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VAT Flat Rate Scheme Changes 2017 – Limited Cost Traders

On 23rd November 2016, as part of the Autumn Statement, HMRC announced that they would be bringing in **changes to the VAT flat rate scheme from April 2017**.

HMRC have announced changes to the VAT flat rate scheme in order to counter what they see as abuse of the scheme.

The flat rate scheme was brought in as a simplified way of dealing with VAT, however many businesses are able to make additional profit by being on the VAT flat rate scheme which HMRC are now looking to close out.

From April 2017 HMRC propose to introduce a new category of trader, a 'limited cost trader', with a VAT flat rate scheme percentage of 16.5%

Currently under the flat rate scheme a business chooses the appropriate flat rate percentage according to its sector, however under the new proposals you will have to consider whether you will meet the conditions for a 'limited cost trader' and if you do you will have to use the 16.5% flat rate percentage.

What is a limited cost trader?

A business is a limited cost trader if its VAT inclusive expenditure on goods is:

- Less than 2% of their VAT inclusive turnover in a prescribed accounting period, or
- Greater than 2% of their VAT inclusive turnover but less than £1000 per annum if the prescribed accounting period is one year (if it is not one year, the figure is the relevant proportion of £1000)

The big unknown at the moment is exactly what will count when it comes to the definition of 'goods'

The current draft guidance says that goods are those used exclusively for business purposes, excluding

- Capital expenditure
- Food & drink for consumption by the flat rate business or its employees
- Vehicles, vehicle parts and fuel (except where the business is one that carries out transport services – for example a taxi business – and uses its own or a leased vehicle to carry out those services)



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What this leaves as a question is whether items that are traditionally seen as being services rather than goods can count towards the cost base of the business – for example will internet and telephone costs count as goods?

Many service based businesses do not spend much on goods but do have services expenses including subscriptions, telephone costs, software and accounting fees.

It would seem harsh if these do not count as business costs when it comes to the definition of a 'limited cost trader', but the current draft guidance is unclear.

If I am affected by the new VAT flat rate scheme rules what are my options?

If you are caught by the new rules and are deemed to be a 'limited cost trader' you will have some options from April 2017:

- Accept that you're a limited cost trader and your VAT flat rate percentage will be 16.5% going forwards
- Switch to the **standard VAT scheme** whereby you can offset VAT on your costs against your VAT on sales – this will be a little more admin intensive but will likely be more profitable than remaining on the flat rate scheme as a limited cost trader
- De-register for VAT

Talk To Us

If you would like to talk to us further about the VAT Flat Rate Scheme Changes, then please do not hesitate to get in touch via email advice@rdgaccounting.co.uk or phone 01332 813 380.