
VAT FLAT RATE SCHEME: CHANGES TO THE FLAT RATE THRESHOLDS AND PERCENTAGES

Who is likely to be affected?

1. Small businesses that currently use, or are considering using, the VAT flat rate scheme.

General description of the measure

2. This measure recalculates percentages used in the flat rate scheme to reflect the increase in the standard rate of VAT to 20 per cent. The table below shows the new flat rates.
3. The VAT inclusive thresholds applicable to the scheme have also been recalculated to reflect the increase in the standard rate of VAT to 20 per cent.

Operative date

4. The recalculated flat rate percentages will have effect on and after 4 January 2011 until further notice. The recalculated thresholds will also have effect on and after 4 January 2011 until further notice.

Current law and proposed revisions

5. The VAT flat rate scheme was introduced in 2002 with the objective of simplifying VAT for businesses with an annual turnover up to £150,000, tax exclusive. That threshold remains unchanged.
6. Currently, a business has to leave the scheme if either its tax inclusive annual flat rate turnover exceeds £225,000 or, on a forward look, its tax inclusive turnover in the next 30 days can reasonably be expected to exceed £225,000. As a result of the increase in the standard rate of VAT to 20 per cent, both of these exit thresholds will be increased to £230,000 to maintain the same effect.

7. However, if a business using the flat rate scheme exceeds the annual exit threshold as a result of a one off transaction but, in the subsequent year, expects its tax inclusive annual flat rate turnover to be less than £187,500, it may remain in the scheme with the agreement of HM Revenue & Customs (HMRC). As a consequence of the increase in the VAT standard rate to 20 per cent this threshold will be increased to £191,500 to maintain the same effect.
8. Membership of the flat rate scheme is optional and businesses wishing to leave it may do so at any time. HMRC also has the discretion to agree a retrospective leaving date and intends to apply this discretion sympathetically where a business takes the view that, as a result of these changes, it no longer wants to use the scheme.
9. These changes come into force on 4 January 2011 and require amendments to secondary legislation which will be made later in the year.

Further advice

10. Further details of the change to the standard rate of VAT are contained in BN43.
11. If you have any questions about this change, please contact the VAT Helpline on 0845 010 9000. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

Category of business	Appropriate percentage
Accountancy or book-keeping	14.5
Advertising	11
Agricultural services	11
Any other activity not listed elsewhere	12
Architect, civil and structural engineer or surveyor	14.5
Boarding or care of animals	12
Business services that are not listed elsewhere	12
Catering services including restaurants and takeaways	12.5
Computer and IT consultancy or data processing	14.5
Computer repair services	10.5
Dealing in waste or scrap	10.5
Entertainment or journalism	12.5
Estate agency or property management services	12
Farming or agriculture that is not listed elsewhere	6.5

Film, radio, television or video production	13
Financial services	13.5
Forestry or fishing	10.5
General building or construction services*	9.5
Hairdressing or other beauty treatment services	13
Hiring or renting goods	9.5
Hotel or accommodation	10.5
Investigation or security	12
Labour-only building or construction services*	14.5
Laundry or dry-cleaning services	12
Lawyer or legal services	14.5
Library, archive, museum or other cultural activity	9.5
Management consultancy	14
Manufacturing fabricated metal products	10.5
Manufacturing food	9
Manufacturing that is not listed elsewhere	9.5
Manufacturing yarn, textiles or clothing	9
Membership organisation	8
Mining or quarrying	10
Packaging	9
Photography	11
Post offices	5
Printing	8.5
Publishing	11
Pubs	6.5
Real estate activity not listed elsewhere	14
Repairing personal or household goods	10
Repairing vehicles	8.5
Retailing food, confectionary, tobacco, newspapers or children's clothing	4
Retailing pharmaceuticals, medical goods, cosmetics or toiletries	8
Retailing that is not listed elsewhere	7.5
Retailing vehicles or fuel	6.5
Secretarial services	13
Social work	11
Sport or recreation	8.5
Transport or storage, including couriers, freight, removals and taxis	10
Travel agency	10.5
Veterinary medicine	11
Wholesaling agricultural products	8
Wholesaling food	7.5
Wholesaling that is not listed elsewhere	8.5

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