

### Flat Rate Scheme Problems

Businesses with a VAT inclusive turnover of less than £150,000 a year can apply to use the flat rate scheme. The scheme allows businesses using it to account for VAT based on a fixed percentage to the total gross turnover. The scheme was introduced by Customs to both ease the administrative burden on the taxpayer and to simplify their accounting procedures.

However it has recently come to our attention that users of the scheme can easily fall into the trap of not realising that all of their income has to be included in the "flat rate turnover". **ALL** turnover needs to be included in the flat rate calculation. This includes the VAT inclusive considerations of standard rate, zero rate and reduced rate supplies, as well as the value of exempt supplies made by the business. Despite the fact that exempt income in a normal VAT accounting scenario would be treated as exempt, e.g. rent, under the flat rate scheme, such income is regarded as being part of turnover, resulting in the trader paying **more** VAT than it would need to under standard VAT accounting.

If you feel that you may fall within this category or may require further advice on the flat rate scheme, please let us know.