

VAT Flat Rate Scheme

This scheme is designed to reduce the cost of complying with VAT obligations by simplifying the way small businesses calculate their VAT. It is available to businesses who expect their taxable turnover in the next 12 months to be no more than £150,000 (£191,000 including VAT).

Taxable turnover is calculated by looking at the total of supplies at the positive and zero rates, excluding VAT and the value of any capital assets expected to be sold.

The flat rate scheme saves time by removing the need to calculate and record output tax and input tax in calculating the net VAT due to HM Revenue & Customs. The VAT in a period is calculated by applying the flat rate percentage to the tax inclusive business income for the period.

Following changes made in the 2010 Emergency Budget Report, the flat rates were amended to take account of the increase in the standard rate from 17.5% to 20%.

HM Revenue & Customs has reviewed the rates to check that they accurately reflect the VAT paid by businesses in each sector.

Category of business carried on	Appropriate percentage
Retail of food, newspapers, confectionery	4
Retail of vehicles or fuel	6.5
Photography	11
Estate agency	12
Hairdressing	13
Legal services	14.5
Computer and IT consultancy	14.5

The flat rate to be used depends on which trade sector most accurately reflects any particular business. If a business includes supplies in two or more sectors, the percentage to be used is that appropriate to the main business activity as measured by expected turnover in the year ahead.

If you start to use the flat rate scheme within a year of becoming VAT registered, you can reduce the VAT by one percentage point until the first anniversary of your registration.

If you are making supplies to other VAT registered businesses, you give them a VAT invoice charging VAT at the normal rate for the supply (not the flat rate percentage).

Most traders with qualifying turnover are eligible to join the scheme, but there are a number of exclusions designed to prevent abuse of the scheme as well as a few to avoid complex interaction with other schemes. The scheme is optional, but traders wishing to join should complete Form VAT 600 (FRS) (which can be printed off the HMRC website at www.hmrc.gov.uk).

Once you join the scheme you can stay in it until your total business income is more than £230,000.