



HM CUSTOMS AND EXCISE
<http://www.hmce.gov.uk>

Notice 733

Flat rate scheme for small businesses

February 2004

This notice cancels and replaces Notice 733 (April 2003). Details of the changes to the previous version can be found in paragraph 1.2 of this notice.

Further help and advice

If you need general advice or more copies of Customs and Excise notices, please ring the **National Advice Service** on **0845 010 9000**. You can call between 8.00 am and 8.00 pm, Monday to Friday.

If you have **hearing difficulties**, please ring the **Textphone** service on **0845 000 0200**.

If you would like to speak to someone in **Welsh**, please ring **0845 010 0300**, between 8.00 am and 6.00 pm, Monday to Friday.

All calls are charged at the local rate within the UK. Charges may differ for mobile phones.

The legal basis for the flat rate scheme is in the VAT Regulations 1995, regulations 55A-55V, 57A and 69A. Parts of this notice have the force of law under those regulations. These parts are indicated by being placed in a box as in the example shown below.

EXAMPLE:

The following rule has the force of law.

If you receive a net payment, you must include the full value before such deductions (and including VAT) in your scheme turnover. This will usually be the value shown on your sales invoice.

Other notices on this or related subjects:

732 Annual accounting

Contents

1.	Introduction.....	5
1.1	What is this notice about?	5
1.2	What has changed?.....	5
2.	Basics of the flat rate scheme.....	6
2.1	What is the flat rate scheme?	6
2.2	How will it help me?	6
2.3	Might I pay more VAT by using the flat rate scheme?	6
2.4	Who can join the scheme?	6
2.5	Who cannot join the scheme?	6
2.6	How do I join the scheme?	6
3.	How the scheme works.....	7
3.1	How does the scheme differ from normal VAT rules?.....	7
3.2	How are the flat rates calculated?	7
3.3	How do I calculate my flat rate turnover?	7
3.4	How do I calculate the VAT due?	7
3.5	What is the 1% reduction for new VAT registrations?.....	7
3.6	How do I recover VAT?	7
3.7	Can I recover VAT on the stocks and assets I have on hand at registration?	7
3.8	What if I buy an expensive capital asset?	7
3.9	Must I issue VAT invoices?	8
3.10	Can I use this scheme in conjunction with other schemes?.....	8
4.	Eligibility and conditions of the scheme.....	9
4.1	Who can join the scheme?	9
4.2	How do I calculate my taxable turnover for the first turnover test to join the scheme?.....	9
4.3	How do I calculate my total income for the second turnover test to join the scheme?	9
4.4	How do I know what my future turnover is going to be?	9
4.5	What if my future turnover rises over my forecast?.....	9
4.6	What if my turnover rises once I have joined the scheme?.....	9
4.7	Who cannot join the scheme?	9
4.8	I usually receive repayments from you; can I use the flat rate scheme?	10
5.	How to apply for the flat rate scheme	11
5.1	How can I apply?	11
5.2	How do I fill in the application form?.....	11
5.3	Where do I send the completed application form?.....	12
5.4	Do I need to keep a copy of my application?	12
5.5	When can I apply?.....	12
5.6	When can I start to use the scheme?	12
5.7	What if I don't receive a reply to my application?	12
5.8	What if I want to use both the flat rate scheme and the annual accounting scheme?	12
6.	Determining your flat rate percentage	13
6.1	Which flat rate applies to my business?	13
6.2	What if you disagree with my choice of sector?	13
6.3	The table of trade sectors and flat rates	13
6.4	How do I operate the 1% reduction?	14
6.5	What if my business falls into more than one of the sectors?.....	15
6.6	What happens if the balance between parts of my business changes?	15
6.7	What will happen if I start or stop a business activity during the year?.....	15
6.8	What happens if the Table of flat rates changes?	15
6.9	When must I start using the new Table?	16
6.10	How do I deal with two flat rates in one VAT period?.....	16
6.11	What if the start date for a new table coincides with changes to my business?	16
7.	Using the scheme and keeping records	17
7.1	How do I work out my flat rate turnover?.....	17
7.2	What must I include in my flat rate turnover?	17
7.3	What income do I exclude from my flat rate turnover?.....	17
7.4	Do I need to keep any special records?	18

7.5	Must I keep a VAT account?	18
7.6	Do I still need to issue VAT sales invoices?	18
7.7	How do I calculate the VAT on these invoices?	18
7.8	How do I fill in my VAT return?	18
7.9	How do I pay my VAT using the flat rate scheme?	19
7.10	Can I send the VAT return electronically?	19
7.11	Do penalties and surcharges apply to flat rate scheme users?	19
7.12	What if my business grows?	19
7.13	What if the increase in my turnover is a one-off?	19
7.14	What if the nature of my business changes?	19
7.15	What if the business change makes me ineligible to use the flat rate scheme?	20
8.	Leaving the scheme	21
8.1	When can I leave the scheme?	21
8.2	When must I leave the scheme?	21
8.3	How often do I have to check my turnover?	21
8.4	Can you withdraw the scheme from me?	21
8.5	Can I rejoin the scheme?	21
8.6	What must I do after leaving the scheme?	22
8.7	What if I cease to use the flat rate scheme in the middle of a VAT accounting period?	22
8.8	Can I recover VAT on increased stock on hand when I leave the scheme?	22
8.9	What are the conditions of the optional stock adjustment?	22
8.10	How do I make the stock adjustment?	22
9.	The basic turnover method	24
9.1	How do I work the basic turnover method?	24
10.	The cash based turnover method	25
10.1	How do I use the cash based turnover method?	25
10.2	What do I do if I was using the cash accounting scheme in Notice 731 immediately before using the cash based method?	25
10.3	What is the time of payment under the cash basis?	25
10.4	What if I receive a payment "net of deductions"?	25
10.5	What if I receive payments in kind (for example, barter, part exchange)?	25
10.6	What if I want to stop using the cash based method?	26
11.	The retailer's turnover method	27
11.1	What is the retailer's turnover method?	27
11.2	What do I need to add to my daily takings to get my flat rate turnover?	27
11.3	What do I include in daily takings?	27
11.4	What non-cash sales do I include in daily takings?	27
11.5	May I make any deductions from my daily takings?	27
11.6	What are the rules for making adjustments to my daily takings?	28
11.7	Are there other rules about daily takings?	28
12.	Special circumstances	29
12.1	Scope of this section	29
12.2	What if I sell goods to other Member States of the European Union (EU)?	29
12.3	What if I sell services to other Member States of the EU?	29
12.4	What if I buy goods from other Member States of the EU?	29
12.5	How does flat rate scheme affect reverse charges on services?	29
12.6	Do I have to make any partial exemption calculations?	29
12.7	I am a Name at Lloyd's, how do I use the scheme?	29
12.8	What restrictions are there on Barristers accounting methods?	29
12.9	Do I need to pay road fuel scale charges?	29
12.10	How does the flat rate scheme affect bad debt relief?	29
12.11	How do I make the additional bad debt relief adjustment for users of the cash based method?	30
12.12	How do I deal with second hand goods under the scheme?	30
12.13	How do I deal with the purchase of a capital asset?	30
12.14	How do I deal with selling a capital asset?	30
12.15	How do I deal with disbursements made on behalf of my customers?	31
13.	Law, avoidance and appeals	32
13.1	Where can I find the Law covering the flat rate scheme?	32
13.2	Why are there so many complex rules in a scheme for small businesses?	32

13.3	Can I use the scheme if I am in a VAT group?.....	32
13.4	What if I intend or expect to buy assets that are covered by the capital goods scheme?	32
13.5	What is an associated person?	32
13.6	Can an "associated" business use the scheme?	32
13.7	I have a close connection with another business; does this mean that we are "associated"?.....	33
13.8	I am unsure if my circumstances constitute "association"?.....	33
13.9	When do I have to make a self-supply on leaving the scheme?	33
13.10	What do I do if I disagree with your decision about my use of the flat rate scheme?	33
13.11	I have appealed to the VAT and Duties Tribunal, may I continue to use the scheme?	33
14.	VAT 600 FRS: Application to join the flat rate scheme	34
15.	Changes to the table of trade sectors and flat rates	35
15.1	When did the changes occur?	35
15.2	What sectors are affected by the changes?	35
15.3	How do the new names relate to the old sectors?	35

1. Introduction

1.1 What is this notice about?

This notice describes the flat rate scheme for small businesses introduced in Budget 2002. The first two sections give an overview of the scheme. The remainder of the notice explains the detailed rules about applying for, and using, the scheme. Except where detailed in this notice the normal VAT accounting rules apply. **If you can't find the answer to your question in this notice, remember the basics of VAT can be found in Notice 700 *The VAT Guide*.**

1.2 What has changed?

This notice has been revised and updated and replaces the April 2003 edition. Some changes have been made to improve the layout and clarity but changes to the way the scheme operates are:

- the new Table of trade sectors and flat rates you must use from 1 January 2004;
- details of the operation of the 1% reduction in flat rate when you are using the scheme in your first year of VAT registration;
- expansion of the ways in which you can apply to join the scheme;
- further detail on how you claim input tax outside the scheme when you buy an expensive capital asset;
- a description of the barrister's accounting method that cannot be used with the scheme; and
- at the back of the book the changes to the Table showing what trade sectors have substantial name changes and how the rates have changed if your VAT return straddles 1 January 2004.

You can get details of any changes to this notice since February 2004 either on our Internet website at www.hmce.gov.uk or by telephoning our National Advice Service on 0845 010 9000.

This notice and any others mentioned in the text are available both on paper and on our website.

Those parts of this notice that have the force of law are marked as such.

2. Basics of the flat rate scheme

2.1 What is the flat rate scheme?

The flat rate scheme allows small businesses an alternative to the normal transaction based method of VAT accounting. Businesses using it calculate their VAT payment as a percentage of their VAT-inclusive turnover.

2.2 How will it help me?

The aim of the scheme is to simplify the way small businesses account for VAT so that you will spend less time and money keeping VAT records and calculating the VAT payable to us. If you use the flat rate scheme together with the annual accounting scheme it can make a significant difference to the cost of complying with VAT regulations. The terms and conditions of the annual accounting scheme can be found in Notice 732 *Annual accounting*.

2.3 Might I pay more VAT by using the flat rate scheme?

Some businesses will pay more and some will pay less VAT by using the scheme. This is because the flat rates are averages. You can estimate the effect on your business by using the ready reckoner at <http://www.hmce.gov.uk/business/services/vat-flat-rate.htm>.

The accounting simplifications, however, apply to all businesses that use the scheme and the time saved should be taken into account when deciding whether or not to join the scheme.

2.4 Who can join the scheme?

The scheme is open to small businesses whose annual taxable turnover (not including VAT) does not exceed £150,000 and whose total turnover (including the value of exempt and non-taxable income but not including VAT) does not exceed £187,500 a year. A detailed explanation of the conditions of the scheme is in Section 4.

2.5 Who cannot join the scheme?

There are some exclusions. You cannot use the scheme if you:

- already use any of the schemes for second-hand goods, tour operators or capital goods;
- have been guilty of a VAT offence or dishonesty in the last 12 months;
- have been 'associated' (see paragraph 13.5) with another business or have registered as part of a VAT group or in VAT divisions in the last 24 months.

For a complete list of the exclusions see paragraph 4.7.

2.6 How do I join the scheme?

There is an application form in section 14. Paragraph 5.2 explains how to complete the form and paragraph 5.3 tells you where to send it. You may also apply by telephone or e-mail; see paragraph 5.1 for details.

3. How the scheme works

3.1 How does the scheme differ from normal VAT rules?

Under the normal VAT rules you have to identify the VAT on each sale you make, record the value and VAT separately and pay the VAT to us as output tax. Similarly you have to identify the VAT included in the things your business buys, record the value and the VAT separately and claim the VAT back from us as input tax.

Under the flat rate scheme you do not have to identify, or separately record, the VAT on your sales and purchases to calculate the VAT you owe to us. You simply record all the supplies your business makes, including exempt supplies, and apply the appropriate flat rate percentage for your trade sector to the total in each period. The result is the VAT you owe to us.

3.2 How are the flat rates calculated?

We calculate the flat rate percentages from the net tax paid by all the businesses that are currently registered for VAT and eligible for the scheme. The net tax paid varies with different trade sectors and so there are a variety of flat rate percentages. The net tax calculated using the flat rate percentage allows for the fact that businesses can usually recover the tax paid on their purchases. Under the flat rate scheme you normally cannot claim input tax (see paragraphs 3.6, 3.7 and 3.8).

Details of the percentages and how to decide which trade sector applies to your business are in Section 6.

3.3 How do I calculate my flat rate turnover?

To calculate your turnover, you record the supplies you make either at the time you invoice your customers or at the time you receive payment. The detailed rules for calculating turnover are in Section 7.

3.4 How do I calculate the VAT due?

At the end of each VAT period, take the VAT inclusive turnover of your business and multiply this by the flat rate percentage for your trade sector. For example, if your business is the repair of motor vehicles and your VAT inclusive turnover for the VAT period is £20,000 the calculation is:

$£20,000 \times 7.5\% = £1500$. So your tax due is £1500.

3.5 What is the 1% reduction for new VAT registrations?

Newly VAT registered businesses use the flat rate for their sector minus 1%. So, if the rate for your sector in Section 6 is 9%, you apply a flat rate of 8% in your first year of VAT registration. Further details are in paragraph 6.4.

3.6 How do I recover VAT?

If you use the scheme you do not make a separate claim for input tax or for VAT on imports or acquisitions. The flat rate percentage includes an allowance for these items. Paragraphs 3.7 and 3.8 explain two exceptions to this rule.

3.7 Can I recover VAT on the stocks and assets I have on hand at registration?

Yes. The normal rules allow you to recover VAT incurred before you were VAT registered subject to some conditions. This allowance works in the same way if you are using the flat rate scheme. Record the claim for eligible VAT in your VAT account.

For details of the recovery of pre-registration VAT see Notice 700/1 *Should I be registered for VAT?*

If you do recover VAT on pre-registration capital assets, any subsequent disposal of those assets has to be accounted for using the normal VAT accounting rules. Add the VAT calculated to your flat rate calculation of VAT due. See paragraph 12.14.

3.8 What if I buy an expensive capital asset?

If you buy a single capital asset with an invoice value, including VAT, of £2,000 or more you can claim the input tax on your VAT return in the normal way.

If you do recover VAT on an expensive capital asset, any subsequent disposal of that asset has to be accounted for using the normal VAT accounting rules. Add the VAT calculated to your flat rate calculation of VAT due. See paragraphs 12.13 and 12.14.

3.9 Must I issue VAT invoices?

If your customers are registered for VAT, follow the normal rules and issue a VAT invoice. The flat rate scheme affects the way you calculate the VAT you owe to us but does not change the VAT rate applicable to your sales. This means that when you issue a VAT invoice, you show VAT on it at the normal rate for that type of supply (not the flat rate percentage).

3.10 Can I use this scheme in conjunction with other schemes?

This table shows which other schemes you can use with the flat rate scheme.

Scheme	May be used with flat rate scheme?	Further information
Annual accounting	Yes	The annual accounting scheme can help reduce the cost of complying with VAT if you use it together with the flat rate scheme. See Notice 732 <i>Annual Accounting</i> .
Cash accounting	No	Although you cannot use the cash accounting scheme and the flat rate scheme together, the flat rate scheme has its own cash based method that is very similar to the cash accounting scheme. See Section 10. If you move from the normal cash accounting scheme to the cash based method of calculating your flat rate income, you do not need to make the adjustment normally required on ceasing to use cash accounting. See paragraph 10.2.
Retail Schemes	No	Although you cannot use a retail scheme and the flat rate scheme together, the flat rate scheme has its own retail based method that is very similar to the ordinary retail schemes. If you want to leave a retail scheme to join the flat rate scheme, simply follow the rules about ceasing to use the retail scheme in Notice 727 <i>Retail schemes</i> .
Margin scheme for second hand goods	No	If you sell a significant proportion of second hand goods using margin schemes or the auctioneers' scheme, the flat rate scheme would be of limited value to your business. This is because the flat rate scheme calculates VAT on the total received for your sale rather than on the margin.

4. Eligibility and conditions of the scheme

4.1 Who can join the scheme?

You can apply to use the scheme if there are reasonable grounds for believing that the following turnover tests are met:

1	Your taxable turnover (not including VAT) in the next year will be £150,000 or less; and
2	Your total business income (not including VAT) in the next year will be £187,500 or less.

4.2 How do I calculate my taxable turnover for the first turnover test to join the scheme?

The flat rate scheme is for small businesses. The first turnover test is the value of your taxable supplies excluding VAT. For the first test, exclude any anticipated sales of capital assets but always include **all** of the following:

- the VAT exclusive value of standard rate, zero rate and reduced rate supplies;
- the VAT exclusive turnover from the sale of second hand goods sold outside the margin scheme; and
- any sales of investment gold that are covered by the VAT Act, Section 55. See Notice 701/21 *Gold*

4.3 How do I calculate my total income for the second turnover test to join the scheme?

The second turnover test is the value (excluding VAT) of all your business supplies except anticipated sales of capital assets. This includes, in addition to your taxable supplies, (calculated in paragraph 4.2) **both** of the following:

- the value of any exempt supplies, such as rent or lottery commission; and
- any other income received or receivable by your business. This includes any non-business income such as that from charitable or educational activities.

Note: non-business income is included in the joining test because the scheme is for small businesses. When you use the scheme, non-business income is not included in the VAT inclusive turnover to which the flat rate applies.

4.4 How do I know what my future turnover is going to be?

You may forecast your future turnover in any reasonable way. If you have been registered for VAT for 12 months or more, the turnover declared on your returns may be a reasonable guide but take into account any proposed or expected changes. If you are not VAT registered when you apply for the scheme, you may forecast your turnover by looking at:

- any period of trading before you join the scheme or registered for VAT;
- the turnover of the previous business owner; or
- information on business plans or loan applications.

4.5 What if my future turnover rises over my forecast?

However you estimate your future turnover, we will not penalise you provided there were reasonable grounds for what you forecast. It is sensible, therefore, to keep a record of what figures you used to calculate your future turnover.

If your forecast of turnover had no reasonable basis, you may be excluded from the scheme immediately or even from the date your ineligible use began.

4.6 What if my turnover rises once I have joined the scheme?

You may stay in the scheme provided your total VAT inclusive turnover for the year just gone does not exceed £225,000. Make this check on each anniversary of your business joining the flat rate scheme. Additionally, you must leave the scheme if your income increases so that there are grounds for believing it will exceed £225,000 in the next 30 days alone.

Further details of these rules are in Section 8.

4.7 Who cannot join the scheme?

You cannot use the scheme if **any** of the following apply:

- you are not registered for VAT;

- you use the second-hand margin scheme or the auctioneers' scheme;
- you are required to use the tour operator's margin scheme;
- you are required to operate the Capital Goods Scheme in respect of certain capital items (see paragraph 13.4);
- you have stopped using the flat rate scheme in the 12 months before the date of your new application;
- in the 12 months before your application you have either:
 - accepted a compound penalty offer or been convicted of an offence in connection with VAT; or
 - been assessed with a penalty for conduct involving dishonesty;
- you are, or within the past 24 months have been, registered for VAT in the name of either a:
 - VAT group; or
 - division;
- you are, or within the past 24 months have been, eligible for VAT group treatment (see paragraph 13.3);
- your business is 'associated' with another one in the special way explained in paragraph 13.5.

4.8 I usually receive repayments from you; can I use the flat rate scheme?

No. The flat rate scheme only calculates VAT due to us and so is unsuitable where you regularly receive payments from us. This does not stop a VAT return from a business on the scheme from being a claim for VAT but these cases will be very rare.

5. How to apply for the flat rate scheme

5.1 How can I apply?

By post

There is an application form in section 14 of this notice or you can download a version from the web (see the link below under By e-mail). You do not have to send in the form by e-mail, you can complete it on your computer print it off, sign it and post it if you prefer. Post applications should be sent to our National Registration Unit for your postcode. Their addresses are in Notice 700/1 *Should I be registered for VAT?* and on our website at:

<http://www.hmce.gov.uk/business/vat/send-regnderegvars.htm>

If you are registering for VAT, you can enclose the form with your VAT 1 *Application for Registration*.

By e-mail

Download the scheme application form from: www.hmce.gov.uk/business/services/vat-flat-rate.htm.

Fill it in on your computer and send it to the e-mail address for flat rate scheme applications: frsapplications@hmce.gov.uk

Please send questions or correspondence to our National Advice Service, not this address.

By phone

Call our National Advice Service. They can take your application over the phone.

5.2 How do I fill in the application form?

The guidance in the table below should help you fill in the form. If you are in doubt please telephone our National Advice Service.

SECTION A	
Business name	Use your normal business name. If you are already registered for VAT, this should be the name on your VAT Certificate of Registration.
Business Address	This is your principal place of business. Again, if you are already registered for VAT, this should be the address on your VAT Certificate of Registration.
Telephone number	You do not have to give this, but it may help us to process your application more quickly if we can telephone you to clear up questions about your application.
VAT registration number	If you have not been advised of a VAT registration number, leave this blank. Make sure you send the scheme application to the same office as you sent the VAT 1 Notification of VAT registration.

SECTION B	
Main business activity	Decide which of the sectors in Section 6 most accurately describes your business. If your business covers more than one sector, use the sector that is the main part of your business. Decide which is the main part by the amount of turnover each makes.
Flat rate percentage	This is the percentage for your sector as shown in the table in Section 6. This will be the percentage you apply to your VAT inclusive turnover to calculate the net VAT payable to us. (If you are in your first year of VAT registration the flat rate you actually use will be 1% below this.)
Start date	See paragraph 5.5. Your options are: <ul style="list-style-type: none"> • leave this blank. Your authorisation will start at the beginning of your next VAT accounting period after we process your application; • write "date of registration" or "EDR". Your authorisation will begin from the date you registered for VAT provided you apply at or close to the time you register; or • write the date you want to start the scheme. This cannot normally be a date before the date you apply.

SECTION C	
Signature and date	The form should be signed and dated by the owner, a partner or a director of the business that is applying. A signature is not required on an electronic application. Just type your name in the box.

If your accountant or other representative applies by phone for you to use the scheme, we will send you a copy of the application form completed by our staff for your records. If there are any errors on it please contact us immediately.

5.3 Where do I send the completed application form?

Post the form to our National Registration Unit for your region. The correct office depends on your postcode. Details are in Notice 700/1 *Should I be registered for VAT?* or on our website at www.hmce.gov.uk. See paragraph 5.1 for the e-mail address for applications.

5.4 Do I need to keep a copy of my application?

Yes. This is a good idea and will help if you have to contact us about your application. Please also note the office to which you send it.

5.5 When can I apply?

You can apply at the time you register for VAT or any later time. If you apply near the time of your VAT registration, you can begin to use the scheme from the date you are registered for VAT. There is a 1% reduction in flat rate for all businesses using the scheme during their first year of VAT registration. The earlier you apply to use the scheme the longer you will be able to get the benefit of the reduction. Details of the reduction are in paragraph 6.4

If you are already VAT registered when you apply to use the scheme, it is best to apply as early in a VAT accounting period as you can. This is because your authorisation to use the flat rate scheme normally takes effect from the beginning of the VAT accounting period after we have processed your application. If you are applying at the end of a VAT period it will be clearer exactly which day you wish to start using the scheme if you put that date on your application form even if this will be the start of your next VAT accounting period.

5.6 When can I start to use the scheme?

We will notify you either that:

- your application has been accepted and the date from which you can operate the flat rate scheme; or
- the reason why we have not allowed it.

5.7 What if I don't receive a reply to my application?

We will deal with your application under our Taxpayer's Charter standards. If you do not hear from us within 30 days, please contact the office to which you sent the application to check that it has been received.

5.8 What if I want to use both the flat rate scheme and the annual accounting scheme?

Notice 732 *Annual accounting* contains the joint application form. Complete that form if you want to start using both the flat rate scheme and the annual accounting scheme together. If you are already using one scheme and you want to use the other as well then just complete the form for the scheme you wish to join.

6. Determining your flat rate percentage

6.1 Which flat rate applies to my business?

To work out the flat rate for your business, look at the table in paragraph 6.3 and decide which of the sectors most closely describes what your business will be doing in the coming year. Just give the words their ordinary meanings. If you have difficulty deciding on a sector, go to the flat rate scheme ready reckoner at www.hmce.gov.uk/business/services/vat-flat-rate.htm

The number allocated to your trade sector is your flat rate percentage. You apply the flat rate percentage to your VAT inclusive turnover (see section 7) to get the VAT payable to us under the scheme.

6.2 What if you disagree with my choice of sector?

If we approve you to join the scheme, we will not change your choice of sector retrospectively as long as your choice was reasonable and you have kept a record of why you chose it.

6.3 The table of trade sectors and flat rates

The table shows the trade sectors and the flat rate percentages we have calculated for each. This applies from 1 January 2004. For details of the previous table and the rates for dates before 1 January 2004 see Section 15.

Trade Sector (from 1 January 2004)	Flat Rate Percentage
Retailing food, confectionery, tobacco, newspapers or children's clothing	2
Membership organisation	5.5
Postal and courier services	
Pubs	
Wholesaling food	
Farming or agriculture that is not listed elsewhere	6
Retailing that is not listed elsewhere	
Wholesaling agricultural products	7
Retailing pharmaceuticals, medical goods, cosmetics or toiletries	
Retailing vehicles or fuel	
Sport or recreation	
Wholesaling that is not listed elsewhere	
Agricultural services	7.5
Library, archive, museum or other cultural activity	
Manufacturing food	
Printing	
Repairing vehicles	
General building or construction services *	8.5
Hiring or renting goods	
Manufacturing that is not listed elsewhere	
Manufacturing yarn, textiles or clothing	
Packaging	
Repairing personal or household goods	
Social work	

Trade Sector (from 1 January 2004)	Flat Rate Percentage
Forestry or fishing	9
Mining or quarrying	
Transport or storage, including freight, removals and taxis	
Travel agency	
Advertising	9.5
Dealing in waste or scrap	
Hotel or accommodation	
Photography	
Publishing	
Veterinary medicine	
Any other activity not listed elsewhere	
Investigation or security	10
Manufacturing fabricated metal products	
Boarding or care of animals	
Film, radio, television or video production	10.5
Business services that are not listed elsewhere	
Computer repair services	11
Entertainment or journalism	
Estate agency or property management services	
Laundry or dry-cleaning services	
Secretarial services	
Financial services	
Catering services, including restaurants and takeaways	11.5
Hairdressing or other beauty treatment services	
Real estate activity not listed elsewhere	
Architect, civil and structural engineer or surveyor	12
Management consultancy	
Accountancy or book-keeping	12.5
Computer and IT consultancy or data processing	
Lawyer or legal services	
Labour-only building or construction services *	13
	13.5

* **Building or construction services**, use 'Labour-only' if the value of materials supplied is less than 10 % of your turnover. If the value of the materials is more than this, builders use the 'General building' flat rate.

6.4 How do I operate the 1% reduction?

A 1% reduction in flat rate came into effect on 1 January 2004 for businesses in their first year of VAT registration. Businesses on the scheme may take 1% off the flat rate in the table above for all turnover they get from 1 January 2004 until the day before the first anniversary of them becoming VAT registered.

Examples

A business registers for VAT on 1 December 2003 and uses the flat rate scheme from that date with a flat rate of 10%. From 1 January 2004 to 30 November 2004 they can use 9% if there are no changes to the business during this time.

Another business registered for VAT on 6 January 2004 but does not join the flat rate scheme until 1 July 2004 at a rate of 6%. From 1 July 2004 to 5 January 2005 they may use 5% if there are no changes to the business during this time. If on 1 November 2004 the business changes and their new flat rate is 7.5% then from 1 November 2004 to 5 January 2005 they can use 6.5%. For turnover after 5 January 2005 they must use 7.5%.

6.5 What if my business falls into more than one of the sectors?

If your business includes supplies in two or more sectors, you must apply the percentage appropriate to your main business activity as measured by turnover. Choose the sector for which your business gets the greater part of its turnover. Do not split your turnover or apply more than one percentage.

Example

If a taxi business also did some car repairs it would have to decide from which of the two trade sectors it expected to get the larger amount of turnover. It would apply the flat rate percentage appropriate for that trade sector to the whole of its VAT inclusive turnover.

If the taxi part of the business ...	and the car repair part of the business ...	the flat rate business ...
expects to generate VAT inclusive turnover of £40,000 in the next year	expects to generate VAT inclusive turnover of £15,000 in the next year	should apply the flat rate percentage for a taxi business of 9% to the total VAT inclusive turnover for both parts. If this total was £75,000, the business would pay £6,750 in that year.

6.6 What happens if the balance between parts of my business changes?

If the balance changes but you continue to do all the same activities, continue to use the percentage that was appropriate at the beginning of the year until the anniversary of you joining the scheme. Review the balance between the parts of the business each year. Make this review for the first day of the VAT period in which the anniversary of you joining the scheme falls. If on that date, the balance has changed, or you expect it to change over the year ahead, change trade sectors to that for the larger portion of your expected business. A change of trade sector may also mean that your flat rate changes. If this occurs use the new flat rate from the start of the VAT period in which your anniversary falls; not just from the anniversary to the end of the period.

6.7 What will happen if I start or stop a business activity during the year?

If you stop a business activity or start a new one during the year you will need to reconsider if the flat rate scheme is still the better way for you to calculate your VAT. The change may mean you are no longer eligible to use the scheme see paragraph 8.2. If you are to continue using the scheme, consider which business activity now represents the larger part of your expected business. Do this in the way described in paragraph 6.5. Apply the appropriate percentage from the date of the change in your business until your next anniversary of joining the scheme or the next change to your business whichever comes first.

If you change flat rate percentages you must write and tell us within 30 days of the change taking place.

6.8 What happens if the Table of flat rates changes?

In general terms, always use the flat rate given in the Table for your trade sector. From time to time we will make changes to the Table. If changes are made to the:

- flat rate for a trade sector;
- standard or reduced rate of VAT; or
- liability of a particular type of supply,

then we will publish an amended Table of flat rates.

If you change your rate only because we have changed the Table of flat rates you do not have to write and tell us about it.

6.9 When must I start using the new Table?

The new table will have a start date published with it. The start date might be different for different trade sectors. From the start date for your sector you must use any new flat rate given in the new table.

6.10 How do I deal with two flat rates in one VAT period?

Where a change in flat rate occurs in the middle of your VAT accounting period you will have to do two calculations for that one period. One calculation will be from the beginning of the period to the day before the start date of the new table and one from the start date to the end of the period.

6.11 What if the start date for a new table coincides with changes to my business?

If the start date coincides with the day you would otherwise make a change under the rules in paragraph 6.7, then make the change as normal but use the rate on the new table. If there is more than one change or table amendment in your accounting period (more likely for annual accountants), then you will need more than two VAT calculations for the period. Do each in the way outlined in paragraph 6.7.

7. Using the scheme and keeping records

7.1 How do I work out my flat rate turnover?

It is important that you get this right. If you include items that are not part of the turnover, you will pay too much VAT. If you leave out items, you will pay too little VAT and could be assessed and have to pay a penalty and interest.

Do not forget, the turnover to which you apply the flat rate is all that you receive including the VAT.

There are three ways of calculating your turnover. They are:

Method	Description
Basic turnover	This is principally for those who deal mainly with other VAT registered businesses. If you are used to accounting for VAT on an invoice basis, this can be the simplest to operate. For details see section 9.
Cash based turnover	This method is the flat rate scheme equivalent of cash accounting. It is based, not on the time you make the supply but, on the time you are paid for your goods or services. This can be helpful if you give extended credit or have a lot of bad debts. For details see section 10.
Retailer's turnover	This is essentially the same as a retail scheme and is best if you are a retailer selling goods to the public. For details see section 11.

Whichever method you use, you should use that method for at least 12 months.

7.2 What must I include in my flat rate turnover?

Your flat rate turnover is VAT inclusive and includes all the supplies made by your business. This includes **all** of the following:

- the **VAT inclusive** sales and takings for standard rated, zero rated and reduced rate supplies;
- the value of exempt supplies, such as rent or lottery commission. You can find out more about exempt income in Notice 700 *The VAT Guide*;
- supplies of capital assets, unless they are supplies on which VAT has to be calculated outside the flat rate scheme in accordance with paragraph 12.14; and
- the value of your despatches to other member States of the EC if you are making intra EC supplies. For details see Notice 725 *The Single Market*.

Note: As exempt and zero-rate supplies are included in flat rate turnover you apply the flat rate percentage to the exempt and zero rate turnover. You may pay more VAT by being on the scheme if these supplies are a larger proportion of your business turnover than the average for your trade sector.

7.3 What income do I exclude from my flat rate turnover?

You exclude from your flat rate turnover:

- private income, for example income from shares;
- the proceeds from the sale of goods you own but which have not been used in your business;
- any sales of gold that are covered by the VAT Act section 55 (see Notice 701/21 *Gold*)
- non-business income and any supplies outside the scope of VAT; and
- sales of assets to be accounted for outside the scheme in accordance with paragraph 12.14.

7.4 Do I need to keep any special records?

Yes.

This rule has the force of law.

You must keep a record of your flat rate calculation showing:

- your flat rate turnover for the VAT accounting period;
- the flat rate percentage you have used; and
- the tax calculated as due.

This record must be kept with your VAT account.

7.5 Must I keep a VAT account?

Yes. Like all other businesses registered for VAT, you must keep a VAT account. If the only VAT to be accounted for is the VAT calculated under the flat rate scheme, just record that in the VAT payable portion of your VAT account.

In some cases, however, you may have VAT to account for outside the flat rate scheme, for example the purchase or disposal of a large capital asset. This should be entered in the VAT account in the normal way in addition to your flat rate VAT. For further details of the VAT account see Notice 700 *The VAT Guide*.

7.6 Do I still need to issue VAT sales invoices?

Yes. You must still issue VAT invoices to your VAT registered customers. Your customers will treat these as normal VAT invoices. When you come to calculate the scheme turnover, do not forget to include the VAT inclusive total of any invoices you have issued into the method of working out turnover that you are using (see paragraph 7.2).

7.7 How do I calculate the VAT on these invoices?

Record VAT on your sales invoices using the normal rate for the supply (standard, reduced or zero rate or exempt) and not the flat rate percentage assigned to your trade sector. At the end of the VAT period you add up the VAT inclusive total of all your supplies whether you gave a VAT invoice or not and apply the flat rate percentage to this total to give the amount of VAT you must pay to us.

7.8 How do I fill in my VAT return?

Filling in your VAT return is different on the scheme from the normal VAT rules because you are calculating net tax without reference to output tax and input tax. Follow the rules in the Table below where they differ from those on the VAT return form. If the value for any box is none, write none in the box. Do not leave any box blank.

Filling in your VAT return	
Box 1	Use this for the VAT due under the flat rate scheme (see box 6 below). You may have other output tax to include in the box such as the sale of a capital asset on which you have claimed input tax separately while using the flat rate scheme. See paragraph 12.14.
Box 2	Use in the normal way for recording VAT payable on acquisitions from the EU see Notice 725 <i>The Single Market</i> .
Box 3	Will be the sum of boxes 1 + 2 in the normal way.
Box 4	Will usually be none. Though there may be a claim if you: <ul style="list-style-type: none"> • buy a capital asset exceeding £2,000 (inc VAT), see paragraph 12.13; or • can recover VAT on stocks and assets on hand at registration, see paragraph 3.7.
Box 5	Will be the result of box 3 minus box 4 in the normal way.
Box 6	Enter the VAT inclusive turnover to which you applied the flat rate scheme percentage. You should also include the VAT exclusive value of any supplies accounted for outside the flat rate scheme, such as the sale of a capital asset. For example: If your VAT inclusive turnover is £10,000 and your flat rate is 8% put the £10,000 in this box and include the £800 in box 1.

Filling in your VAT return	
Box 7	Will usually be none, except where: <ul style="list-style-type: none"> • you bought a capital asset costing more than £2,000 (including VAT) and you are claiming the input tax in box 4 or • you have acquired goods from other Member States of the EU. Put VAT exclusive value in this box.
Boxes 8 & 9	Use in the normal way.

See Notice 700/12 *Filling In Your Return* for further details.

7.9 How do I pay my VAT using the flat rate scheme?

You can pay by cheque, postal order or electronic means. You may get extra time to pay if you pay by electronic means. If you are thinking of using the flat rate scheme in conjunction with the annual accounting scheme then be aware that it is a condition of the annual accounting scheme that you pay by electronic means. For further details on payment see Notice 700 *The VAT Guide*.

7.10 Can I send the VAT return electronically?

Yes. We do offer an electronic VAT return service that enables businesses to render their returns over the Internet. Businesses using this service must also pay any VAT due by electronic means.

If you wish to use this facility you must register and enrol through the Government Gateway at www.gateway.gov.uk/. You can access the Gateway directly or through our website www.hmce.gov.uk/.

7.11 Do penalties and surcharges apply to flat rate scheme users?

Yes. Surcharges are applied in the normal way if you send your return in late or pay any VAT due after the due date. For details see Notice 700/50 *Default surcharge*.

Any businesses that have a turnover up to £150,000 are offered help to avoid late returns and payments instead of a first surcharge.

If you make errors on your VAT return, which are discovered by a VAT officer before you have corrected them, then you may be liable to a penalty, in addition to being assessed for any VAT due. See Notice 700/42 *Misdeclaration penalty and repeated misdeclaration penalty* and Notice 700/43 *Default Interest*.

7.12 What if my business grows?

If your business grows but you remain eligible to use the flat rate scheme you do not need to take any further action. You must check your turnover at least once a year on your anniversary of joining the scheme. If you are expecting sales of £200,000 or more in the next month you should check that you do not exceed the 'forward look' test in paragraph 8.2(b).

7.13 What if the increase in my turnover is a one-off?

If, when you do your annual check you find that your turnover has exceeded the £225,000 limit but you expect that turnover in the next year will be below £187,500 you may be able to remain on the scheme with our agreement. If you wish to remain on the scheme in those circumstances, apply in writing to your local office. You will need to demonstrate that:

- your VAT inclusive total turnover in the coming year will not exceed £187,500;
- the increase was the result of unexpected business activity which has not occurred before and is not expected to recur; and
- the increase arose from genuine commercial activity.

If, however, the increase occurred in such a way that you must leave the scheme in the circumstances described in paragraph 8.2(b) then we cannot allow you to remain on the scheme even if the three conditions above are met.

7.14 What if the nature of my business changes?

If you change the nature of your business but remain eligible to use the flat rate scheme, apply the appropriate flat rate percentage for the trade sector for the new type of business from the date of the change. You must write and tell us of the change within 30 days of the date of the change. This should be recorded with your VAT account as set out in paragraph 7.4.

7.15 What if the business change makes me ineligible to use the flat rate scheme?

If the change in your business results in you becoming ineligible to use the flat rate scheme you must write and tell us and revert to the normal VAT rules.

See paragraph 8.2 for the rules on what makes you ineligible to continue using the scheme and how you must leave.

8. Leaving the scheme

8.1 When can I leave the scheme?

If you wish to leave the scheme you must write and tell us. You may leave the scheme voluntarily at any time but we would expect that most businesses would leave the scheme at the end of an accounting period. We will confirm the date you left the scheme in writing.

8.2 When must I leave the scheme?

The following table shows what conditions can cause you to become ineligible to continue using the scheme and the date on which you must leave the scheme.

Ref	If you become ineligible because...	then you must leave the scheme with effect from ...
(a)	at the anniversary of your start date the tax inclusive value of your supplies in the year then ending (excluding sales of capital assets) exceeded £225,000	for businesses on quarterly VAT returns: <ul style="list-style-type: none"> the end of the VAT period containing your anniversary; or for annual accountants: <ul style="list-style-type: none"> the end of the month after the month containing your anniversary, or the end of your annual VAT period, whichever comes first.
(b)	there are reasonable grounds to believe your turnover for the next 30 days alone will exceed £225,000 (excluding sales of capital assets)	the beginning of the period of 30 days.
(c)	you become a tour operator and have to account for VAT using the Tour Operator's Margin Scheme	the date you became a tour operator.
(d)	you intend or expect to acquire, construct or otherwise obtain a "capital item". See paragraph 13.4	the date your intention or expectation occurred.
(e)	you become eligible for VAT group treatment or register in the name of divisions	the date you become eligible or registered in divisions.
(f)	you become associated with another business in the way described in paragraph 13.5	the date you become associated.
(g)	you decide to account for VAT using the second hand margin scheme or the auctioneer's scheme	the beginning of the VAT period in which you decide to use either scheme.

8.3 How often do I have to check my turnover?

You have to make sure that you have not exceeded the limits in paragraph 8.2(a) each year on your anniversary of joining the scheme. If your business is growing rapidly, you will need to check at least monthly that you do not become ineligible by virtue of the rule in 8.2(b).

8.4 Can you withdraw the scheme from me?

Yes. We may withdraw the scheme at any time for the protection of the revenue. We will specify the date of withdrawal in our notice of withdrawal.

Additionally, if we withdraw the scheme because you were never eligible to use it, we will backdate the withdrawal to the time when you started using the scheme and you will have to account normally for VAT from then.

8.5 Can I rejoin the scheme?

Yes once you meet the requirements again. After having left the scheme, however, you will not be eligible to rejoin for a period of 12 months.

8.6 What must I do after leaving the scheme?

In general, the transition from the scheme to the normal VAT rules is straightforward but there are some circumstances where you may need to make extra adjustments to ensure your VAT returns are accurate. If:

- you stop using the FRS at any time other than at the end of a VAT accounting period, see paragraph 8.7;
- you use the cash based method under the flat rate scheme and you do **not** move immediately to the cash accounting scheme described in Notice 731 *Cash accounting* when you leave the scheme, you will have to make the adjustment described in paragraph 10.6;
- the value of your stock has increased whilst you have been on the scheme, you may be eligible to make an additional input tax claim, see paragraph 8.8; or
- you have recovered input tax whilst using the scheme you may need to pay additional output tax, see paragraph 13.9.

8.7 What if I cease to use the flat rate scheme in the middle of a VAT accounting period?

From your effective date of withdrawal from the scheme, you will have to account for VAT under the normal VAT rules. When this is in the middle of a VAT accounting period, you will need to do two calculations when you complete your next VAT return. One calculation for the period when you were:

- on the flat rate scheme (using the rules for calculating liability under the flat rate scheme); and another for when you were
- not on the flat rate scheme (using the normal VAT accounting rules).

This will give you two sets of figures, one for each period. The amounts to go on your VAT return will be the two amounts for each box added together.

8.8 Can I recover VAT on increased stock on hand when I leave the scheme?

Yes. Where the conditions described in paragraph 8.9 are met you can recover VAT on stock which you have on hand when you leave the scheme.

8.9 What are the conditions of the optional stock adjustment?

You may make the adjustment described in paragraph 8.10 where:

- you have stock on hand when you cease to use the flat rate scheme for which you can not subsequently recover input tax;
- the value of the stock on which input tax is irrecoverable exceeds the value of stock on hand and on which you had recovered VAT when you started to use the scheme;
- you made and make no separate claim for input tax in respect of the stock on hand; and
- you remain registered for VAT.

Paragraph 8.10 explains how you make the adjustment.

8.10 How do I make the stock adjustment?

Before you make the stock adjustment, you must meet the conditions in paragraph 8.9.

The stock adjustment requires you to value stock. You do not need a formal stock-take for the purpose of the calculation, but your figures must be reasonable and it makes sense to keep a record of how you valued stock in case we query the figures.

This table has the force of law.

Step	What you need to do	Example
1	Establish the VAT exclusive value of stock on hand and on which you had recovered input tax before you joined the flat rate scheme. (Remember , if you were previously on cash accounting, this will be based on stock for which you had paid.)	£10,000
2	Establish the VAT exclusive value of stock on hand and on which you will be unable to recover input tax after you cease to use the flat rate scheme.	£20,000
3	Subtract the figure at step 1 from the figure at step 2. (If the figure at step 1 is larger than the figure at step 2, you will not be entitled to the adjustment. No further action is necessary.)	$£20,000 - £10,000 = £10,000$
4	Multiply the result of step 3 by the standard rate of VAT.	$£10,000 \times 17.5\% = £1,750$
5	Claim the VAT calculated at step 4 in the VAT recoverable portion of your VAT account in the first return you make after leaving the flat rate scheme.	£1,750 recoverable from us as a result of FRS stock adjustment

9. The basic turnover method

9.1 How do I work the basic turnover method?

Apply the flat rate percentage to the VAT inclusive total of the supplies that have their tax point in the VAT accounting period.

Tax points are worked out using the normal VAT rules for time of supply. If you issue VAT invoices, it is very often the date you issue an invoice. It can, in some circumstances, be the date you receive payment or the date you complete a service or make goods available to your customer. The detailed rules are in Notice 700 *The VAT Guide* and you must follow those rules.

10. The cash based turnover method

10.1 How do I use the cash based turnover method?

Apply the flat rate percentage to the supplies for which you have been paid in the accounting period.

This is different from the basic turnover method as it depends only on the time you are paid not the time of your supply. However, this method does not change the time of supply. This is not important in normal circumstances, but in the event of a change in tax rate or liability or in case of insolvency, the basic method tax point will determine the treatment of your supplies.

10.2 What do I do if I was using the cash accounting scheme in Notice 731 immediately before using the cash based method?

You carry on as before. There is no need to calculate and pay the tax still owed when you change schemes. Include any payments you receive whilst using the flat rate scheme in the total to which you apply the flat rate percentage.

10.3 What is the time of payment under the cash basis?

For the cash basis, include amounts you are paid in your VAT inclusive turnover according to the date when you receive payment.

The following rule has the force of law.

Cash (coins or notes): you receive payment on the date you receive the money.

Cheques: you receive payment on the date you receive the cheque or the date on the cheque, whichever is the later. If the cheque is not honoured you do not need to account for the VAT. If you have already accounted for the VAT you can adjust your records accordingly.

Giro, standing order or direct debit: you receive payment on the date your bank account is credited with such a payment.

Credit or debit card: you receive payment on the date you make out a sales voucher for a credit/debit card payment (not when you actually get paid by the card provider).

10.4 What if I receive a payment "net of deductions"?

The following rule has the force of law.

If you receive a net payment, you must include the full value before such deductions (and including the relevant VAT) in your scheme turnover. This will usually be the value shown on your sales invoice.

Some examples of payments that you may receive that are net of deductions are:

- where commission has been deducted by your customer;
- where commission or payment for expenses has been deducted by a factor or agent collecting money on your behalf;
- where commission or payment for expenses has been deducted by an auctioneer selling goods on your behalf; or
- made by an employer/contractor who has deducted income tax.

10.5 What if I receive payments in kind (for example, barter, part exchange)?

The following rule has the force of law.

If you are paid fully or partly in kind, such as by barter or part exchange, you must include the value including VAT in your flat rate turnover each time you make or receive a 'payment'. You receive 'payment' on the date you receive the goods or services agreed in lieu of money.

You must account for VAT on the full value of the supply, which is the price, including VAT, which a customer would have to pay for the supply if they had paid for it with money only.

The general rules about payments in kind are in Notice 700 *The VAT Guide*.

10.6 What if I want to stop using the cash based method?

The following rule has the force of law.

If at any time you stop using the cash based accounting method, you must account for VAT on all the supplies made by you while you were using the method for which payment has not been received. The supplies must be included in your scheme turnover in the return for the period in which you cease to use the cash based method.

The only exception to this is if you cease to use the FRS, but immediately start to use the cash accounting scheme described in Notice 731 *Cash accounting*.

You may be able to balance this adjustment with a claim for relief for stocks on hand (paragraph 8.8), or a claim in respect of bad debts (paragraph 12.10).

11. The retailer's turnover method

11.1 What is the retailer's turnover method?

The method is based on your daily takings. To use the method you must record payments as they are received from your customers, for example, through your till, and total the takings daily. You may find it helpful to make weekly and monthly totals. At the end of your VAT accounting period apply the flat rate percentage to the flat rate turnover for that period.

11.2 What do I need to add to my daily takings to get my flat rate turnover?

Flat rate turnover is your daily takings plus any other items of income your business receives including those from outside the retail environment. Examples of these might be rent from a flat above the shop or installation or callout charges if they are invoiced for rather than going through your till.

When you come to the end of the VAT accounting period, calculate your daily takings as below. Then add to them the VAT inclusive amount of any other income and apply the flat rate percentage to the total.

11.3 What do I include in daily takings?

The following rule has the force of law.

You must include and record the following in your daily takings as they are received from your customers:

- cash;
- cheques;
- debit or credit card vouchers;
- Switch, Delta or similar electronic transactions; and
- electronic cash.

11.4 What non-cash sales do I include in daily takings?

The following rule has the force of law.

In addition to cash payments you must add the following to and record in your daily takings on the day you make the supply:

- the full value of credit sales (excluding any disclosed exempt charge for credit);
- the cash value of any payment in kind for retail sales;
- the face value of gift, book and record vouchers redeemed; and
- any other payments for retail sales.

11.5 May I make any deductions from my daily takings?

Yes. Your till roll or other record of sales together with the additions explained above constitutes your daily takings and it is this figure which you must start with when calculating your flat rate VAT. You may, however, reduce this daily takings figure with the amount of any of the following:

- void transactions (where an incorrect transaction has been voided at the time of the error);
- illegible credit card transactions (where a customer's account details are not legible on the credit card voucher and therefore cannot be presented and redeemed at the bank);
- unsigned or dishonoured cheques from cash customers (but not from credit customers);
- counterfeit notes;
- where a cheque guarantee card is incorrectly accepted as a credit card;
- acceptance of out of date coupons which have previously been included in the daily takings but which are not honoured by promoters;
- supervisor's float discrepancies;
- till breakdowns (where incorrect till readings are recorded due to mechanical faults, for example till programming error, false reading and till reset by engineer);
- use of training tills (where the till used by staff for training has been returned to the sales floor without the zeroing of figures);
- customer overspends using Shopacheck;

- inadvertent acceptance of foreign currency (where discovered at a later time, for example when cashing up);
- receipts for goods or services which are to be accounted for outside the flat rate scheme;
- refunds given to customers in respect of taxable supplies to cover accidental overcharges or where goods are unsuitable or faulty; and
- instalments in respect of credit sales.

11.6 What are the rules for making adjustments to my daily takings?

If you wish to make adjustments to your daily takings, remember the following rules.

The following rule has the force of law.

- You must be able to provide evidence to support any adjustments to your daily takings figure;
- if you make an adjustment but subsequently receive a payment, the amount must be included in your daily takings; and
- you must not make any reductions from daily takings for till shortages that result from theft of cash, fraudulent refunds and voids or poor cash handling by staff.

For further details about cash handling, see Notice 727/3 *Retail schemes: How to work the Point of Sale scheme*.

11.7 Are there other rules about daily takings?

Yes. If you are involved in part-exchange, sale or return, credit sales, deposits, vouchers, coupons, or other special transactions, you will have to make other adjustments to your daily takings. Notice 727/3 *Retail schemes: How to work the Point of Sale scheme* will help. The rules for these adjustments apply to businesses using the flat rate scheme in the same way that they apply to businesses using the normal VAT system. If you are in doubt then please contact our National Advice Service.

12. Special circumstances

12.1 Scope of this section

This section deals with situations that can arise and advises you how to deal with them under the flat rate scheme.

12.2 What if I sell goods to other Member States of the European Union (EU)?

The income you receive from sales of goods to other members of the EU forms part of the VAT inclusive turnover to which you apply the flat rate percentage.

If your business has a higher proportion of this type of sale than others in your trade sector you may find that operating the flat rate scheme puts you at a disadvantage with respect to your competitors.

12.3 What if I sell services to other Member States of the EU?

The VAT due on services to other Member States depends on the place of supply of those services, see Notice 741 *Place of supply of services*. If your supplies are outside the scope of VAT follow paragraph 7.3 and do not count them as part of your flat rate turnover.

12.4 What if I buy goods from other Member States of the EU?

You must account for VAT on these acquisitions from other Member States in box 2 of your VAT return in the same way as businesses using the normal VAT system. Such acquisition tax is treated in the same way as input tax charged to you by a UK supplier and is not normally recoverable whilst you are using the flat rate scheme. See paragraph 12.13 for an exception to this rule.

For full details about intra-Community trade see Notice 725 *The Single Market*.

12.5 How does flat rate scheme affect reverse charges on services?

On the scheme you do not make any adjustment to your flat rate turnover for reverse charges on your purchases.

For more information about reverse charges, see Notice 700 *The VAT Guide*.

12.6 Do I have to make any partial exemption calculations?

No. On the flat rate scheme, you are treated as fully taxable and do not have to make any partial exemption calculations. You must, however, include your exempt income in the turnover to which you apply the flat rate.

12.7 I am a Name at Lloyd's, how do I use the scheme?

Names at Lloyd's registered for VAT may use the flat rate scheme like any other business providing you meet the conditions of the turnover tests in paragraphs 4.2 and 4.3. You must include in the calculation under paragraph 4.2 all income which is classed as 'with recovery of input tax'. Similarly all income that is classed as 'with recovery of input tax' must be included in your flat rate turnover to which you apply your flat rate percentage.

12.8 What restrictions are there on Barristers accounting methods?

Barristers who wish to join the flat rate scheme must make sure that their chambers does not use method 3 of accounting for common expenses. This is sometimes called the combination method and is incompatible with the flat rate scheme. If a barrister, in a chambers that is using method 3, wishes to join the scheme the chambers must change its method of accounting for common expenses, to either methods 1 or 2, before we can give permission for that barrister to join the scheme.

12.9 Do I need to pay road fuel scale charges?

No. You need not pay any road fuel scale charges while you are using the flat rate scheme since you are not reclaiming any input tax on the road fuel your business uses.

12.10 How does the flat rate scheme affect bad debt relief?

Bad debt relief arises if you account for and pay output tax on supplies for which you are subsequently not paid. Full details are in Notice 700/18 *Relief from VAT on bad debts*. The normal rules of that notice apply to the flat rate scheme except that, if you are using the cash turnover method, you do not have to have accounted for and paid tax on the supply for which you have not been paid.

You may be eligible for additional bad debt relief if you meet the following conditions. If you:

- have used the cash based method of calculating your flat rate turnover; and
- made flat rate supplies for which you have not been paid 6 months after the supply was made; and
- have not accounted for and paid tax on the supply; and
- have written off the debt in your accounts.

If you meet all these conditions you can make the adjustment described in paragraph 12.11.

12.11 How do I make the additional bad debt relief adjustment for users of the cash based method?

If you meet the conditions in paragraph 12.10, you can make an additional adjustment as follows:

Step	What you need to do	Example
1	Identify the VAT in the unpaid supply	Total price = £1,175 VAT= £175
2	Calculate the VAT that would have been paid under the flat rate scheme if your customer had paid you. That is the total owed (including VAT) multiplied by your flat rate scheme percentage.	£1,175 x (say) 10% = £117.50
3	Subtract the sum of step 2 from the sum of step 1	£175 - £117.50 = £57.50
4	Step 3 is your special allowance under the flat rate scheme. Include it in your VAT account in your next return.	£57.50 is added to the VAT deductible portion of your VAT account and creates a claim or reduces the VAT payable.

12.12 How do I deal with second hand goods under the scheme?

You can include the total from any sales of second-hand goods in your VAT inclusive turnover to which you apply the flat rate percentage. This is the simplest option if you only make occasional sales of second-hand goods but you will pay more VAT on these supplies. You may consider this simplicity is worth the extra expense or you could leave the flat rate scheme, use normal accounting and the second-hand margin scheme for these sales. You cannot, however, use the flat rate scheme and the margin scheme at the same time.

You can find more about the second hand margin scheme in

Notice 718 *Margin schemes for second-hand goods, works of art, antiques and collectors items*.

12.13 How do I deal with the purchase of a capital asset?

Provided it is not covered by the capital goods scheme, a capital asset can be treated like any other purchase under the flat rate scheme. The input tax is included in the flat rate calculation and you make no separate claim for input tax. For details of the capital goods scheme see paragraph 13.4.

If, however, you buy a single capital asset with a VAT inclusive value of £2,000 or more, you can choose to recover the VAT as input tax in the normal way.

You **cannot** do this if the asset in question is:

- acquired for resale, or for incorporation in goods to be sold;
- acquired to be hired out, leased or let; or
- for consumption within one year; or
- covered by the capital goods scheme. See paragraph 13.4.

12.14 How do I deal with selling a capital asset?

How you account for the sale of a capital asset under the flat rate scheme depends on what you did when you bought it. There are two possibilities:

- If you bought the capital asset whilst using the flat rate scheme and did **not** make a separate claim for input tax, then no special rule applies. You add the VAT inclusive income received from the sale of the asset to the VAT inclusive turnover to which you apply the flat rate percentage.

- If the capital asset was bought before you joined the flat rate scheme, or you chose to claim the input tax separately while on the scheme, you must account for output tax separately on the sale using the normal VAT rules. In those cases, the income will not form part of the turnover to which you apply your flat rate percentage. VAT will be due at the appropriate VAT rate in force at the tax point for the supply.

12.15 How do I deal with disbursements made on behalf of my customers?

If you pay amounts to third parties as the agent of your client and debit your client with the precise amounts paid out, you may be able to treat them as disbursements. If you are making such genuine disbursements, then the money received in respect of those disbursements is not part of the VAT inclusive turnover to which you must apply the flat rate percentage.

For further information about disbursements see Notice 700 *The VAT Guide*.

13. Law, avoidance and appeals

13.1 Where can I find the Law covering the flat rate scheme?

The primary UK legislation relating to the flat rate scheme for small businesses is contained in Section 26B of the VAT Act 1994, as amended by the Finance Acts 2002 and 2003. This is supplemented by more detailed rules in Regulations 55A to 55V of the VAT Regulations 1995. Parts of this notice also have the force of law and are marked as such.

13.2 Why are there so many complex rules in a scheme for small businesses?

The scheme is targeted at small stand-alone businesses and many of the rules are to stop larger businesses gaining an unintended benefit from the scheme. If you are a small stand-alone business then most of the rules will have little or no impact on your use of the scheme.

The following paragraphs explain four of those rules. Paragraph:

- 13.3 explains the rule about VAT group treatment;
- 13.4 explains the rule which makes the flat rate scheme incompatible with the capital goods scheme;
- 13.5 explains the rule about associated persons; and
- 13.9 explains a special self supply rule on leaving the flat rate scheme in cases where you have recovered input tax directly whilst using the scheme.

13.3 Can I use the scheme if I am in a VAT group?

No. If you are eligible to be in a VAT group, even if you are not currently in one, then you cannot use the flat rate scheme. If you are using the scheme and become eligible to join a VAT group then you must leave the scheme (see paragraph 8.2).

If your business has been eligible to join a VAT group in the last two years, but is not eligible at the time you apply, we can let you use the scheme if we agree in writing that your former eligibility is not a risk to the revenue. For details of eligibility to join a group see Notice 700/2 *Group Treatment*.

13.4 What if I intend or expect to buy assets that are covered by the capital goods scheme?

If you intend or expect to buy such goods, you cease to be eligible to use the flat rate scheme. You must leave the flat rate scheme and write and tell us immediately. The capital goods scheme applies to:

- computers and items of computer equipment with a VAT -exclusive value of £50,000 or more; and
- land and buildings, civil engineering works and refurbishments of a VAT-exclusive value of £250,000 or more.

For more information, see Notice 706/2 *Capital goods scheme*

13.5 What is an associated person?

“Associated person” is a technical term and includes cases where:

- one business is under the dominant influence of another; or
- the two businesses are closely bound by financial, economic and organisational links.

Businesses will be associated if one of the companies has the right to give directions to the other or if in practice one company habitually complies with the directions of another. The test here is a test of the commercial reality rather than of the legal form. A business is not associated with its customers just because it supplies them with the goods they request in the form they request them.

13.6 Can an "associated" business use the scheme?

No. If you are “associated” with another business in this special sense, you cannot join the scheme. If your business has been associated in this way with another in the last two years, but is not associated at the time you apply, we can let you use the scheme if we agree in writing that your former association is not a risk to the revenue.

13.7 I have a close connection with another business; does this mean that we are "associated"?

Not necessarily. Where the normal business relationships exist then businesses are not generally "associated" in this special sense. For example, if a husband and wife are each separately VAT registered, he as an architect and she as an antiques dealer, and he rents the upper floor of her shop at a market rate to use as his office, then they will not be "associated".

13.8 I am unsure if my circumstances constitute "association"?

If you are unsure whether the particular relationship between your business and another constitutes "association" then please contact our National Advice Service.

13.9 When do I have to make a self-supply on leaving the scheme?

You have to make a self-supply when you leave the scheme if you:

- recovered input tax directly on one or more capital items while using the scheme; and
- did not account for VAT on the disposal of any of those items while you were using the scheme.

You make this self-supply by treating the goods as supplied by you and to you on the day after you stop using the scheme.

13.10 What do I do if I disagree with your decision about my use of the flat rate scheme?

You can always ask us to reconsider our decision. You write to the office with whose decision you disagree saying why you disagree and they will ensure that a different officer reviews the decision.

You can also appeal to the independent VAT and Duties Tribunal if:


- we refuse to authorise your use of the scheme;
- we remove you from the scheme; or
- you disagree the category and the flat rate percentage that applies to your business.

13.11 I have appealed to the VAT and Duties Tribunal, may I continue to use the scheme?

If you have appealed about our decision to withdraw or refuse use of the scheme, you must not use the scheme until your appeal is resolved.

If you have appealed against any other matter, such as an assessment, we will normally allow you to continue to use the scheme pending the outcome of the appeal.

14. VAT 600 FRS: Application to join the flat rate scheme

 HM Customs and Excise	Value Added Tax Application to Join the Flat Rate Scheme
---	---

Section A Details of Applicant

Business Name

Business Address

Post Code

Telephone Number

VAT Registration Number (if known)

Section B FRS Application

My main business activity is:
(Use one of the groups from the Table in Notice 733)

I will use the flat rate percentage for that sector which is %

I wish to use the FRS from the beginning of my next accounting period.

If you wish to use the scheme from another date, please specify the date.

Section C Declaration

I am eligible for the flat rate scheme and I will notify Customs and Excise of any changes in circumstances which affect my eligibility for the scheme.

Signature Date

Data Protection Act 1998

HM Customs and Excise collects information in order to administer the taxes for which it is responsible (such as VAT, insurance premium tax, excise duties, air passenger duty, landfill tax, climate change levy), and for detecting and preventing crime.

Where the law permits we may also get information about you from third parties, or give information to them, for example in order to check its accuracy, prevent or detect crime or protect public funds in other ways. These third parties may include the police, other government departments and agencies.

VAT 600 FRS

For Official Use only

PT1 (April 2002)

15. Changes to the table of trade sectors and flat rates

15.1 When did the changes occur?

Changes to the names of sectors the flat rates associated with them and a reduction in flat rate for newly VAT-registered scheme users were announced on 9 December 2003 in the pre-Budget report. The changes came into force on 1 January 2004

15.2 What sectors are affected by the changes?

The following table lists the old and new names of all those sectors that have changed. It is in alphabetical order of the old name.

Old sector name	New sector name
Agriculture not elsewhere listed	Farming or agriculture that is not listed elsewhere
Animal husbandry	Boarding or care of animals
Architects	Architect, civil and structural engineer or surveyor
Entertainment excluding TV video and film, production	Film, radio, television or video production
Entertainment excluding TV video and film, production	Entertainment or journalism
Estate agency or property management	Estate agency or property management services
Journalism	Entertainment or journalism
Laundry services	Laundry or dry-cleaning services
Manufacture of textiles and clothing	Manufacturing yarn, textiles or clothing
Personal and household goods repair services	Repairing personal or household goods
Public House	Pubs
Real estate activity not elsewhere listed	Real estate activity not listed elsewhere
Rental of machinery, equipment, personal and household goods	Hiring or renting goods
Restaurants, takeaways or catering services	Catering services, including restaurants and takeaways
Retail of children's clothing	Retailing food, confectionery, tobacco, newspapers or children's clothing
Retail of food, confectionery, tobacco, newspapers	Retailing food, confectionery, tobacco, newspapers or children's clothing
Transport, including freight, removals and taxis	Transport or storage, including freight, removals and taxis
Waste and scrap dealing	Dealing in waste or scrap

15.3 How do the new names relate to the old sectors?

If you know your new trade sector but need to know what trade sector it covered before the changes, the following table lists the old and new names as well as the flat rate before 1 January 2004. It is in alphabetical order of the new name.

Trade Sector		Flat Rate Percentage	
New name	Old name	before 01/01/04	01/01/04 onward
Accountancy or book-keeping	Accountancy and book-keeping	13.5	13
Advertising	Advertising	11	9.5
Agricultural services	Agricultural services	9	7.5

Trade Sector		Flat Rate Percentage	
New name	Old name	before 01/01/04	01/01/04 onward
Any other activity not listed elsewhere	All other activity not elsewhere specified	11	10
Architect, civil and structural engineer or surveyor	Architects	13.5	12.5
Boarding or care of animals	Animal husbandry	11	10.5
Business services that are not listed elsewhere	Business services not elsewhere listed	12.5	11
Catering services, including restaurants and takeaways	Restaurants, takeaways or catering services	13	12
Computer and IT consultancy or data processing	Computer and IT consultancy or data processing	14.5	13
Computer repair services	Computer repair services	13.5	11
Dealing in waste or scrap	Waste and scrap dealing	11	9.5
Entertainment or journalism	Entertainment excluding TV, video and film production	12	11
<i>Combined into the above sector</i>	Journalism	12	N/A
Farming or agriculture that is not listed elsewhere	Agriculture not elsewhere listed	6.5	6
Film, radio, television or video production	<i>Not a separate sector in 2003</i>	N/A	10.5
Financial services	Financial services	12	11.5
Forestry or fishing	Forestry or fishing	10	9
General building or construction services	General building and construction services*	9	8.5
Hairdressing or other beauty treatment services	Hairdressing or other beauty treatment services	13	12
Hiring or renting goods	Rental of machinery, equipment, personal and household goods	9.5	8.5
Hotel or accommodation	Hotels or accommodation	10.5	9.5
Investigation or security	Investigation or security	11	10
Labour-only building or construction services	Labour-only building or construction services*	14.5	13.5
Laundry or dry-cleaning services	Laundry services	12	11
Lawyer or legal services	Lawyers and legal services	13.5	13
Library, archive, museum or other cultural activity	Library, archive, museum or other cultural activity	8.5	7.5
Management consultancy	Management consultancy	13.5	12.5
Manufacturing fabricated metal products	Manufacture of fabricated metal products	11	10
Manufacturing food	Manufacture of food	8.5	7.5
Manufacturing that is not listed elsewhere	Other manufacture not elsewhere listed	10	8.5
Manufacturing yarn, textiles or clothing	Manufacture of textiles and clothing	9.5	8.5
Membership organisation	Membership organisation	7	5.5
Mining or quarrying	Mining and quarrying	10	9
Packaging	Packaging	9	8.5
Photography	Photography	10	9.5
Postal and courier services	Postal and Courier Services	6	5.5
Printing	Printing	8.5	7.5

Trade Sector		Flat Rate Percentage	
New name	Old name	before 01/01/04	01/01/04 onward
Publishing	Publishing	10	9.5
Pubs	Public Houses	6	5.5
Real estate activity not listed elsewhere	Real Estate activity not elsewhere listed	13	12
Repairing personal or household goods	Personal and household goods repair services	10	8.5
Repairing vehicles	Vehicle repair	8.5	7.5
Retailing food, confectionery, tobacco, newspapers or children's clothing	Retail of food, confectionery, tobacco, or newspapers	5	2
<i>Combined into the above sector</i>	Retail of children's clothing	5	N/A
Retailing pharmaceuticals, medical goods, cosmetics or toiletries	Retail of pharmaceuticals, medical goods, cosmetics or toiletries	8	7
Retailing that is not listed elsewhere	Retail of goods not listed elsewhere	7	6
Retailing vehicles or fuel	Retail of vehicles or fuel	8	7
Secretarial services	Secretarial services	11.5	11
Social work	Social work	9	8.5
Sport or recreation	Sport or recreation	8	7
Transport or storage, including freight, removals and taxis	Transport, including freight, removals and taxis	10	9
Travel agency	Travel agency	10	9
Veterinary medicine	Veterinary medicine	11	9.5
Wholesaling agricultural products	Wholesale of agricultural products	7	6
Wholesaling food	Wholesale of food	7	5.5
Wholesaling that is not listed elsewhere	Wholesale not elsewhere listed	8	7

Do you have any comments?

We would be pleased to receive any comments or suggestions you may have about this notice. Please write to:

**HM Customs and Excise
Accounting and Records
Compliance Framework Division
Queens Dock
Liverpool
L74 4AA**

If you have a complaint or suggestion

If you have a complaint please try to resolve it on the spot with our officer. If you are unable to do so, or have a suggestion about how we can improve our service, you should contact one of our Regional Complaints Units. You will find the telephone number under 'Customs and Excise - complaints and suggestions' in your local telephone book. Ask for a copy of our code of practice 'Complaints and putting things right' (Notice 1000). You will find further information on our website at <http://www.hmce.gov.uk>.

If we are unable to resolve your complaint to your satisfaction you can ask the Adjudicator to look into it. The Adjudicator, whose services are free, is a fair and unbiased referee whose recommendations are independent of Customs and Excise.

You can contact the Adjudicator at:

**The Adjudicator's Office
Haymarket House
28 Haymarket
LONDON
SW1Y 4SP**

**Phone: (020) 7930 2292
Fax: (020) 7930 2298
E-mail: adjudicators@gtnet.gov.uk
Internet: <http://www.adjudicatorsoffice.gov.uk/index.htm>**