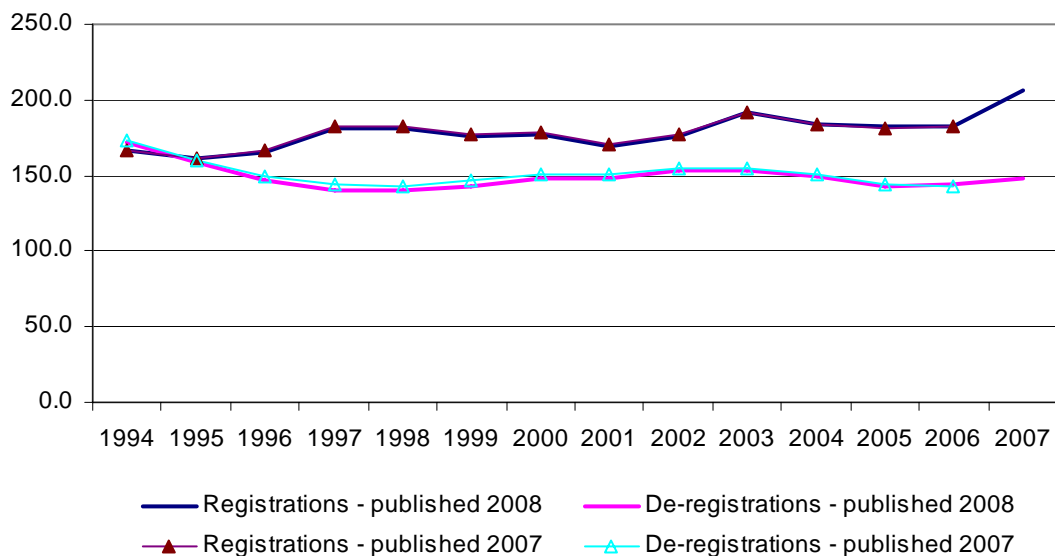
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## Annex A – Changes to the series

Users may find some changes to the estimates produced in November 2007. The scale of the revisions is small, even at a UK level (see Figure 1 below). Reasons for the changes are as follows:

- Four thousand enterprises (previously excluded under exclusion (iii) above) have been added to the data series, where de-registration dates were previously missing but have now been identified.
- The lag adjustments have been revised following a further extract of data from the IDBR in May 2008. A fall in the number of de-registrations recorded on the IDBR in May 2008 (due to dormant businesses being reactivated), together with the normal practice of revising the lag adjustment factors to take account of latest data, has led to most of the de-registrations estimates being revised downwards slightly (but by less than three per cent in each case).

Figure 1: Revisions to the registrations and de-registrations estimates



## Annex B – The lag adjustment factors

Raw data taken from the IDBR in May 2008 are adjusted by the following factors (shown here to 2 decimal places only), to estimate what the final volume of registrations and de-registrations may be. Data for 1994 and 1995 are not adjusted, as changes to the register are minimal after a period of time. Registrations and de-registrations in 2007 are subject to the largest adjustment factors and therefore differ the most from the data actually held on the IDBR.

	<b>Registrations</b>	<b>De-registrations</b>
1994	No adjustment	No adjustment
1995	No adjustment	No adjustment
1996	Multiplied by 1.00	Multiplied by 0.98
1997	Multiplied by 1.00	Multiplied by 0.97
1998	Multiplied by 0.99	Multiplied by 0.97
1999	Multiplied by 0.99	Multiplied by 0.96
2000	Multiplied by 0.99	Multiplied by 0.95
2001	Multiplied by 1.00	Multiplied by 0.94
2002	Multiplied by 1.00	Multiplied by 0.93
2003	Multiplied by 1.00	Multiplied by 0.92
2004	Multiplied by 1.01	Multiplied by 0.90
2005	Multiplied by 1.02	Multiplied by 0.88
2006	Multiplied by 1.04	Multiplied by 0.84
2007	Multiplied by 1.12	Multiplied by 0.82