



Orange Genie

Contractor Management Outsourcing

Accountancy

The Essential Guide to Flat Rate VAT Changes April 2017



**Act
Now**



The Essential Guide to Flat Rate VAT Changes – April 2017

The changes to Flat Rate VAT come into effect on 1 April 2017 – don't get caught out, this is no April fool.

If you haven't taken action in relation to your VAT position, or you have missed our previous messages, now is the time to act and talk to your accountant.

It may be that you are confused by mixed messaging, you may not understand if and how the changes affect you, whatever your position take the time to read this guide and talk to us today.

Find out more:

- What is the Flat Rate VAT Scheme (FRS)?
- How has the scheme changed?
- How the changes affect you?
- What are the financial implications of the changes?
- Do the changes apply to you?
- What is an LCT?
- What is a relevant good?
- What you should do now?

What is the Flat Rate VAT Scheme (FRS)?

The FRS is an alternative to Standard VAT registration open to businesses with an expected turnover less than £150,000 (£180,000 including VAT). The scheme is attractive as its administration is straightforward and there is a financial benefit to be gained.

The scheme is simple. You charge VAT to your clients at the standard rate of VAT, 20%. Unlike Standard Registration you do not offset VAT suffered by your business, instead you pay a fixed percentage of your VAT inclusive turnover over to HMRC.

The percentage used depends on your business activity and the corresponding listed FRS category.

Many contractors use the FRS as they have minimal VAT on expenses that can be reclaimed and often they retain some of the VAT they have charged.

How has the scheme changed?

From 1 April 2017, the government will introduce a new flat rate category of 16.5% for businesses with limited costs. The new Flat Rate percentage of 16.5% will override any existing Flat Rate percentages being used where the new Limited Cost Trader (LCT) definition is met.

The government believe that the Flat Rate VAT scheme has been abused in certain sectors where limited companies have been used solely for the purpose of accessing the Flat Rate VAT benefit, for a worker who is caught by IR35. However, genuine contractors across all market sectors will be impacted by the changes.

What are the financial implications of the changes?

Lets see how these numbers work for a typical contractor.

John is an IT Consultant with an annual VAT exclusive turnover of £100,000. The FRS rate applicable to his industry is 14.5% but he falls into the definition of a Limited Cost Trader so from April 2017, he has to apply 16.5%.

Pre April 2017

John will charge his client £20,000 VAT - ($£100,000 \times 20\%$)

John's VAT inclusive turnover is £120,000

Under the FRS John will pay £17,400 to HMRC ($£120 \times 14.5\%$)

John's company has an FRS surplus of £2,600 ($£20,000 - £17,400$)

Post April 2017

In the new world, John will still charge his client £20,000 VAT

John's VAT inclusive turnover remains £120,000

Under the FRS John will pay £19,800 to HMRC ($£120,000 \times 16.5\%$)

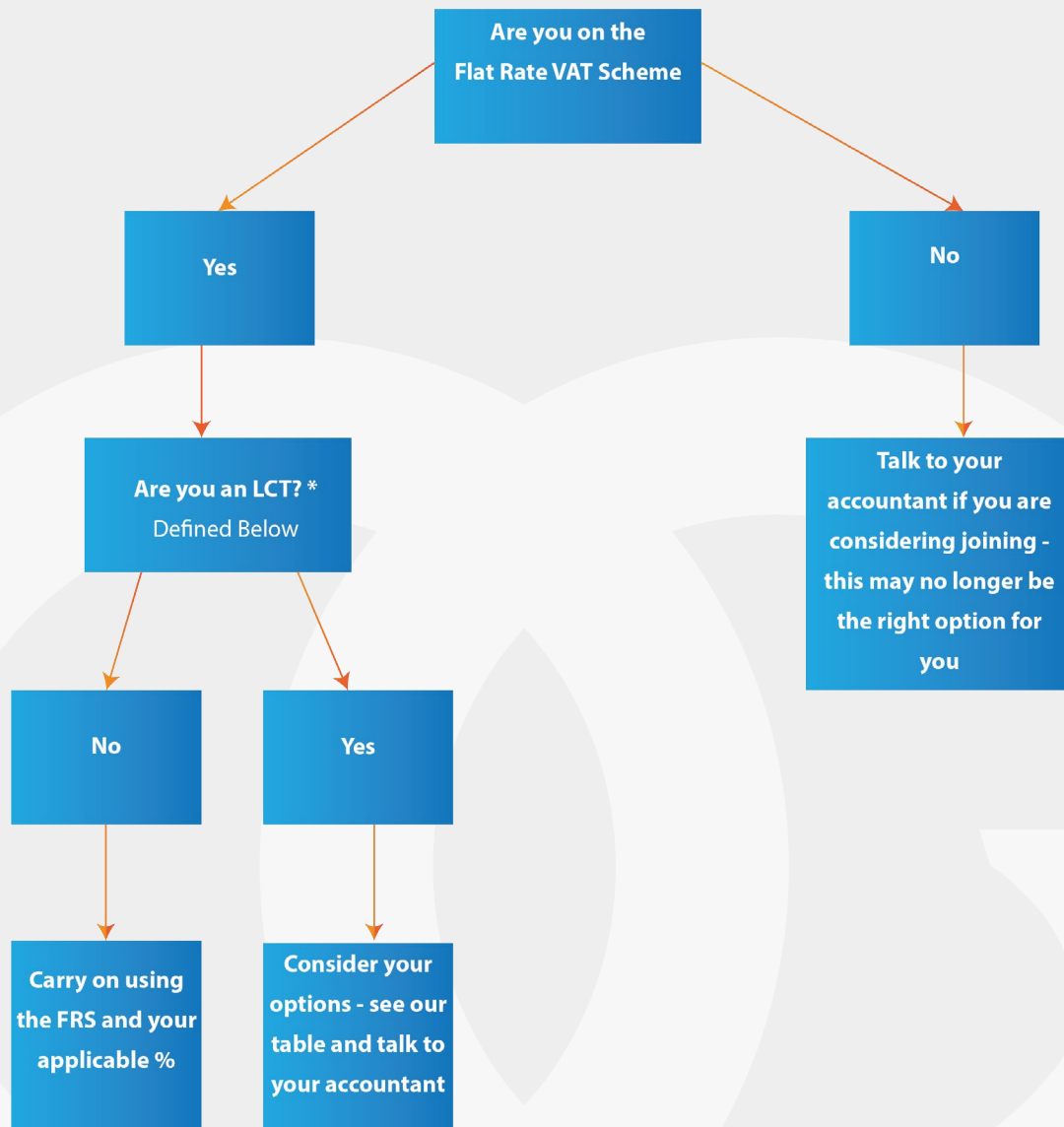
John's company has an FRS surplus of £200 ($£20,000 - £19,800$)

The financial impact for John is a reduction in annual profits of £2,400

Surplus under FRS at 14.5%	£2,600
Surplus under FRS at 16.5%	£200

Do the changes apply to you?

Lets ask a few simple questions



What is an LCT?

An LCT is defined as a business whose VAT inclusive expenditure on "relevant goods" is either:-

- Less than 2% of their VAT inclusive turnover or
- Greater than 2% of their VAT inclusive turnover but less than £1,000

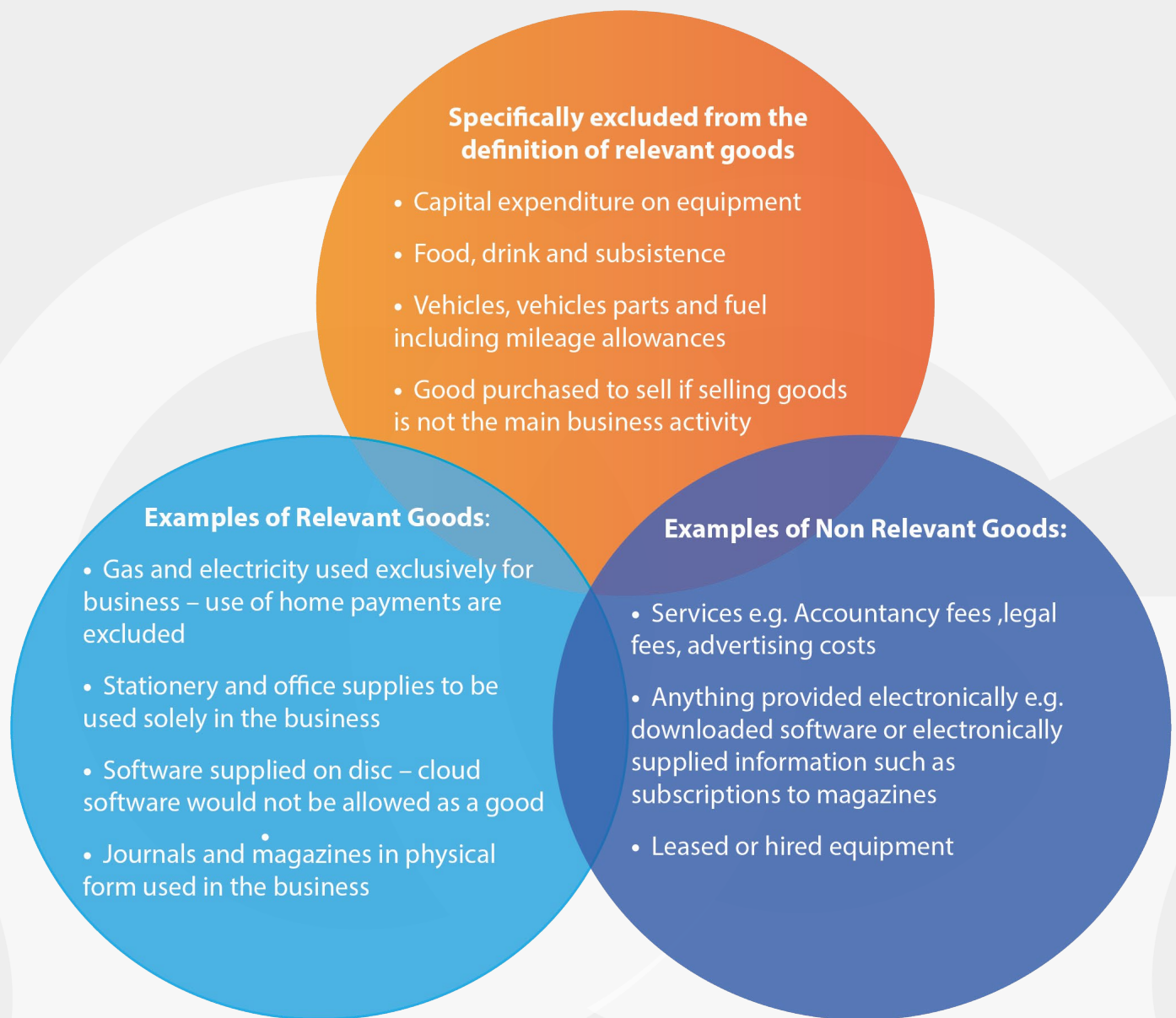
The position needs to be considered at the end of each VAT period, so can be quarterly or annually depending on your registration.

The meaning of "relevant goods" is not defined in the legislation and therefore takes its everyday meaning and generally covers tangible items.

Advice on Relevant Goods

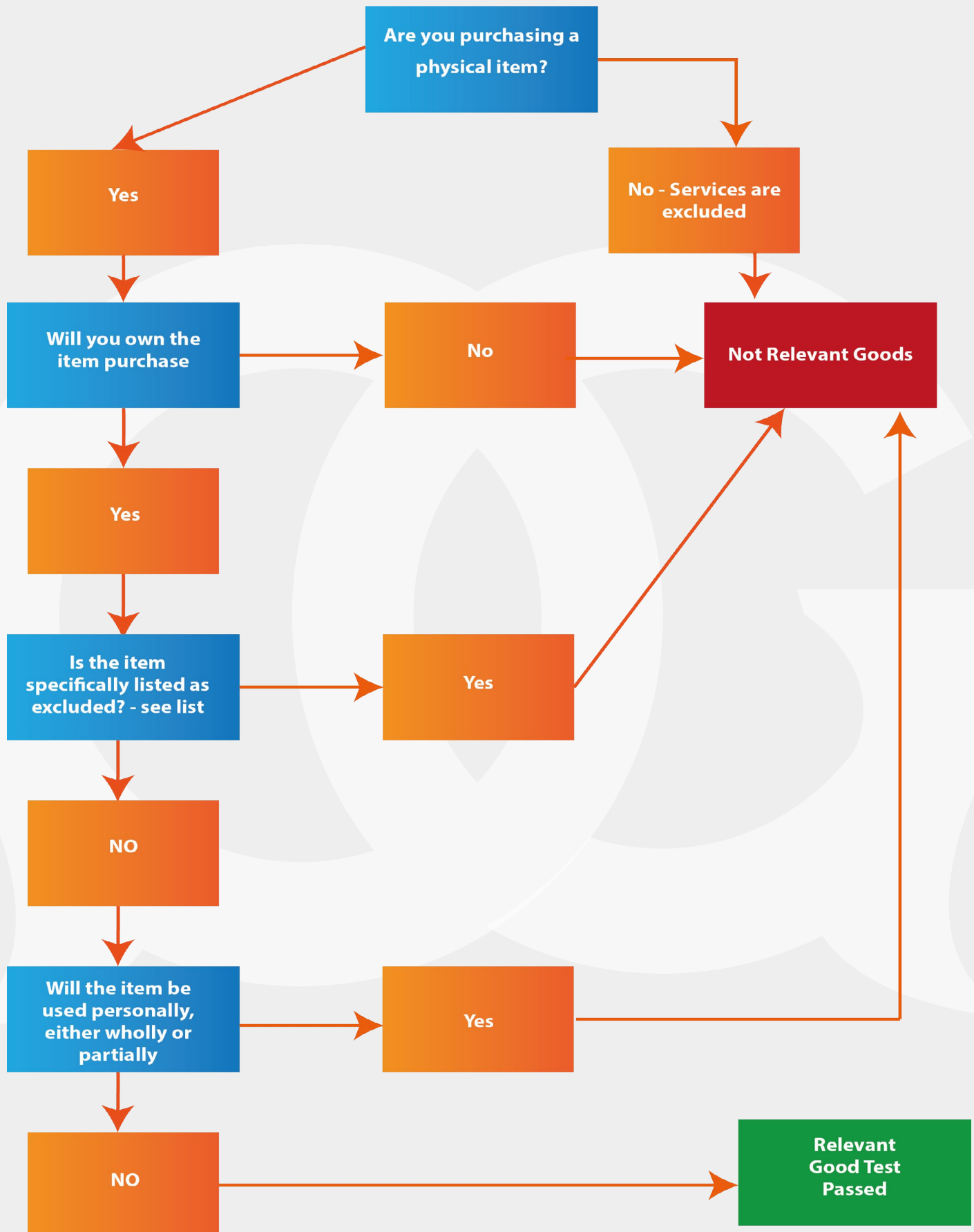
The legislation specifically excludes certain expenditure from the definition of “relevant goods”.

Below we have listed these exclusions and some examples of relevant and non-relevant goods



Deciding if your purchase is a relevant good?

In deciding if a purchase is a “relevant good” ask yourself the following questions:



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What you should do now?

Do something! Doing nothing can cost you money!

If your quarterly VAT quarter ends between April and June 2017, this could affect you sooner than you think. If you are an LCT for a quarter that includes April 2017, then you may need to consider apportioning the period to maximise your efficiency.

If you are unsure as to the effect these changes may have on you ask your accountant to prepare a personalised illustration of the changes.

If you are currently registered for VAT on the Standard Scheme, considering a move to FRS, talk to your accountant to make sure this is the right move for you.

If you are already registered for FRS and fall into the definition of a LCT, there are basically three options:-

Remain on the FRS	Switch to Standard VAT	De-register for VAT
<ul style="list-style-type: none">Decide if you wish to remain on the scheme and use the 16.5% rate – is some saving better than no saving at all?VAT administration is simple BUTYou will need to re-assess your status as an LCT every VAT period	<ul style="list-style-type: none">Assess the amount of VAT you incur – switch to Standard VAT if recovering the actual VAT incurred is more beneficial than your reduced surplus on FRS.VAT administration may be slightly more complicatedYou cannot return to FRS within 12 months of leaving if you change your mind	<ul style="list-style-type: none">If your turnover is below the VAT registration threshold and you are an LCT, incurring very little VAT on purchases you may choose to de-register from VAT.Less company administration BUTVAT registration can be an indication of being a genuine business for IR35 purposes