

FACTSHEET 26

Vat: What Is The Flat Rate Scheme For Small Businesses?

In an attempt to ease the Vat accounting burden on small businesses with annual taxable turnovers of £150,000 or less Customs introduced a new optional flat rate scheme on 25 April 2002.

Existing Vat registered traders or new businesses applying for registration who want to use the scheme can do so by completing application Form VAT600. The scheme reduces the requirement to keep detailed records of purchases and sales. Traders are only required to :

Retain a Vat Account

Retain a record of the flat rate calculation

Retain a record of the flat rate percentage used

Retain a record of the flat rate turnover for the period ; and

Retain copies of invoices issued.

How The Scheme Operates

The Vat payable is calculated using a flat rate percentage applied to the turnover. The particular percentage to be used depends on the trade sector in which the business operates and ranges from 2 per cent to 13.5 per cent. Input Vat is not claimed on any purchase invoices. The scheme is clearly therefore not suitable for traders who are in a repayment business. The flat rate percentage is applied to the gross takings which could be recorded as daily gross takings, sales invoice listings or cash book entries.

When in the scheme a trader will be able to operate it until its annual taxable turnover exceeds £225,000 in its accounting year or where there are reasonable grounds to expect the turnover to exceed £225,000 in the next thirty days.

All business records still require to be retained for six years. Normal sales invoices must continue to be issued to customers. Capital expenditure exceeding £2,000 inclusive of Vat must be claimed outside of the scheme and any Vat on the subsequent sale of the asset must also be dealt with outside the scheme.

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Is The Scheme For Me ?

For existing Vat registered traders who comply with the scheme's entry requirements a good check is to revisit the last twelve months Vat returns and calculate the flat rate percentage applied to gross turnover. Compare this figure with the Vat actually paid to Customs, adjusting for capital expenditure as noted above, to determine if you would have been better or worse off had you been in the scheme. Your comparison should also reflect the reduced administrative burden of operating the scheme.

Flat Rate Percentages : Examples

Some examples of the flat rate percentages are :

Manufacture of food – 7.5 per cent
Photography – 9.5 per cent
Hotels – 9.5 per cent
Restaurants, Takeaways or Catering Services – 12.0 per cent
Architects – 12.5 per cent
Lawyers – 13.0 per cent
Computer Consultancy – 13.0 per cent
Retail of food – 2 per cent

These are only a few examples taken from Custom's full list.

For further advice and before taking any action please give me a call.

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