

# VAT Flat Rate Scheme Changes

## What is the Flat Rate Scheme?

The Flat Rate Scheme (FRS) is a special VAT scheme used by many businesses and it simplifies the VAT process and for those in service based industries there are often monetary advantages. If a business typically had few expenses that were subject to VAT and operated within a sector with a lower FRS rate then it could make money from electing to register using the FRS.

## What is changing?

Those businesses which are service based and using VAT Flat Rates typically between 12% and 14.5% will be moved to a new rate of 16.5%. The calculation behind this means that the monetary advantage that was previously seen will completely be eradicated. The changes take effect from 1 April 2017.

## What now?

Businesses are going to be faced with a few choices depending on their circumstances.

### For everyone

1 - You choose to stay on the flat rate scheme but take the hit in terms of the gains. This is only worthwhile if your expenses that incur VAT are extremely low (less than 1% of income).

2 - You change over to the normal VAT scheme. This is the most likely option but will mean increased costs. The FRS is very simple to operate whereas normal VAT requires much more knowledge of VAT rules and requires every transaction to be analysed for VAT purposes. Processing time and costs are therefore likely to increase.

If your income is below the deregistration threshold (£81,000) then you have a third option

3 - You simply de-register from VAT. This method will mean that you are no longer subject to VAT Returns. There will not be the gains of the past but there will also no longer be the requirement to file VAT returns.

Should you wish to discuss your personal circumstances then please contact us.