



VAT

VAT Flat Rate Scheme

The flat rate scheme for small businesses was introduced to reduce the administrative burden imposed when operating VAT.

Under the scheme a set percentage is applied to the turnover of the business as a one-off calculation instead of having to identify and record the VAT on each sale and purchase you make.

Who Can Join?

The scheme is optional and open to businesses whose VAT exclusive:

- annual taxable turnover does not exceed £150,000 and
- total turnover (including the value of exempt (eg rents) and non-taxable income) does not exceed £187,500.

Turnover for these purposes does not include proceeds from the sale of capital assets.

The turnover test applies to your anticipated turnover in the following 12 months. Your turnover may be calculated in any reasonable way but would usually be based on the previous 12 months if you have been registered for VAT for at least a year.

To join the scheme you can apply by post, email or phone and if you are not already registered for VAT you must submit a form VAT 1 at the same time.

You may not operate the scheme until you have received notification that your application has been accepted and HMRC will inform you of the date of commencement.

When is the Scheme Not Available?

The flat rate scheme cannot be used if you:

- use the second hand margin scheme or auctioneers' scheme
- use the tour operators' margin scheme
- are required to operate the capital goods scheme for certain items.

In addition the scheme cannot be used if, within the previous 12 months, you have:

- ceased to operate the flat rate scheme
- been convicted of an offence connected with VAT
- been assessed with a penalty for conduct involving dishonesty.

The scheme will clearly be inappropriate if you regularly receive VAT repayments.

How the Scheme Operates

VAT due is calculated by applying a predetermined flat rate percentage to the business turnover of the VAT period. This will include any exempt supplies and it will therefore not generally be beneficial to join the scheme where there are significant exempt supplies.

The percentage rates are determined according to the trade sector of your business and range from 2% to 13.5%. The table in the appendix to this factsheet summarises the percentages. In addition there is a further 1% reduction off the normal rates for businesses in their first year of VAT registration.

If your business falls into more than one sector it is the main business activity as measured by turnover which counts. This can be advantageous if you have a large percentage rate secondary activity and a modest major percentage trade. You should review the position on each anniversary and if the main business activity changes or you expect it to change during the following year you should use the appropriate rate for that sector.

Although you pay VAT at the flat rate percentage under the scheme you will still be required to prepare invoices to VAT registered customers showing the normal rate of VAT. This is so that they can reclaim input VAT at the appropriate rate.

Example of the Calculation

Cook & Co is a partnership operating a café and renting out a flat. Its results are as follows:

VAT inclusive turnover:	£
Standard rated catering supplies	70,000
Zero rated takeaway foods	5,500
Exempt flat rentals	3,500
	£79,000

Flat rate 12% x £79,000 = £9,480

Normally £70,000 x 7/47 = £10,425 less input tax

Treatment of Capital Assets

The purchase of capital assets costing more than £2,000 (including VAT) may be dealt with outside the scheme. You can claim input VAT on such items on your VAT return in the normal way but if you do you must account for VAT on a subsequent sale of the asset at the normal rate instead of the flat rate.

Continued >>>

Items under the capital goods scheme are excluded from the flat rate scheme.

Transactions Within the European Community

Income from these sales is included in your turnover figure.

Where there are acquisitions from EC member states you will still be required to record the VAT on your VAT return in the normal way even though you will not be able to reclaim the input VAT unless it is a capital item as outlined above.

Records to Keep

Under the scheme you must keep a record of your flat rate calculation showing:

- your flat rate turnover
- the flat rate percentage you have used
- the tax calculated as due.

You must still keep a VAT account although if the only VAT to be accounted for is that calculated under the scheme there will only be one entry for each period.

Summary

The scheme is designed to reduce administration although it will only be attractive if it does not result in additional VAT liabilities. The only way to establish whether your business will benefit is to carry out a calculation and comparison of the normal rules and the flat rate rules.

How We Can Help

We can advise as to whether the flat rate scheme would be beneficial for your business and help you to operate the scheme.

For information of users: This material is published for the information of clients. It provides only an overview of the regulations in force at the date of publication, and no action should be taken without consulting the detailed legislation or seeking professional advice. Therefore no responsibility for loss occasioned by any person acting or refraining from action as a result of the material can be accepted by the authors or the firm.

APPENDIX: Table of Sectors and Rates

Trade Sector	Flat Rate Percentage	
Retailing food, confectionery, tobacco, newspapers or children's clothing	2	
Membership organisation	5.5	
Postal and courier services		
Pubs		
Wholesaling food		
Farming or agriculture that is not listed elsewhere	6	
Retailing that is not listed elsewhere		
Wholesaling agricultural products		
Retailing pharmaceuticals, medical goods, cosmetics or toiletries	7	
Retailing vehicles or fuel		
Sport or recreation		
Wholesaling that is not listed elsewhere		
Agricultural services	7.5	
Library, archive, museum or other cultural activity		
Manufacturing food		
Printing		
Repairing vehicles		
General building or construction services *	8.5	
Hiring or renting goods		
Manufacturing that is not listed elsewhere		
Manufacturing yarn, textiles or clothing		
Packaging		
Repairing personal or household goods		
Social work		
Forestry or fishing		9
Mining or quarrying		
Transport or storage, including couriers, freight, removals and taxis		
Travel agency	9.5	
Advertising		
Dealing in waste or scrap		
Hotel or accommodation		
Photography		
Publishing		
Veterinary medicine		
Any other activity not listed elsewhere		10
Investigation or security		
Manufacturing fabricated metal products		
Boarding or care of animals	10.5	
Film, radio, television or video production		
Business services that are not listed elsewhere	11	
Computer repair services		
Entertainment or journalism		
Estate agency or property management services		
Laundry or dry-cleaning services		
Secretarial services		
Financial services	11.5	
Catering services, including restaurants and takeaways		
Hairdressing or other beauty treatment services	12	
Real estate activity not listed elsewhere		
Architect, civil and structural engineer or surveyor		
Management consultancy	12.5	
Accountancy or book-keeping		
Computer and IT consultancy or data processing	13	
Lawyer or legal services		
Labour-only building or construction services *		

* **Building or construction services**, use 'Labour-only' if the value of materials supplied is less than 10% of your turnover. If the value of the materials is more than this, builders use the 'General building' flat rate.