

VAT Flat Rate Scheme (FRS)

If your supplies are standard-rated the FRS allows your business to charge VAT to your customers at 15% 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.

Example:-

A business undertakes work for a customer and issues an invoice for £10,000. VAT at 15% is added to the invoice and the customer pays over £11,500. The business falls into the 11% industry sector and therefore calculates VAT on the total received, £11,500, at 11%, i.e. £1,265.00. This is the amount payable to HMRC. As you can see the business collected VAT of £1,500 but paid over £1,265.00. The difference of £235.00 is retained by the business to "compensate" for being unable to claim the input VAT on goods and services the business has purchased.

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 or insurance claims paid.

1% REDUCTION

To encourage businesses to take up the FRS, a 1% reduction in the rates came into effect on 1st January 2004. Newly registered businesses joining the scheme may take 1% off the flat rate that applies to them for all turnover they have from 1st January 2004 until the day before the first anniversary of them becoming VAT registered.

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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TRADE SECTORS AND FLAT RATES

TRADE SECTOR (Until 31st December 2009)	FLAT RATE PERCENTAGE	TRADE SECTOR (Until 31st December 2009)	FLAT RATE PERCENTAGE
Accountancy or book-keeping	11.5	Library, archive, museum or other cultural activity	7.5
Advertising	8.5	Management consultancy	11
Agricultural services	7	Manufacturing that is not listed elsewhere	7.5
Any other business not listed elsewhere	9	Manufacturing fabricated metal products	8.5
Architect, civil & structural engineer or surveyor	11	Manufacturing food	7
Boarding or care of animals	9.5	Manufacturing yarn, textiles, clothing	7.5
Business services that are not listed elsewhere	9.5	Membership organisation	5.5
Catering services including restaurants & takeaways	10.5	Mining or quarrying	8
Computer & IT consultancy or data processing	11.5	Packaging	7.5
Computer repair services	10	Photography	8.5
Dealing in waste or scrap	8.5	Post Offices	2
Entertainment or journalism	9.5	Printing	6.5
Estate agency or property management services	9.5	Publishing	8.5
Farming or agriculture that is not listed elsewhere	5.5	Pubs	5.5
Film, radio, television or video production	9.5	Real estate activity not listed elsewhere	11
Financial services	10.5	Repairing personal or household goods	7.5
Forestry or fishing	8	Repairing vehicles	6.5
General building or construction services*	7.5	Retailing food, confectionary, tobacco, newspapers or children's clothing	2
Hairdressing or other beauty treatment services	10.5	Retailing pharmaceuticals, medical goods or toiletries	6
Hiring or rental goods	7.5	Retailing that is not listed elsewhere	5.5
Hotel or accommodation	8.5	Retailing vehicles or fuel	5.5
Investigation or security	9	Secretarial services	9.5
Labour-only building or construction services*	11.5	Social work	8
Laundry or dry-cleaning services	9.5	Sport or recreation	6
Lawyer or legal services	12	Transport or storage, including couriers, freight, removals and taxis	8
		Travel agency	8
		Veterinary medicine	8
		Wholesaling agricultural products	5.5
		Wholesaling food	5
		Wholesaling that is not listed elsewhere	6

* "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"