GUIDE TO COMPLETING A UK VAT RETURN FOR BUSINESSES USING THE FLAT RATE SCHEME

Tolley®Guidance

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Background to the flat rate scheme

The Flat Rate Scheme is designed to help small businesses by making it easier to record taxable sales and purchases. Businesses using the scheme normally apply a single percentage to their total flat rate turnover in a VAT period and the result is the VAT payable to HMRC. For more information, see the Overview of the VAT flat rate scheme for small businesses guidance note. Please see the Submitting online VAT returns guidance note for more information on submitting the return. HMRC Notice 733; De Voils Indirect Tax Service V2.199D.

How to fill in a VAT return for the Flat Rate Scheme

Filling in the return for the scheme is different from filling in a return using standard accounting, although some boxes are the same.

All of the boxes on the return must be completed. Do not leave any box blank.

There are different methods for electronic returns and paper returns if the business needs to include negative amounts and 'not applicable' boxes.

Online returns:

- put a minus sign before the figure for negative amounts
- enter '0.00' for 'none' or 'not applicable'

Paper returns:

- put the figure in brackets ( ) for negative amounts
- write 'NONE' for 'none' or 'not applicable'

Box 1: VAT due on sales and other outputs

Businesses using the Flat Rate Scheme do not need to account for the VAT shown on every invoice issued. Instead, the business works out the flat rate turnover for the period covered by the VAT return (see information for Box 6 below for details on the flat rate turnover).

When the VAT turnover for the period has been calculated, the Flat Rate Scheme percentage needs to be applied to the VAT turnover figure. For example, if the flat rate turnover for the period is £10,000 and the percentage is 10% then the calculation is £10,000 x 10 = £1,000. This figure is entered into Box 1.

If the flat rate percentage changes during a VAT return period, the following calculations will need to be performed for that VAT return period:

- apply the old percentage rate to the applicable flat rate turnover from the start of the VAT return period up to the day before the rate changes
- apply the new percentage rate to the flat rate turnover from the first day of the new rate to the end of the VAT return period
- add the two figures together to produce the total VAT owed to HMRC for the VAT return period

The business may have other output tax to include in the box, eg the sale of capital expenditure goods on which input tax has been claimed separately while using the scheme. If VAT has been reclaimed on capital expenditure goods, the business must account for VAT at the standard rate when the capital items are sold. It is not possible to use the Flat Rate Scheme to calculate the VAT due on these items.

The business should include the VAT due on any services received from overseas, where the business is required to self-account for VAT on the cost of the services, under the reverse charge mechanism. Do not include the value of the services received from overseas vendors in the flat rate turnover calculations. Please see the Supplies of reverse charge services guidance note for more information.

Box 2: VAT due (but not paid) on acquisitions from other EU countries

If the business has acquired goods from other EU countries, the amount of acquisition tax due on the cost of the goods needs to be calculated and included in Box 2 on the VAT return. In order to account for acquisition tax, the business needs to calculate the total value of the goods purchased from vendors located in other EU countries for the VAT return period. The value of any services directly related to those goods (such as delivery charges) should also be included in the calculation.

The VAT due on the cost of the goods acquired from other EU Member States is calculated by multiplying the total cost by the applicable UK VAT rate. Not all goods are liable to VAT at the standard rate of VAT and if any goods purchased would be liable to VAT at the reduced rate or zero rate of VAT in the UK, the correct VAT rate should be used to calculate the VAT due on the goods purchased.

If the business acquires zero-rated goods (eg books, newspapers or magazines) there is no requirement to pay acquisition tax on these items and the value of these goods should be excluded from the calculation. Do not include amounts where VAT has been charged by the EU vendor on the goods supplied.

Remember that the acquisition tax due needs to be calculated at the appropriate VAT rate and not using the flat rate percentage.

Please see the Buying goods from other EU vendors guidance note for more information.

Box 3: total VAT due

This is the total of Box 1 and Box 2 added together. This is calculated automatically when returns are completed and submitted online.

Box 4: VAT reclaimable on purchases

Businesses using the flat Rate Scheme do not generally reclaim VAT paid on purchases. This box will normally have a zero value entered on the return (see above for details on how to declare a zero value on a paper or electronic return).

However, the business may declare a value in Box 4 in the following circumstances:

- the business makes a single purchase of capital expenditure goods of more than £2,000 in value, including VAT. Purchases of capital expenditure goods of more than £2,000 are dealt with outside the Flat Rate Scheme. The business will reclaim the VAT paid on the relevant capital items via Box 4
- for businesses that apply to use the Flat Rate Scheme at the time of VAT registration, they can reclaim the VAT on stocks and assets on hand at the time that the business VAT registers. The VAT reclaimable on stocks and assets on hand at

the time of registration is recovered on the first VAT return.

- the VAT due on any services purchased from overseas vendors where the UK reverse charge applies, should also be included in Box 4. If the business can recover all of the VAT charged on the cost of the reverse charge services purchased, the figure claimed in Box 4 should match the figure declared on Box 1 on the return. This box cannot be used to reclaim VAT incurred on the purchase of goods and associated services from an overseas vendor.
- claims or bad debt relief. Please see the Claiming VAT bad debt relief (BDR) guidance note

Box 5: VAT payable or reclaimable

Take the figures from Box 3 and Box 4. Deduct the smaller figure from the larger one and put the difference in Box 5. This amount is automatically calculated for returns completed and submitted online.

If the amount in Box 3 is greater than Box 4, the difference is payable to HMRC. Businesses using the Flat Rate Scheme will normally be required to pay VAT to HMRC as the Box 4 value is normally zero.

If the amount declared in Box 3 is less than Box 4, the business will be in a VAT repayment situation and will be reclaiming VAT from HMRC.

If the amount in Box 5 is zero, there is no VAT to pay or reclaim but the business must still file the VAT return.

Box 6: flat rate turnover for the period

Box 6 is used to enter the flat rate turnover (including VAT), which the flat rate percentage was applied to. For example, if the businesses flat rate turnover for the period is £10,000 and the percentage is 10%, the business would enter £10,000 in Box 6 and calculate the percentage due.

The calculation would be £10,000 x 10 = £1,000.

The £1000 is included in Box 1. Please see below for further details on how to calculate the flat rate turnover.

Businesses should ensure that they do not to include exempt supplies (eg rent) in the flat rate scheme turnover.

Also included in Box 6 the value (excluding VAT) of anything sold outside the scheme, such as capital expenditure goods. The business needs to deduct any credit notes issued or debit notes received.

As a result of *Thexton Training Ltd*, businesses are no longer required to include interest received from business bank accounts in the flat rate turnover amount. The interest must be 'passive' income received in respect of business accounts. However, if the interest received forms part of the core business activities, the interest would need to be included in the flat rate turnover and VAT accounted for under the scheme.Fanfield Limited; Thexton Training Limited [2011] UKFTT 42 (TC).

How to calculate the flat rate turnover

It is important to work out the flat rate turnover correctly. The flat rate turnover is all the income received, including VAT. If the business includes items that are not part of its turnover it will pay too much VAT to HMRC. If the business incorrectly excludes items it will pay too little VAT to HMRC. If the business pays too little VAT it may be assessed by HMRC

and have to pay a penalty and interest. See the Determining the flat rate turnover guidance note for more information.

The following must be included in the flat rate turnover:

- VAT-inclusive sales and takings for standard rate, zero rate and reduced rate supplies
- the value of exempt supplies like rent or lottery commission
- sales of capital expenditure goods, unless they are goods where the business has reclaimed the VAT on the purchase
- the value of supplies to other EU countries

The following must be excluded from the flat rate turnover:

- private income
- sale proceeds from goods owned but which have not been used by the business
- any sales of gold covered by the special scheme for gold sales (see the Supplies of non-investment gold and Supplies of non-investment gold guidance notes)
- non-business income and supplies outside the scope of VAT
- sales of capital expenditure goods where VAT has been claimed on the purchase

There are three ways that the flat rate turnover can be calculated:

- basic turnover - this is the VAT inclusive total of the sales and supplies made in the VAT period
- cash-based turnover - this is the VAT inclusive sales and supplies paid for in the VAT period
- retailer's turnover - the retailer's turnover method is based on the daily takings. The business should make a record of payments as received and total the takings every day. To work out the flat rate turnover the takings should be added to any other income received by the business

Box 7: total purchases excluding VAT

Businesses using the flat rate scheme do not generally recover any VAT incurred on purchases. Therefore, this box will usually be zero, unless:

- the business made a single purchase of capital expenditure goods costing more than £2,000 (including VAT) and the businesses is reclaiming the VAT incurred in Box 4
- the business has acquired goods from other EU countries and a VAT amount has been shown in Box 2 on the return

In either of these cases, put the VAT exclusive value in this box.

Box 8: the total value of goods supplied to other EU countries

A business is only required to complete Box 8 if it has sold goods to VAT registered businesses located in other EU countries.

Put in the total value of goods supplied and services directly related to those goods (such as delivery charges) supplied to VAT registered businesses located in other EU countries. The business needs to include the value of all goods that were physically removed to another EU country, even if there was no actual sale, or if the sale was invoiced to a person or organisation outside the EU. Remember to include the same value in Box 6 on the same

VAT return. Do not include the value of services that are not directly related to the supply of goods.

Businesses that supply goods and services to businesses in other EU countries will need to complete an EC Sales List (ESL). Please see the EC Sales List (ESL) guidance note for more information.

The business may also need to complete a Dispatches Intrastat return if the level of overseas trade has exceeded the filing threshold. Please see the Guide to the completion of an Intrastat return guidance note for more information.

Box 9: the total value of goods acquired from other EU countries

A business is only required to complete Box 9 if it has purchased goods from businesses located in other EU countries.

Enter the total value of goods and services directly related to those goods (such as delivery charges) received from another EU country. Do this for all goods that were physically shipped to the UK from another EU country, even if there was no actual purchase, or if the goods were supplied by or invoiced to a person outside the EU. Remember to also include this amount in Box 7.

The business may also need to complete an Arrivals Intrastat return if the level of overseas trade has exceeded the filing threshold. For more information on filling in this return see the Guide to the completion of an Intrastat return guidance note.