

From 1 April 2017 a new VAT flat rate of 16.5% is to be introduced for *limited cost traders*. It will replace all the existing rates in any case where the value of VAT-inclusive spend on purchase of *goods* by a business is either less than 2% of your VAT-inclusive turnover (or, if more than 2% of turnover, less than £250 per quarter (£1,000 a year)). For this purpose “goods” means goods which are used exclusively for the business<sup>1</sup>.

This means that for many businesses currently using a flat rate scheme the new rate must be applied from 1 April 2017 *regardless of the company's trade*.

To illustrate the effect, suppose you have a net turnover of £100,000 and currently use the 12% flat rate: the output VAT you would have charged to customers is £20,000 (assuming everything was chargeable at standard rate). The VAT payable on the flat rate scheme would have been £14,400 (12% x £120,000), a saving of £5,600. Using the new rate will mean the VAT payable will be 16.50% of £120,000 (£19,800) so the saving will be reduced by £5,400.

#### **What if my VAT quarter straddles 1 April?**

If your VAT quarter straddles 1 April 2017 you will need to undertake a more detailed calculation. So, it will be one rate on turnover pre-1/4/17 and the new rate for turnover from 1/4/17.

#### **Do I have a choice?**

You can abandon the use of the flat rate scheme and use the normal method but you must notify HM Revenue & Customs that that's what you have chosen to do. This could add to the risk of getting wrong the VAT you reclaim.

#### **What if I use bookkeeping software?**

If you use bookkeeping software you will need to take care to amend the VAT rate at the correct point in time. You may even need to do a recalculation if the software uses the new rate for the whole quarter straddling 1 April 2017.

If you do return to the normal basis of accounting for VAT you will deduct input VAT but do remember that certain input VAT is not reclaimable. Take care, too, that any VAT defaults are properly applied to payments and invoices and to any relevant nominal accounts.

#### **We can help**

If you need assistance please email either [steve.booker@haleandco.co.uk](mailto:steve.booker@haleandco.co.uk) or your usual contact if you use our outsourcing services and Xero.

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<sup>1</sup> You cannot include for this purpose: capital expenditure; food or drink consumed by the business or its employees; vehicles, vehicle parts and fuel (other than for a business which carries out transport services; or goods acquired with the intention of giving them away.