

VAT

Flat Rate scheme for small Business

The Government are keen to simplify the VAT system for small business and have introduced a system called the flat rate scheme, which has a much simpler method of calculation.

In practise, the vast majority of businesses, that have any reasonable amounts of purchase VAT to recover, will not benefit significantly by using the Flat Rate Scheme (FRS). However they may wish to move to it, due to the reduction in calculation required and stress caused by the existing VAT system.

Those that will benefit are service providers, who have little or no purchase tax to recover, and it is in their best interests to register.

The booklet to accompany the FRS is Notice 733.

If a trader is about to start trading and wants to register for VAT, it is worth knowing that there is a 1% reduction in the flat rate percentage applied, for the first year only, the VAT600 FRS needs to be sent with the VAT1.

The 1% reduction **does not** apply to businesses that have switched over to the FRS from the existing VAT system.

To apply, the business must comply with the following: -

Taxable turnover (ex VAT and anticipated sales of Capital assets) of not more than £150,000.

(Total turnover (ex VAT and anticipated sales of Capital assets) and the value of exempt supplies, and any other income receivable i.e. non-business income such as educational activities of not more than £187,500- upto 5th April 2009). The second VAT test has been removed altogether from 6th April 2009 leaving only the first test.

The business must deregister once the VAT inclusive turnover for the year has exceeded £225,000, or if you have grounds to believe that the income will exceed a rolling total of £225,000 in the next 30 days.

The HMRC website has a ready reckoner, which is useful to use as a comparison for the scheme, and also to find your % to apply.

<http://vatreadyreckoner.hmrc.gov.uk/>

This gives a wide range of sectors and the % rates to apply.

Once happy with the % chosen, the site will confirm that % and then it continues to

- Calculate your payments
- Your can either
 - Estimate the t/o
 - Add in figures from previous VAT returns
- The calculation uses VAT figures from the VAT return boxes
- The resulting calculation, is for the Quarter if you have used a VAT return, even though the words say “year”

The VAT on the flat rate scheme is calculated using the Gross Turnover X % rate.

To apply the flat rate scheme the business must

1. Apply for permission to operate the scheme using a VAT600 FRS.
2. Still issue a VAT invoice for sales, as before with 15% sales tax.

The application form can be found on the website, and can be e mailed, or posted to the usual address, which is Post code specific.

The form can also be completed by ringing the National Advice Service (0845 010 9000) and asking them to complete an application for you. This is a new service at the point of the document update, and some of the operatives are not familiar with the fact that the filing can be done via the NAS.

The boxes of the VAT Return (VAT100) are completed as below

Box 1	Total VAT inclusive turnover x FRS %
Box 4	Blank (Unless you have made a capital purchase [not w/o in first year] of £2000 or more)
Box 6	Total Turnover including VAT
Box 7	Blank (Unless you have claimed in Box 4, then fill in the tax Exclusive amount.)

For all the other boxes, fill in as usual.

The scheme may only be used on receipt of the letter giving details of start date from HMRC.

To leave the scheme, notice must be given in writing, and the business cannot rejoin for 12 months.

The business **must** come out of FRS scheme when the taxable turnover exceeds £225,000.

Questions:

Question 1. What if the business straddles 2 or more sectors?

HMCE says in Notice 733 section 6.5 that the percentage that applies to the "main business activity" must be applied, as measured by turnover.

Question 2 What if the flat rates change?

HMCE says in Notice 733 section 6.8-6.10 that they will publish new tables, and these will have dates from which the new rates will apply. If this falls within a VAT period, then 2 calculations will be necessary. The NEW tables from 1st December are at the end of this document.

NB:

The records required for the flat rate scheme **do not** need to be analysed as Gross, VAT and Net separately.

From April 2009

- Businesses will be eligible to use the Scheme as long as their taxable turnover does not exceed £150,000. The second test which previously required all turnover to remain below £187,500 will be removed.
- Once in the FRS, businesses must check that income does not exceed £225,000 to be eligible to remain in the scheme. From 1st April 2009 the income test will be based on the method the business uses to calculate its Flat Rate Percentage. This means that a business can use cash accounting to determine whether it is eligible to remain in the scheme.

The Flat Rate Registration Office can be contacted on 01472 247376

Flat Rate from 1st December 2008 to 31st December 2009

Category of business	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

Category of business	Appropriate percentage
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”.

Flat Rate Scheme percentage rates from 1 January 2010

These rates apply from 1 January 2010 until further notice.

Category of business	Appropriate percentage
Accountancy or book-keeping	13
Advertising	10
Agricultural services	10
Any other activity not listed elsewhere	10.5
Architect, civil and structural engineer or surveyor	13
Boarding or care of animals	10.5
Business services that are not listed elsewhere	10.5
Catering services including restaurants and takeaways	11
Computer and IT consultancy or data processing	13
Computer repair services	9.5
Dealing in waste or scrap	9.5
Entertainment or journalism	11
Estate agency or property management services	10.5
Farming or agriculture that is not listed elsewhere	6
Film, radio, television or video production	11.5
Financial services	12
Forestry or fishing	9.5
General building or construction services*	8.5
Hairdressing or other beauty treatment services	11.5
Hiring or renting goods	8.5
Hotel or accommodation	9.5
Investigation or security	10.5
Labour-only building or construction services*	13

Laundry or dry-cleaning services	10.5
Lawyer or legal services	13
Library, archive, museum or other cultural activity	8.5
Management consultancy	12.5
Manufacturing fabricated metal products	9.5
Manufacturing food	8
Manufacturing that is not listed elsewhere	8.5
Manufacturing yarn, textiles or clothing	8
Membership organisation	7
Mining or quarrying	9
Packaging	8
Photography	10
Post offices	4.5
Printing	7.5
Publishing	10
Pubs	6
Real estate activity not listed elsewhere	12.5
Repairing personal or household goods	9
Repairing vehicles	7.5
Retailing food, confectionary, tobacco, newspapers or children's clothing	3.5
Retailing pharmaceuticals, medical goods, cosmetics or toiletries	7
Retailing that is not listed elsewhere	6.5
Retailing vehicles or fuel	6
Secretarial services	11.5
Social work	10
Sport or recreation	7.5

Transport or storage, including couriers, freight, removals and taxis	9
Travel agency	9.5
Veterinary medicine	10
Wholesaling agricultural products	7
Wholesaling food	6.5
Wholesaling that is not listed elsewhere	7.5

*'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'

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
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
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

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