

A QUICK GUIDE TO THE VAT FLAT RATE SCHEME

What is it? The vat flat rate scheme was launched in 2002 to simplify vat for small businesses.

Its effect is intended to be neutral, i.e. as many winners as losers in terms of vat payments.

The limits and rates have been updated every time the VAT rate changed.

Who does it apply to? Business with a vat exclusive turnover of less than £150k.

The turnover test is based on reasonable expectations for the year ahead, and you have to leave the scheme once vat inclusive turnover exceeds £230k.

How does the scheme differ to normal vat? Vat on sales (output tax) and expenses (input tax) is not accounted for separately. Instead a fixed percentage is applied to your vat inclusive turnover, eg:

Example business one vat quarter

Sales income gross	£10,000
VAT thereon (outputs)	£1,489
Expense payments to suppliers	£6,000
VAT thereon (inputs)	£894
VAT due to HMCE	£596

Suppose this business had a 9% flat rate banding.
The vat due would then be:

9% x £10,000	£900
--------------	------

This business would be worse off using the flat rate scheme.
These figures include VAT at the old 17.5% rate.

Where the scheme is in use, no separate records of output or input vat need to be maintained. A record of gross turnover is needed and, of course, income and expense records are needed for annual accounts and Income Tax/Corporation Tax returns.

VAT invoices must still be issued to customers in exactly the same way as usual, showing 20% vat thereon.

How do I apply? With form VAT 600, available from HMRC website (www.hmrc.gov.uk and search for vat 600)

You normally enter or leave the scheme at the start/end of a vat period. If you leave you cannot rejoin for a year. It is probably best to tie up moving into and out of the scheme with a new financial year.

Capital Assets Special rules apply if you buy equipment or other capital assets with a value of £2,000 or more including vat. In this case you can claim the vat as normal on this item as a deduction from the flat rate due.

So picking up the example on the preceding page, if the £6,000 expense payments to suppliers included £2,000 of equipment then £298 could be deducted from the £900 calculated flat rate payment, making £602 due.

What vat rate do I use? The rates are in the appendix. If your business covers two or more sectors then you use the rate applicable to the largest part of your business.

NB when assessing these rates, please remember that the rate is applied to vat inclusive turnover. It is therefore incorrect to compare the rate given to the standard vat rate of 20% as this applies to vat exclusive amounts – the correct comparison is to 20/120 or 16.7% - eg

Sales of £1,000 inc vat would have vat of £167 due on them under the normal 20% provisions.
 $\frac{£167}{£1000} = 16.7\%$. Input tax is recoverable as well.

If the flat rate was 10% the vat due would be $10\% \times £1,000 = £100$ but with no input tax recovery.

1% Discount

In their first year of operation, businesses are entitled to a 1% discount off the published flat rates. This reflects higher start up costs in the first year of a business.

So is it worth while applying?

Well, each business is different, and it needs to be looked at individually.

There is a ready reckoner available at <http://212.100.226.149/hmc/index.jsp> (part of HMRCs site).

Or you can do your own calculation as follows:

1. Add up your total vat exclusive turnover for the last four vat returns by adding up box 6.
2. If the total at 1 is less than £150k then you are probably eligible to use the scheme.
3. Select your flat rate band (deduct the 1% discount if in your first year) and multiply the total at 1 by this figure.
4. Add up the vat you have paid for the last four vat returns by totalling box 5.
5. If the result at 4 is more than the result at 3 then you may well be better off on the FRS.
6. To refine the calculation, if you have bought equipment costing more than £2,000 then deduct the vat you claimed on this from the total at 3.

Further information from Notice 733 available at <http://www.hmrc.gov.uk/> (enter the site and search for notice 733)

Updated: April 2011

© Garbetts Limited

Appendix – Flat Rates per HMCE Notice 733

Flat Rate Scheme percentage rates from 4 January 2011
These rates will apply from 4 January 2011 until further notice.

Category of business	Appropriate percentage
Accountancy or book-keeping	14.5
Advertising	11
Agricultural services	11
Any other activity not listed elsewhere	12
Architect, civil and structural engineer or surveyor	14.5
Boarding or care of animals	12
Business services that are not listed elsewhere	12
Catering services including restaurants and takeaways	12.5
Computer and IT consultancy or data processing	14.5
Computer repair services	10.5
Dealing in waste or scrap	10.5
Entertainment or journalism	12.5
Estate agency or property management services	12
Farming or agriculture that is not listed elsewhere	6.5
Film, radio, television or video production	13
Financial services	13.5
Forestry or fishing	10.5
General building or construction services*	9.5
Hairdressing or other beauty treatment services	13
Hiring or renting goods	9.5

Category of business	Appropriate percentage
Hotel or accommodation	10.5
Investigation or security	12
Labour-only building or construction services*	14.5
Laundry or dry-cleaning services	12
Lawyer or legal services	14.5
Library, archive, museum or other cultural activity	9.5
Management consultancy	14
Manufacturing fabricated metal products	10.5
Manufacturing food	9
Manufacturing that is not listed elsewhere	9.5
Manufacturing yarn, textiles or clothing	9
Membership organisation	8
Mining or quarrying	10
Packaging	9
Photography	11
Post offices	5
Printing	8.5
Publishing	11
Pubs	6.5
Real estate activity not listed elsewhere	14
Repairing personal or household goods	10
Repairing vehicles	8.5
Retailing food, confectionary, tobacco, newspapers or children's clothing	4

Category of business	Appropriate percentage
Retailing pharmaceuticals, medical goods, cosmetics or toiletries	8
Retailing that is not listed elsewhere	7.5
Retailing vehicles or fuel	6.5
Secretarial services	13
Social work	11
Sport or recreation	8.5
Transport or storage, including couriers, freight, removals and taxis	10
Travel agency	10.5
Veterinary medicine	11
Wholesaling agricultural products	8
Wholesaling food	7.5
Wholesaling that is not listed elsewhere	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'