

---

## VAT Flat Rate Scheme Changes from April 2017 Updated Guidance

---

As part of HMRC Anti-Avoidance measures a new 16.5% VAT rate will apply from 1 April 2017 for businesses with limited costs, such as many labour-only businesses, using the Flat Rate Scheme. Businesses using the scheme, or considering joining the scheme, will need to decide if they are a “limited cost trader”.

You will be classed as a limited cost business if the amount you spend on relevant goods including VAT is either: -

- *less than 2% of their VAT inclusive turnover in a prescribed accounting period*
- *greater than 2% of their VAT inclusive turnover but less than £1,000 per annum if the prescribed accounting period is one year (if it is not one year, the figure is the relevant proportion of £1,000)*

### What can be classed as relevant goods

You receive a supply of goods (including by acquisition or import) if the exclusive ownership of moveable items is passed to you from another person.

You also receive a supply goods if:

- *your own goods are transferred from another member state*
- *they're transferred under an agreement where title will pass at a later time, such as a hire-purchase agreement*
- *receive water or any form of power, heat, refrigeration or ventilation but not if you hire in equipment which does this - that's a supply of services (see VAT Notice 701/19: fuel and power and VAT Notice 701/16: water and sewerage services)*

Relevant goods are goods that are used exclusively for the purposes of your business, but do not include:

- *vehicle costs including fuel, unless you're operating in the transport sector using your own, or a leased vehicle*
- *food or drink for you or your staff*
- *capital expenditure goods of any value*
- *goods for resale, leasing, letting or hiring out if your main business activity doesn't ordinarily consist of selling, leasing, letting or hiring out such goods*
- *goods that you intend to re-sell or hire out, unless selling or hiring is your main business activity*
- *any services*

## Examples of relevant goods

This is not an exhaustive list:

- *stationery and other office supplies to be used exclusively for the business*
- *gas and electricity used exclusively for your business*
- *fuel for a taxi owned by a taxi firm*
- *stock for a shop*
- *cleaning products to be used exclusively for the business*
- *hair products to use to provide hairdressing services*
- *standard software, provided on a disk*

## Examples of supplies that aren't relevant goods

This is not an exhaustive list:

- *accountancy fees, these are services*
- *advertising costs, these are services*
- *an item leased/hired to your business, this counts as services, as ownership will never transfer to your business*
- *food and drink for you or your staff, these are excluded goods*
- *fuel for a car this is excluded unless operating in the transport sector using your own, or a leased vehicle*
- *laptop or mobile phone for use by the business, this is excluded as it is capital expenditure*
- *anything provided electronically, for example a downloaded magazine, these are services*
- *rent, this is a service*
- *software you download, this is a service*
- *software designed specifically for you (bespoke software), this is a service even if it is not supplied electronically*

If you're a limited cost trader this means that you may pay more VAT than you do on standard accounting.

Based on the above we believe that the Flat Rate Scheme is still beneficial for your company and therefore we will be completing ongoing reviews at every quarter VAT return to ensure this is still the case.

## **Please do not hesitate to contact us should you have any queries**

Leofric House, Binley Road, Coventry, CV3 1JN  
Euston House, 12 Euston Place, Leamington Spa, CV32 4BN

Coventry +44 (0)24 7625 1333 Leamington Spa +44 (0)1926 88 88 65  
Email: [accts@leigh-christou.co.uk](mailto:accts@leigh-christou.co.uk) Web: [www.leigh-christou.co.uk](http://www.leigh-christou.co.uk)

---

**For Information of users:** This material is published for the information of clients. It provides only an overview of the regulations in force at the date of publication, and no action should be taken without consulting the detailed legislation or seeking professional advice. Therefore no responsibility for loss occasioned by any person acting or refraining from action as a result of the material can be accepted by the authors or the firm.

---

Leigh Christou Ltd are registered as auditors in the UK and regulated for a range of investment business activities by the Association of Chartered Certified Accountants.