

IN-Formed: Flat Rate VAT Scheme



What is the Flat Rate Scheme for VAT?

The government introduced the flat rate VAT scheme as an incentive to help simplify taxes and the paperwork involved in submitting quarterly returns.

Who can register?

Your company is eligible to use Flat Rate VAT accounting if you believe it will turn over less than £150,000 in taxable goods and services over the next 12 month period.

You cannot join if you are eligible to join a VAT group, are an associate of another company, have been convicted of an offence in relation to VAT or are in a VAT repayment position.

How do I benefit?

While you will continue to charge VAT at the appropriate rate for your services (usually 20% but 5% for gas and electricity services, and excepting specialist schemes - do check with your accountant which rate you should be charging), you will be able to account for it

differently within your business.

This means that instead of working out your exact VAT expenditure for each quarter, you can select the category into which your business falls from a list provided by HMRC. This will give you a percentage rate to use for accounting purposes, which we then apply to your company's total turnover inclusive of VAT on your quarterly return - see below for what this means in real terms.

In addition to the potential financial saving, you will also benefit from the time saved recording your quarterly VAT on sales and purchases, and better cash-flow management as you can more easily calculate in advance how much VAT you owe on your income.

What does this mean in practice?

As an example, your company would invoice and receive VAT at the standard rate, in this instance 20%, but then pay VAT to HMRC at its flat rate percentage - some of our engineering contractors are on rates as low as 10.5%.

Additionally, in your first year of VAT registration, your company will be allowed an additional 1% reduction to this percentage until the day before the first anniversary of your VAT registration - meaning our newer engineering contractors are paying only 9.5% VAT for their first 12 months.

Client Case Study



Our client works as a translator (flat rate 12%) and had been completing returns under the standard scheme for 2 years.

Following our advice, they have moved to Flat Rate VAT and are saving VAT of approximately £1,800 per annum, thus increasing their net income by this amount each year.

To illustrate:

12 months prior to Flat Rate

Sales:	£60,000 plus VAT	(£12,000)
Purchases:	£7,500 plus VAT	(£1,500)
Annual VAT Bill:		£10,500

Flat Rate VAT Scheme

Annual VAT Bill - Year 1 (11% FRV):		£7,920 (saving of £2,580)
Annual VAT Bill - Year 2 onwards (12% FRV):		£8,640 (saving of £1,860)



If we can be of further assistance please contact us via:



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How do I register for my Flat Rate scheme for VAT?

You can join the Flat Rate Scheme when you register for VAT or at the beginning of any VAT accounting period, either via HMRC Online Services at registration, or you can download and complete an application form which you can send to HMRC by post or email. Alternatively we can do this for you. Do remember to keep a copy of your application until HMRC have confirmed to you in writing that you have been successful in joining the scheme, and the date you can start to use it for accounting purposes. This will usually be the beginning of the VAT period following receipt of application, unless you applied close to the time you registered for VAT, when you will be allowed to use the scheme from your VAT registration date.

What else should I consider?

You should always consider the VAT lost on expenses and purchases against the financial benefit of using the flat rate percentage. It isn't always beneficial to join the scheme, for example if a proportion of your supplies are exempt and therefore zero rated. Or if you make significant purchases, such as non-reimbursable accommodation costs.

What is the correct rate for my company?

HMRC issues guidance as to which rate you should choose from a range of percentages corresponding to different business sectors. You must choose the sector that best describes your main business activity for the coming year and can only use one percentage. Therefore if you work in more

than one business sector, you must use the one that represents the greater part of your turnover. We have listed some of the more common rates below, but do check the HMRC website for a full guide to VAT with an up to date list of sectors and flat rate percentages. Remember you are advised to seek guidance from the HMRC directly, or a qualified professional, to determine the best rate to suit your individual position.

Architect, civil and structural engineer or surveyor	14.5%
Advertising	11%
Computer and IT consultancy or data processing	14.5%
Estate agency or property management services	12%
Hairdressing or other beauty treatment services	13%
Management consultancy	14%

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