

## Flat Rate VAT Scheme Explained

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If you are registering your company for VAT then you may wish to consider applying to join the flat rate VAT scheme to take advantage of **potential financial benefits**.

- The scheme is open to all VAT registered businesses with an annual turnover (excluding VAT) of **£150,000** or less.
- You calculate the amount of VAT payable as a **flat rate percentage of your VAT inclusive turnover**.
- The percentage that you use in calculating the amount of VAT you have to pay to HMRC is decided **according to the trade sector** your business operates in e.g. IT Consultants (13%), Engineering Consultants (13%), and Management Consultants (12.5%).
- Please **contact your client manager** if you are uncertain in which trade sector your business would be classified.
- In your **first year of VAT registration** you would be entitled to a **1% discount** on your normal sector percentage making the benefit greater in your first year (e.g. IT Consultants would only use 12% rather than 13%).
- You **are unable to reclaim** any VAT that you may be charged on business expenses e.g. accountancy fees, stationery.
- You **are able to reclaim** input VAT on purchases of items of a capital nature greater than £2,000 on an ongoing basis.



## Should I join?

Generally speaking the answer would be **yes**, but we would need to consider the level of annual turnover, the amount of VAT incurred on business expenses and your actual business sector.

When raising a sales invoice you would still have to charge your clients 17.5% VAT on your net fees, but the amount you pay to HMRC is calculated on your VAT inclusive fees multiplied by your sector percentage.

Let's see how it works with the following example of an IT consultant with a sector percentage of 13% operating in his first year of VAT registration.

(Annual Net fees = £100,000    VAT @ 17.5% = **£17,500**    Gross Invoice Amount = **£117,500**).

Under the normal VAT arrangements the company would have paid the total VAT of £17,500 to HM Revenue & Customs.

Under the flat rate scheme the VAT to pay would be:

Gross Invoiced Amount x Sector Percentage (discounted by 1% as first year)  
£117,500 x 12% = £14,100.

This means that you would therefore **retain £3,400** of your sales VAT in the business as profit.

As you are unable to reclaim any VAT that you may be charged on business expenses this will reduce the amount of profit.

If you would normally have a small amount of input VAT to reclaim then the flat rate scheme should be a benefit to your company and **we would recommend that you apply to join this scheme.**



For more information please contact us.

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