

# Business start-ups and closures: VAT registrations and de-registrations in 2005

## Guidance and Methodology

1. Each year, the Small Business Service 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 2005 have been released for the first time, and estimates for the years 1994 to 2004 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 SBS website at [www.sbs.gov.uk/vat](http://www.sbs.gov.uk/vat) 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, 1994-2005

Table 1b: VAT de-registrations, 1994-2005

Table 1c: Net change in stock of VAT-registered enterprises, 1994-2005

Table 1d: Stock of VAT-registered enterprises, start of year 1994-2006

Table 1e: VAT registrations, de-registrations and stock of VAT-registered enterprises per 10,000 resident adults, 1994-2005

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

Table 2a: VAT registrations, 1994-2005

Table 2b: VAT de-registrations, 1994-2005

Table 2c: Net change in stock of VAT-registered enterprises, 1994-2005

Table 2d: Stock of VAT registered-enterprises, start of year 1994-2006

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

Table 3a: VAT registrations, 1994-2005

Table 3b: VAT de-registrations, 1994-2005

Table 3c: Net change in stock of VAT-registered enterprises, 1994-2005

Table 3d: Stock of VAT registered-enterprises, start of year 1994-2006

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

Table 4a: VAT registrations, 1994-2005

Table 4b: VAT de-registrations, 1994-2005

Table 4c: Net change in stock of VAT-registered enterprises, 1994-2005

Table 4d: Stock of VAT registered-enterprises, start of year 1994-2006

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 [www.sbs.gov.uk/vat](http://www.sbs.gov.uk/vat), 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 2005 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 2006.

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 (self-employed and those without employees and with 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 74 thousand enterprises active on the IDBR at the start of 2006 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 enterprises have also been excluded to avoid giving a false impression of growth in these locations. Their inclusion would lead to distorted levels of

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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.

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, nearly 14 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.

10. Exclusions (i) and (ii) follow Office for National Statistics guidelines. These exclusions are also applied to the ONS publication "UK Business: Activity, Size and Location" ([www.statistics.gov.uk/ukbusiness](http://www.statistics.gov.uk/ukbusiness)).

11. The Small Business Service and ONS publications complement each other, although the lag adjustments and minor differences in coverage mean that they contain slightly different estimates of the registered business population. ONS estimates for 2006 are 1.64 million, whilst SBS estimates give a total of 1.85 million at the start of 2006, as those businesses which still have a live PAYE record (and are therefore still running) are included even if they have de-registered for VAT due to a fall in their turnover.

### **Changes from the previous series**

12. The lag adjustment factors and exclusions have been updated since the last publication in October 2005, 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, and identifies some special cases which users need to be aware of.

13. Due to ongoing improvements in the source data (IDBR), the adjustments methodology, and the exclusions applied, all estimates in the series are subject to revision.

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

14. The IDBR contains around 2.1 million enterprises in the UK, of which over 1.6 million are VAT-registered (see [www.statistics.gov.uk/ukbusiness](http://www.statistics.gov.uk/ukbusiness)). However, SBS estimates (see [www.sbs.gov.uk/smes](http://www.sbs.gov.uk/smes)) that there are 4.3 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.

15. 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.

16. VAT registration does not always happen at the time a business starts trading. Evidence from the SBS Annual Small Business Survey 2004 (more information can be found at [www.sbs.gov.uk/evidence](http://www.sbs.gov.uk/evidence)) shows that over a third of VAT-registered SMEs registered prior to start-up, nearly half registered within 6 months of start-up, and a small number registered 2 years or more after starting up.

## **Developments for the future**

17. Although it was announced last year that improvements in the matching of VAT and PAYE records on the IDBR would make it possible to also include the registration or de-registration of PAYE-only enterprises in this publication, this is not yet possible.

18. Registrations and de-registrations for PAYE employers are not yet included due to the potential for duplication. Work relating to the implementing recommendations from the Allsopp Review of Statistics for Economic Policymaking is being undertaken within ONS Business Registers Unit to permit the inclusion of PAYE units which are currently excluded. The work has extended to the identification of additional units that are registered with Companies House but are not included on the IDBR. While the work is proceeding we are continuing to exclude these units.

*For further information on the publication and the methodology, please contact*

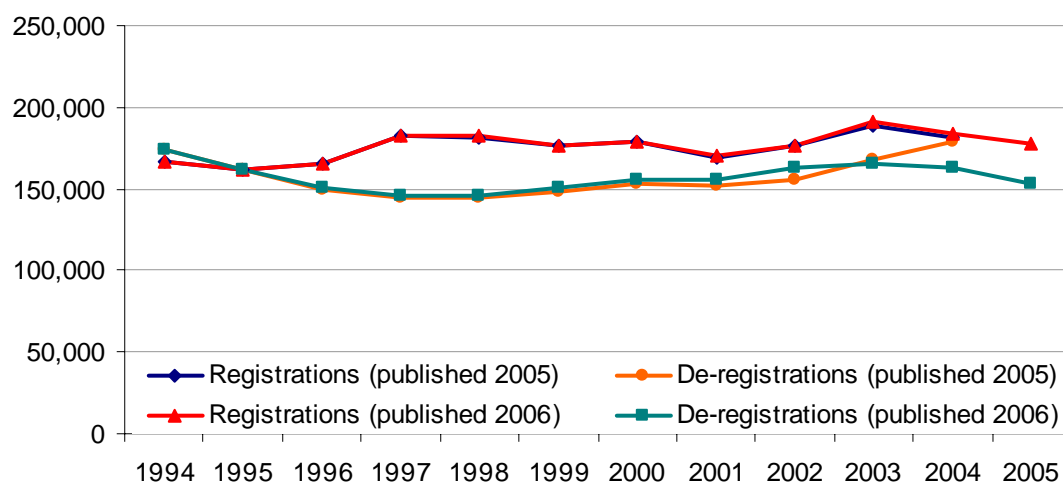
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## Annex A –Changes to the series

Users may find some changes to the estimates produced in October 2005. With the exception of de-registrations in 2004, 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 2006. A fall in the number of de-registrations in 2004 as recorded on the IDBR in May 2006 (due to an unexpectedly high level of dormant businesses being reactivated), has led to the 2004 de-registrations estimate being revised downwards by almost 9 per cent. The downwards trend in de-registrations since 2003 is consistent with source data from HMRC and the IDBR. Other estimates are affected to a lesser degree.

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



### Special Cases

**Wolverhampton Local Authority District/Wolverhampton South West constituency:** The data for this district is currently 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. Therefore data for Wolverhampton should be treated with caution. We hope to be able to issue further information on this matter on the SBS website in due course. Users can expect to see a fall in Wolverhampton's data in future publications.

**London Borough of Harrow/Harrow East constituency:** Due to the identification of a CMSC in this locality since the last publication, estimates for Harrow have been revised, as CMSC enterprises are excluded from the series (see exclusion (i) on page 3).

**Agriculture in Northern Ireland:** Due to a large number of reactivations in Northern Ireland in general, and Fermanagh and Omagh specifically, de-registrations in 2004 have been revised downwards. These are businesses which previously had no turnover or employment and were therefore treated as de-registrations, but have now been reactivated since new data has since shown greater than zero turnover.

## Annex B – The lag adjustment factors

Raw data taken from the IDBR in May 2006 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 2005 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 1.00
1997	Multiplied by 1.00	Multiplied by 0.99
1998	Multiplied by 1.00	Multiplied by 0.99
1999	Multiplied by 1.00	Multiplied by 0.99
2000	Multiplied by 1.00	Multiplied by 0.98
2001	Multiplied by 1.00	Multiplied by 0.97
2002	Multiplied by 1.01	Multiplied by 0.97
2003	Multiplied by 1.02	Multiplied by 0.95
2004	Multiplied by 1.04	Multiplied by 0.91
2005	Multiplied by 1.10	Multiplied by 0.87

### **Worked example:**

If a local area had 1000 registrations in 2003 (as recorded on the IDBR at May 2006), then it is estimated that once late returns are in, there will be  $1000 * 1.02 = 1020$  registrations in total.

If the same local area also had 1000 de-registrations in 2003 (as recorded on the IDBR at May 2006), then it is estimated that eventually, there will only be  $1000 * 0.95 = 950$  de-registrations in total (since some dormant enterprises will be reactivated at a later date and therefore removed from the de-registrations data).

If the raw data above was used without adjustments for lags, it would appear that the business stock in 2003 was stable, since registrations equalled de-registrations. However since registrations generally increase and de-registrations generally decrease as time progresses, the business stock is actually likely to have increased in 2003 ( $1020$  registrations –  $950$  de-registrations = a net increase of  $70$  businesses).

These lag adjustment factors may be of use to users of IDBR registrations or de-registrations data via the IDBR ad-hoc analysis service <http://www.statistics.gov.uk/idbr/idbr.asp> or email [IDBRDAS@ons.gov.uk](mailto:IDBRDAS@ons.gov.uk), if the same IDBR data extract is used (May 2006).