The VAT Flat Rate Scheme is changing

Why we’re writing to you

We’re making some changes to the VAT Flat Rate Scheme and you may be affected.

The Flat Rate Scheme is a simplification scheme not a tax allowance. More and more often it’s being used for a cash benefit rather than for simplification. Some have been exploiting the scheme in this way, which is unfair to those businesses not eligible to use the scheme and to those using it for the purpose it was intended.

It’s important that you understand these changes and what they mean for you.

What’s changing?

From 1 April 2017 we’re introducing an additional flat rate of 16.5%. This rate will apply to businesses in any sector, but only if they have limited costs. You are a limited cost business if the cost of your goods is below 2% of your turnover, or below £1,000 per year.

If your VAT return is for less than one year the figure is the relevant proportion of £1,000. For example, on a quarterly return this is £250.

What’s not changing?

The existing flat rates will continue to be available for those flat rate businesses that don’t qualify as a limited cost business.

How do I know?

There’s a simple calculator available to help businesses work out whether they are a limited cost business – if you would like to use the calculator, go to www.gov.uk and search for ‘Check your VAT flat rate’.

You’ll need some basic information – please use the information that relates to your most recent VAT return period. If you submit quarterly returns this will cover a 3 month period. If you submit annual returns this will cover a full year:

• your relevant turnover – this is the amount you put in box 6 of the return
• the cost of goods – goods must be used exclusively for the purpose of your business and certain goods are excluded from this test. These are listed on the next page.
The cost of goods excludes:
- any services
- goods that are used for private use
- capital items, for example, office equipment, laptops, mobile phones, tablets
- food or drink that is consumed by you or your employees
- motoring costs, unless your category of business is transport and you own or lease a vehicle for your business
- goods that you resell, lease, let or hire out – unless this is normally part of your main business activity
- goods that you give away as promotional items, gifts or donations

If you have any questions about what you can or can’t include – please refer to the detailed information in VAT Notice 733.

I’m not a limited cost trader – what do I do next?
If you’re not a limited cost business, you should continue to use the relevant VAT flat rate for your business sector. However, your business costs may change during your VAT reporting year. So, before sending us your VAT return, you should check again to ensure that you’re applying the correct rate.

I’m a limited cost trader – what do I do next?
If you decide to remain on the Flat Rate Scheme, you must use the new 16.5% rate from 1 April 2017.

Using the new rate may mean that you pay more VAT than you do now. You may wish to reconsider whether you still want to use the Flat Rate Scheme. If you’re trading below the VAT registration threshold, you may decide to deregister.

Where to find more information
VAT Notice 733 provides detailed guidance for Flat Rate Scheme users on GOV.UK. This tells you:
- how often to complete the test
- how to account for VAT if your next return begins before the change on 1 April 2017
- how and when to tell HMRC if you decide to leave the scheme.

The easiest way to find this is to go to www.gov.uk and search for ‘VAT Notice 733’. You’ll find what you need at section 4.

To sign up for emails and get information that’s tailored to you and your business needs, please go to www.gov.uk and search for ‘HMRC Videos, webinars, e-learning and emails’. Then select ‘Register to get business help and education emails’ and complete the registration form.