



# Fenn and Co

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## ***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.

The total turnover test is to be abolished from 1 April 2009 under pre budget proposals.

Turnover for either purpose 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 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 2% to 11.5%. The table in the appendix to this factsheet summarises the current percentages.

Please note that some of the percentages were reduced to reflect the temporary reduction in the standard VAT rate from 17.5% to 15% for the period 1 December 2008 to 31 December 2009. In

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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. If its results for 2009 are as follows:

VAT inclusive turnover:	£
Standard rated catering supplies	70,000
Zero rated takeaway foods	5,500
Exempt flat rentals	3,500
	<hr/>
	£79,000
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Flat rate 10.5% x £79,000 = £8,295

Normally £70,000 x 15/115 = £9,130 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 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.

## APPENDIX: Table of Sectors and Rates

Trade Sector	Appropriate percentage
Accountancy or book-keeping	11.5
Advertising	8.5
Agricultural services	7
Any other activity not listed elsewhere	9
Architect, civil and structural engineer or surveyor	11
Boarding or care of animals	9.5
Business services that are not listed elsewhere	9.5
Catering services including restaurants and takeaways	10.5
Computer and IT consultancy or data processing	11.5
Computer repair services	10
Dealing in waste or scrap	8.5
Entertainment or journalism	9.5
Estate agency or property management services	9.5
Farming or agriculture that is not listed elsewhere	5.5
Film, radio, television or video production	9.5
Financial services	10.5
Forestry or fishing	8
General building or construction services*	7.5
Hairdressing or other beauty treatment services	10.5
Hiring or renting goods	7.5
Hotel or accommodation	8.5
Investigation or security	9
Labour-only building or construction services*	11.5
Laundry or dry-cleaning services	9.5
Lawyer or legal services	12
Library, archive, museum or other cultural activity	7.5
Management consultancy	11
Manufacturing that is not listed elsewhere	7.5
Manufacturing fabricated metal products	8.5
Manufacturing food	7
Manufacturing yarn, textiles or clothing	7.5
Membership organisation	5.5
Mining or quarrying	8
Packaging	7.5
Photography	8.5
Post offices	2
Printing	6.5
Publishing	8.5
Pubs	5.5
Real estate activity not listed elsewhere	11
Repairing personal or household goods	7.5
Repairing vehicles	6.5
Retailing food, confectionary, tobacco, newspapers or children's clothing	2
Retailing pharmaceuticals, medical goods, cosmetics or toiletries	6
Retailing that is not listed elsewhere	5.5
Retailing vehicles or fuel	5.5

Secretarial services	9.5
Social work	8
Sport or recreation	6
Transport or storage, including couriers, freight, removals and taxis	8
Travel agency	8
Veterinary medicine	8
Wholesaling agricultural products	5.5
Wholesaling food	5
Wholesaling that is not listed elsewhere	6

“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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