

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 that do not breach the relevant limits which have recently changed due to the increase in the standard rate of VAT. From 4 January 2011, a business must leave the scheme when income in the last twelve months exceeds £230,000, unless this is due to a one off transaction and income will fall below £191,500 in the following year. A business must also leave the scheme if there are reasonable grounds to believe that total income is likely to exceed £230,000 in the next 30 days.

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 VAT1 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 4% to 14.5%.

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. The percentages used in the scheme changed from 4 January 2011 to reflect the increase to 20% in the standard rate of VAT.

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. If its results for 2011 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 12.5% x £79,000 = £9,875
Normally £70,000 x 20/120 = £11,667 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. Where the input VAT is reclaimed you must account for VAT on a subsequent sale of the asset at the normal rate instead of the flat rate. Items under the capital goods scheme are excluded from the flat rate scheme.

Transactions within the European Community

Income from sales of goods 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.

The rules on services are complex. Please get in touch if this is an issue so that we can give you specific advice.

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. Please do not hesitate to contact us.

APPENDIX: Table of sectors and rates

Trade Sector	Appropriate % from 1 Jan 2010 to 3 January 2011	Appropriate % from 4 January 2011
Accountancy or book-keeping	13	14.5
Advertising	10	11
Agricultural services	10	11
Any other activity not listed elsewhere	10.5	12
Architect, civil and structural engineer or surveyor	13	14.5
Boarding or care of animals	10.5	12
Business services that are not listed elsewhere	10.5	12
Catering services including restaurants and takeaways	11	12.5
Computer and IT consultancy or data processing	13	14.5
Computer repair services	9.5	10.5
Dealing in waste or scrap	9.5	10.5
Entertainment or journalism	11	12.5
Estate agency or property management services	10.5	12
Farming or agriculture that is not listed elsewhere	6	6.5
Film, radio, television or video production	11.5	13
Financial services	12	13.5
Forestry or fishing	9.5	10.5
General building or construction services*	8.5	9.5
Hairdressing or other beauty treatment services	11.5	13
Hiring or renting goods	8.5	9.5
Hotel or accommodation	9.5	10.5
Investigation or security	10.5	12
Labour-only building or construction services*	13	14.5
Laundry or dry-cleaning services	10.5	12
Lawyer or legal services	13	14.5
Library, archive, museum or other cultural activity	8.5	9.5
Management consultancy	12.5	14
Manufacturing fabricated metal products	9.5	10.5
Manufacturing food	8	9
Manufacturing that is not listed elsewhere	8.5	9.5
Manufacturing yarn, textiles or clothing	8	9
Membership organisation	7	8
Mining or quarrying	9	10
Packaging	8	9
Photography	10	11
Post offices	4.5	5

Printing	7.5	8.5
Publishing	10	11
Pubs	6	6.5
Real estate activity not listed elsewhere	12.5	14
Repairing personal or household goods	9	10
Repairing vehicles	7.5	8.5
Retailing food, confectionary, tobacco, newspapers or children's clothing	3.5	4
Retailing pharmaceuticals, medical goods, cosmetics or toiletries	7	8
Retailing that is not listed elsewhere	6.5	7.5
Retailing vehicles or fuel	6	6.5
Secretarial services	11.5	13
Social work	10	11
Sport or recreation	7.5	8.5
Transport or storage, including couriers, freight, removals and taxis	9	10
Travel agency	9.5	10.5
Veterinary medicine	10	11
Wholesaling agricultural products	7	8
Wholesaling food	6.5	7.5
Wholesaling that is not listed elsewhere	7.5	8.5

"Labour-only building or construction services" means building or construction services where the value of materials supplied is less than 10 per cent of relevant turnover from such services; any other building or construction services are "general building or construction services".

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