
VAT FLAT RATE SCHEME: CHANGES TO THE FLAT RATE PERCENTAGES

Who is likely to be affected?

1. Small businesses that currently use, or are considering using, the VAT flat rate scheme.

General description of the measure

2. The flat rate percentages were re-calculated in December 2008 to reflect the temporary reduction in the standard rate of VAT. This measure will ensure that they are based on the 17.5 per cent rate of VAT effective from 1 January 2010. It also makes technical adjustments to the rates to ensure that they reflect the latest data about business VAT liabilities in each sector.

Operative date

3. The recalculation of the flat rate percentages will have effect on and after 1 January 2010.

Current law and proposed revisions

4. The VAT flat rate scheme was introduced in 2002 with the objective of simplifying VAT for businesses with turnover up to £150,000. It allows businesses to pay VAT as a flat percentage of turnover, with rates set according to business sector and intended to reflect the effective rates of VAT across the sector.
5. The flat rate percentages were adjusted in December 2008 to reflect the temporary reduction in the standard rate of VAT to 15 per cent. They have now been re-calculated to reflect a standard rate of VAT of 17.5 per cent and, as in 2008, also to reflect current business patterns across the different sectors. The table below shows the new flat rates.
6. Membership of the scheme is optional and businesses wishing to leave it may do so at any time. HM Revenue & Customs (HMRC) also has the power to agree a retrospective leaving date and intends to use this sympathetically where businesses decide after 1 January 2010 that these changes have affected the scheme's suitability for them.
7. Changing the flat rates requires amendments to secondary legislation (the VAT Regulations 1995), which have been made today.

Further advice

8. If you have any questions about this change, please contact the National Advice Service on 0845 010 9000. Information about Pre-Budget Report measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

Flat Rate Scheme percentage rates from 1 January 2010

These rates apply from 1 January 2010 until further notice.

Category of business	Appropriate percentage
Accountancy or book-keeping	13
Advertising	10
Agricultural services	10
Any other activity not listed elsewhere	10.5
Architect, civil and structural engineer or surveyor	13
Boarding or care of animals	10.5
Business services that are not listed elsewhere	10.5
Catering services including restaurants and takeaways	11
Computer and IT consultancy or data processing	13
Computer repair services	9.5
Dealing in waste or scrap	9.5
Entertainment or journalism	11
Estate agency or property management services	10.5
Farming or agriculture that is not listed elsewhere	6
Film, radio, television or video production	11.5
Financial services	12
Forestry or fishing	9.5
General building or construction services*	8.5
Hairdressing or other beauty treatment services	11.5
Hiring or renting goods	8.5
Hotel or accommodation	9.5
Investigation or security	10.5
Labour-only building or construction services*	13
Laundry or dry-cleaning services	10.5

Category of business	Appropriate percentage
Lawyer or legal services	13
Library, archive, museum or other cultural activity	8.5
Management consultancy	12.5
Manufacturing fabricated metal products	9.5
Manufacturing food	8
Manufacturing that is not listed elsewhere	8.5
Manufacturing yarn, textiles or clothing	8
Membership organisation	7
Mining or quarrying	9
Packaging	8
Photography	10
Post offices	4.5
Printing	7.5
Publishing	10
Pubs	6
Real estate activity not listed elsewhere	12.5
Repairing personal or household goods	9
Repairing vehicles	7.5
Retailing food, confectionary, tobacco, newspapers or children's clothing	3.5
Retailing pharmaceuticals, medical goods, cosmetics or toiletries	7
Retailing that is not listed elsewhere	6.5
Retailing vehicles or fuel	6
Secretarial services	11.5
Social work	10
Sport or recreation	7.5
Transport or storage, including couriers, freight, removals and taxis	9
Travel agency	9.5
Veterinary medicine	10

Category of business	Appropriate percentage
Wholesaling agricultural products	7
Wholesaling food	6.5
Wholesaling that is not listed elsewhere	7.5

*"Labour-only building or construction services" means building or construction services where the value of materials supplied is less than 10 per cent of relevant turnover from such services; any other building or construction services are "general building or construction services".