



VAT Flat Rate Scheme (FRS)

Introduction

If your supplies are standard-rated the FRS allows your business to charge VAT to your customers at 20% on the net invoice value and, depending on which industry sector you fall into, you pay to HM Revenue & Customs a percentage of the gross invoice (including VAT).

To determine the FRS percentage that applies to your business you should look at the list of percentages at the end of this factsheet.

Where your business type is not listed, written confirmation should be obtained from HMRC.

If you receive regular repayments of VAT you cannot join the scheme.

N.B.

The scheme is not suitable for businesses whose supplies are zero-rated or exempt as all income will be subject to VAT if you use the FRS scheme, including bank interest and insurance claims paid.

1% Reduction

Newly registered businesses joining the scheme may take 1% off the flat rate that applies to them for all turnover they have until the day before the first anniversary of them becoming VAT registered.

Example

A business undertakes work for a customer and issues an invoice for £10,000. VAT at 20% is added to the invoice and the customer pays over £12,000. The business falls into the 11% industry sector and therefore calculates VAT on the total received, £12,000 at 11%, i.e. £1,320.00. This is the amount payable to HMRC.

As you can see the business collected VAT of £2,000 but paid over £1,320.00. The difference of £680.00 is retained by the business to "compensate" for being unable to claim the input VAT on goods and services the business has purchased.

Flat Rate Scheme percentage rates from 4th January 2011 (these apply until further notice)

Category or Business	Approp' %	Category or Business	Approp' %	Category or Business	Approp' %	Category or Business	Approp' %
Accountancy or bookkeeping	14.5	Film, radio, television or video production	13	Manufacturing food	9	Retailing food, confectionary, tobacco, newspapers or children's clothing	4
Advertising	11	Financial Services	13.5	Manufacturing not listed elsewhere	9.5	Retailing pharmaceuticals, medical goods, cosmetics or toiletries	8
Agricultural services	11	Forestry or fishing	10.5	Manufacturing yarn, textiles or clothing	9	Retailing not listed elsewhere	7.5
Any other activity not listed elsewhere	12	General building or construction services *	9.5	Membership organisation	8	Retailing vehicles or fuel	6.5
Architect, civil & structural engineer or surveyor	14.5	Hairdressing or other beauty treatment services	13	Mining or quarrying	10	Secretarial services	13
Boarding or care of animals	12	Hiring or renting goods	9.5	Packaging	9	Social work	11
Business services that are not listed elsewhere	12	Hotel or accommodation	10.5	Photography	11	Sport or recreation	8.5
Catering services including restaurants and takeaways	12.5	Investigation or security	12	Post Offices	5	Transport or storage, incl. couriers, freight, removals & taxis	10
Computer & IT consultancy or data processing	14.5	Labour-only building or construction services*	14.5	Printing	8.5	Travel agency	10.5
Computer repair services	10.5	Laundry or dry-cleaning services	12	Publishing	11	Veterinary medicine	11
Dealing in waste or scrap	10.5	Lawyer or legal services	14.5	Pubs	6.5	Wholesale agricultural products	8
Entertainment or journalism	12.5	Library, archive, museum or other cultural activity	9.5	Real estate activity not listed elsewhere	14	Wholesaling food	7.5
Estate agency or property management services	12	Management consultancy	14	Repairing personal or household goods	10	Wholesaling that is not listed elsewhere	8.5
Farming or agriculture that is not listed elsewhere	6.5	Manufacturing fabricated metal products	10.5	Repairing vehicles	8.5		

* 'Labour-only building or construction services' means building or construction services where the value of materials supplied is less than 10 per cent of relevant turnover from such services; any other building or construction services are 'general building or construction services'

If you think that your business may benefit from using the VAT Flat Rate Scheme or you require more information, you should contact us for further details.

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