

VAT Flat Rate Scheme

The amount of VAT a business pays or claims back from HM Revenue and Customs (HMRC) is usually the difference between the VAT charged by the business to customers and the VAT the business pays on their own purchases.

The Flat Rate Scheme is different you pay a fixed rate of VAT to HMRC and you keep the difference between what you charge your customers and pay to HMRC and you cannot reclaim the VAT on your purchases - except for certain capital assets over £2,000.

In order to join the Flat Rate scheme your VAT turnover must be £150,000 or less (excluding VAT), and you must apply to HMRC

Join or leave the scheme

You can join the scheme:

- online (<https://www.gov.uk/vat-registration>) - when you register for VAT
- by post - fill in VAT600 FRS and send it to the address on the form (or use VAT600 AA/FRS to apply for the Annual Accounting Scheme).

You will get confirmation you have joined the scheme through your online VAT account or in the post if you don't apply online.

You must leave the scheme if:

- You're no longer eligible to be in it.
- On the anniversary of joining when your turnover for the previous 12 months was more than £230,000 (including VAT)
- You expect your income in the next 30 days alone to exceed £230,000.00 (including VAT)

You can choose to leave the scheme at any time. However, you must leave if you are no longer eligible. To leave the scheme write to HMRC at

Imperial House, 77 Victoria Street, Grimsby, Lincolnshire DN31 1DB

Once you leave the Flat Rate scheme you must wait 12 months before you can re-join.



Eligibility

You can join the scheme if:

- You're a VAT registered business
- You expect your VAT taxable turnover to be £150,000 or less (excluding VAT) in the next 12 months.

VAT Taxable turnover is the total of everything sold that isn't VAT Exempt

Exceptions

You can't use the scheme if:

- you left the scheme in the last 12 months
- you committed a VAT offence in the last 12 months, eg VAT evasion
- you joined (or were eligible to join) a VAT group in the last 24 months
- you registered for VAT as a business division in the last 24 months
- your business is closely associated with another business
- you've joined a margin or capital goods VAT scheme.

You cannot use the scheme with Cash Accounting Scheme.

Work out your Flat Rate

The VAT flat rate you use usually depends on your business type. You may pay a different rate if you only spend a small amount on goods.

You get a 1% discount if you're in your first year as a VAT-registered business.

If you spend a small amount on goods

You're classed as a 'limited cost business' if your goods cost less than either:

- 2% of your turnover
- £1,000 a year (if your costs are more than 2%)

This means you pay a higher rate of 16.5%.

You can calculate if you need to pay the higher rate and work out which goods count as costs. If you aren't a limited cost business, you use your business type to work out your flat rate.



Type of business	Current VAT flat rate (%)
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 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
Entertainment or journalism	12.5
Estate agency or property management services	12
Farming or agriculture 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



Type of business	Current VAT flat rate (%)
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 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
Retail food, confectionery/tobacco/newspapers/children's clothing	4
Retailing pharmaceuticals, medical goods, cosmetics or toiletries	8
Retailing not listed elsewhere	7.5



Type of business	Current VAT flat rate (%)
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

What you Pay

You calculate the tax you pay by multiplying your VAT flat rate by your 'VAT inclusive turnover'.

Example

You bill a customer for £1,000, adding VAT at 20% to make £1,200 in total. You're a caterer, so the VAT flat rate for your business is 12.5%.

Your flat rate payment will be 12.5% of £1,200, or £150.

VAT inclusive turnover is different from standard VAT turnover. As well as business income (such as from sales), it includes the VAT paid on that income.

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