



The Carbon Accountancy Guide to the Flat Rate VAT Scheme

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Disclaimer

When considering VAT it is important to understand the implications. This guide sets out the general rules applicable to VAT. It is not intended to be a substitute for proper professional advice from your accountant or tax advisor.

Flat Rate Scheme

Using standard VAT accounting, the VAT you pay to HM Revenue & Customs or claim back from them is the difference between the VAT you charge your customers and the VAT you pay on your purchases.

Using the Flat Rate Scheme you pay VAT as a fixed percentage of your VAT inclusive turnover. The actual percentage you use depends on your type of business you run.

You can join the Flat Rate Scheme for VAT and pay VAT on the flat rate percentage of your turnover if:

- Your estimated VAT taxable turnover - excluding VAT - in the next year will be £150,000 or less.
- Your VAT taxable turnover is the total of everything that you sell during the year that is liable for VAT. It includes standard, reduced rate or zero rate sales or other supplies. It excludes the actual VAT that you charge, VAT exempt sales and sales of any capital assets.

Generally you don't reclaim any of the VAT that you pay on purchases, although you may be able to claim back the VAT on capital assets worth more than £2,000.

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

Benefits of Flat Rate Scheme

Using the Flat Rate Scheme you can save time and smooth your cash flow.

- You don't have to record the VAT that you charge on every sale and purchase, as you do with standard VAT accounting. This can mean you spending less time on the books, and more time on your business. You do need to show VAT separately on your invoices, just as you do for normal VAT accounting.
- If you are in your first year of VAT registration you get a one per cent reduction in your flat rate percentage until the day before the first anniversary you became VAT registered.
- You no longer have to work out what VAT on purchases you can and can't reclaim.
- With less chance of mistakes, you have fewer worries about getting your VAT right.



- You always know what percentage of your takings you will have to pay to HMRC.
- If you have a business with very low overheads – consultancy or IT consultancy for example then you may make a profit on the Flat Rate Scheme – this profit is however taxable.