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Practical VAT Update 68: June 2026

Looking Again At The Flat Rate Scheme

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1. Introduction

This month's Update revisits the "Flat Rate Scheme for Small Businesses", or "FRS" for short, by way of a quick review of the scheme. It's been more than 18 months since we looked at it, and it is always a popular subject, so here we go again…

Once upon a time this was a very attractive option for the majority of small businesses which charged VAT in the normal run of things… but some big changes a few years back have altered the calculations. For many *services* businesses in particular, it has become a lot less suitable.

This is only an overview of the FRS – there are some tricky points which can arise, not least with some of the complicated definitions embedded in the legislation and guidance… and some of the case law is "interesting"…

Nevertheless, it would be wrong to say the FRS is without benefit, and for many small businesses it will fit the bill. It's just important to bear in mind it is not as "simple" as a "simplification" measure might suggest…

I will (for once!) give HMRC credit as well. VAT Notice 733 (which I refer to as the "VAT Notice" in this Update) is easy to use and pretty comprehensive too (though see my comments on "distance sales" below). Definitely have a look at it if you are in any doubt. I refer to it liberally throughout this Update.

If you have any questions about the FRS, please don't hesitate to get in touch on **02871 876 220**, or at **ciaranmcgee@cjmtax.co.uk.**

2. FRS: What's The Big Idea?

The FRS comes with two potential benefits:

- Administrative simplification: a large chunk of the records for input VAT purposes do not need to be kept, and
- Financial savings: these arise for the reasons explained below. Unsurprisingly, HMRC are much less keen on this benefit than the taxpayer…

The benefits derive from a number of special simplifications in terms of calculating VAT liabilities under the FRS.

The FRS works by allocating the business to a specific category, which brings with it a specific "flat rate percentage". For example, a builder who also provided materials as part of his work (i.e.: who was not a labour-only builder) would be eligible for a flat rate percentage of 9.5%. The significance of this rate is dealt with in Example 1 below.

Choosing the FRS percentage is usually not a difficult task, but even here, care is needed – if you fall into the wrong one by accident, HMRC aren't always hugely sympathetic. If in doubt, seek advice.

Moreover, the FRS prevents any claims for input tax except where the business spends more than £2,000 (including VAT) on "capital expenditure goods". This can sometimes be a tricky term, and some of the issues this raises are addressed in section 6 below.

The following example should illustrate how the FRS works in practice…

- **Example 1: Yes We Can…**

  Bob is a builder based in Belfast. He has recently started work as a sole trader, having been in partnership with his brother, who has now retired, for many years. Bob is getting older and does not expect to earn large sums from his work. Nevertheless, his customers will mostly be businesses seeking repairs and refurbishment work, and will be VAT-registered.

  Bob's accountant, Anna, has suggested that he registers for VAT using the FRS. After some discussion, they agree that the 9.5% rate for "general building or construction services" will be applicable, as Bob will typically provide materials as part of the work he does. Bob is keen to get the VAT back on a used van he is planning to buy for £6,000 plus VAT. Anna reassures him that it won't be a problem in the FRS.

  Shortly, Bob comes to prepare his first VAT return. He is including the bill for his first job, the refurbishment of an industrial unit, for an agreed fee of £15,000 plus VAT. In cash terms, Bob is therefore going to receive £18,000 from his customer. He will also be reclaiming the VAT on the van (£1,200) on the return, but doesn't have any other "capital expenditure goods" in the period. What does he have to pay HMRC?

  His output VAT is 9.5% x £18,000, that is, £1,710.
  His input VAT is £1,200
  Therefore, his VAT payment is £510.

  However, Bob received £3,000 in VAT from his customer, not £1,710. Therefore, he also has made a profit of £1,290 on the flat rate percentage.

  The result is that, even after paying over the VAT amount, the FRS has earned him £780 (£1,290 - £510).

Bob buys Anna a bottle of wine to say thanks for suggesting he join the FRS!

For many businesses in the FRS (bottles of wine apart), this is pretty much how the scheme works. The business benefits from a profit on the flat rate percentage.

Of course, Bob is being a bit hasty. If he compared his "profit" with what he would have received in input VAT on his other purchases, he may have found the benefit a bit less impressive….

If you are considering the FRS and would like to discuss the advantages and disadvantages, please don't hesitate to get in touch on **02871 876 220**, or at **ciaranmcgee@cjmtax.co.uk.**

3. Signing On: Who's Allowed In?

This section covers the key conditions which need to be met to join the FRS, but the LCT rules set out in section 4 should also be borne in mind...

In addition to the basic eligibility rules, this section also considers whether some potentially qualifying businesses might be better off outside the FRS. (And that's leaving aside questions of the LCT rules.)

Basic Conditions

The VAT Notice sets out the three key tests in para 3.1:

> "The Flat Rate Scheme is for small businesses. You can apply to use the scheme if:
> - you're eligible to be registered for VAT
> - your taxable turnover (excluding VAT) in the next year will be £150,000 or less
> - your business is not 'associated' with another"

The questions of calculating taxable turnover, and of association with other businesses, are addressed in turn. I am going to assume that the taxpayer is actually eligible to register for VAT…

Calculating Taxable Turnover

For most accountants, this is unlikely to be a particularly challenging exercise…

The relevant figure is determined by excluding any planned sales of capital assets, and then adding up:

- the net value of the business's standard rate, reduced rate **and zero rate** supplies

- the business's turnover from the sale of second-hand goods sold outside the Margin Scheme

In addition to these items, in the very unlikely scenario that it applies, the figure should also include any sales of investment gold. I would strongly suggest seeking advice if you have anything to do with gold and VAT – it's not an easy area...

However, it should be noted that services received from overseas and subject to the reverse charge are **not** included in the figure.

It is worth adding a point of clarification. This calculation determines the taxable turnover for purposes of eligibility to join the FRS. However, it does **NOT** determine the FRS turnover, which **includes exempt sales as well**.

Naturally, a new business will need to make a forecast of the figures above. This can be done in any reasonable fashion, and HMRC include the following comments at para 3.3 of the VAT Notice:

> "If you're not VAT registered when you apply for the scheme, you may forecast your turnover by looking at:
> - any period of trading before you apply
> - the turnover of the previous business owner
> - information on business plans or loan applications"

What happens if the future turnover exceeds the forecast made at the time of the application? HMRC provide a succinct summary of their attitude at para 3.4 of the Notice:

> "If your forecast turns out to be too low, we will not penalise you provided there were reasonable grounds for what you forecast. So it is sensible to keep a record of the figures you used to calculate your future turnover.
>
> If your forecast had no reasonable basis, HMRC may exclude you from the scheme immediately, or from the date your ineligible use began."

In short, to prevent the possibility of difficulties arising, it makes sense to document the calculations made and the basis of any assumptions.

Entangled: Associated Businesses

This condition is an important one, and in the context of small family businesses can often be enough to prevent the FRS being a viable option, where the separation between, say husband and wife's different trades, is not necessarily as clear as it could be.

Nevertheless, the fact that two parties are related to each other is not on its own sufficient to prevent the FRS being available. Instead, the idea is essentially that they are (in effect) one business, rather than two or more separate businesses. In this sense it is similar to the business-splitting rules – on which it is a very good idea to seek advice!

HMRC provide a reasonably helpful summary of the rules at para 3.8 of the Notice:

> "You're associated with another business in this special sense if:
>
> - one business is under the dominant influence of another
> - 2 businesses are closely bound by financial, economic and organisational links or another company has the right to give directions to you
> - in practice your company repeatedly complies with the directions of another – the test here is a test of the commercial reality rather than of the legal form
>
> If your business has been associated in this way with another in the last 2 years, but is not associated at the time you apply, HMRC can let you use the scheme if they agree in writing that your former association is not a risk to the revenue."

HMRC suggest calling the VAT Helpline where a business is in doubt. It may also be prudent to seek specialist advice on this point to be certain.

And Just One More Thing…

The law also makes it clear that businesses which are covered by one or more of the following categories cannot join the FRS:

- Businesses which are covered by the Tour Operators' Margin Scheme ("TOMS") – this is a nightmare, and a subject for another day, I suspect…
- VAT groups (see **next month's Update** for more on this), or, importantly, **businesses eligible** to have been a member of a VAT group within the past 24 months
- Businesses which are required to make adjustments under the Capital Goods Scheme ("CGS")
- Interactions with other special schemes – section 5 covers the cash accounting scheme, which cannot be used together with the FRS, though review the VAT Notice if in doubt

Paragraphs 3.6 and 3.7 of the VAT Notice are very helpful in this area.

Falling Out

Clearly, businesses may be eligible at the point in time they apply, but then subsequently cease to be so.

One common, positive, reason is that the business has grown, and its **"FRS turnover"** (not, note well, its "taxable turnover" as noted above) has exceeded £230,000 in the 12 months to the anniversary date of its joining the FRS. However, if HMRC accept that the turnover in the ensuing 12 months is likely to be £191,500 or lower, then the business need not leave the FRS.

Another reason businesses leave the FRS is that they acquire, or intend to acquire, a CGS asset (very broadly indeed, a property or refurbishment asset costing £250,000 plus VAT or more – or a computer system costing £50,000 plus VAT or more). This requires immediate exit from the FRS. See section 6 for a bit more on this point…

Para 12 of the Notice explains the process for leaving the FRS, and also HMRC's powers to force such exit in certain circumstances. It also addresses the stock adjustment which is required upon exit.

What's It All About…?

It is important to note that some businesses will qualify easily for the FRS, but find that it is of no benefit, or positively harmful, financially.

The most obvious cases will be those which make **exempt** or worse still **zero-rated** supplies to any significant extent.

The calculation of FRS turnover is covered in section 5 below, but suffice to say here that, where a business finds it is accounting for VAT on sales to customers who do not actually pay VAT over to it (because, for example, the sale is a zero-rated export), it will rapidly suffer financial loss.

Accordingly, most businesses which engage to a large extent in export trade (for example) will find the normal VAT rules, which permit full input VAT recovery and do not require output VAT to be charged to be more beneficial than the FRS.

If you are considering applying for the FRS and would like some advice or help, please don't hesitate to get in touch on **02871 876 220**, or at **ciaranmcgee@cjmtax.co.uk.**

4. Limiting Factors

The limited cost trader ("LCT") rules are so important that, where a business finds it is caught by them, it almost certainly should not consider the FRS any further.

The effect of the LCT rules is to impose a flat rate percentage of 16.5% on any business covered by the rules. Given that the VAT fraction works out at 16.67%, this would give only a negligible allowance for input VAT.

It may be that some businesses would still find the relief for capital expenditure goods and the administrative simplifications (such as they are) beneficial, but these cases will surely be very rare.

Let's have a look at the LCT, then…

Say It Ain't So

HMRC summarise the LCT rules at para 4.4 of VAT Notice 733, as follows:

> "You're a limited cost business if the amount you spend on relevant goods including VAT is either:
>
> - less than 2% of your VAT flat rate turnover
> - greater than 2% of your VAT flat rate turnover but less than £1,000 per year
>
> If your return is less than one year the figure is the relevant proportion of £1,000. For a quarterly return this is £250.
>
> For some businesses this will be clear, other businesses, particularly those whose goods are close to 2%, may need to complete this test each time they complete their VAT Return. This is because you can move from a limited cost rate of 16.5% in one period to your relevant sector rate in another. This would happen if your costs go above and below 2%."

This is reasonably clear, and for many services businesses, which do not buy much of anything by way of goods, the LCT rules will apply. The definition of "relevant goods" (see below) makes it all the more obvious how disadvantageous it is to be an LCT, and how difficult it will be for most services businesses to avoid being covered by the definition.

To be fair to them, HMRC do acknowledge, in the same part of the VAT Notice:

> "If you're a limited cost trader this means that you may pay more VAT than you do on standard accounting – you may want to check to make sure the Flat Rate Scheme is still right for you."

This is the heart of the matter. I have it on good authority that the LCT rules were devised as a (ham-fisted) attempt by HMRC to clamp down on abusive VAT registrations under the FRS which were being undertaken mainly to get the FRS profit.

However, the result of the rules is to make the FRS a very poor choice for a very wide range of businesses which would previously have benefited. And who aren't being abusive at all…!

The definition HMRC provide above, however, requires further definitions of a number of important terms. As noted above, “relevant goods” are addressed immediately below. “Flat rate turnover” is dealt with in the next section.

Defining Relevant Goods: Because Life’s Not Complicated Enough…

HMRC set out a preliminary definition at para 4.6 of the VAT Notice:

> “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 does not 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
> - goods for disposal such as promotional items, gifts or donations
> - any services”

The devil is very much in the detail here. The underlying legislation which defines “relevant goods” is complex and includes a number of exclusions, which I come back to below.

For now, it will be noted that relevant goods **specifically do not include** the vast majority of goods which a service business might buy. They also specifically exclude VAT planning by way of intermittent purchases of goods for resale where this is not “ordinarily” what the business consists of. This is the stuff from which complex and long-running Tribunal cases are made…

The VAT Notice does also include two helpful lists of what are, and are not, relevant goods, in para 4.6, as follows. First, the examples of what **are** relevant goods:

> “This is not an exhaustive list, these are examples of relevant goods:
>
> - 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
> - food to be used in meals for customers
> - goods provided by a subcontractor and itemised separately
> - goods brought into the UK if they are not otherwise excluded

- goods bought without VAT being charged, if they are not otherwise excluded

This is not a full list."

It will be seen that **consultancy or other professional services businesses** are perhaps the least likely to qualify here, unless, perhaps, they purchase unusually large amounts of stationery. Other business sectors will, nonetheless, usually be able to meet the test, such as hairdressers, restaurants, and taxi and delivery drivers – see more on this below.

HMRC also provide a list of examples of what **are not** relevant goods:

> "This is not an exhaustive list, these are examples of supplies that are not relevant goods:
>
> - accountancy fees, these are services
> - advertising costs, these are services
> - an item leased or hired to your business, this counts as services, as ownership will never transfer to your business
> - goods not used exclusively for the purposes of your business, for example electricity to supply a home and an office located in the home
> - 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
> - electronic devices, such as a 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
> - goods which are bought solely to meet the test, as these would not be used exclusively for the purposes of your business, for example, if the quantity of goods being bought cannot reasonably be used by the business and are simply 'stockpiled' or thrown away, even if the business may normally use those items [in] smaller quantities such as office materials
> - stamps and other postage costs, these are payments for services"

Hopefully the position here is reasonably clear.

Relevant Goods Exclusions: You Talkin' To Me?

Observant readers will have been delighted to learn that there are exclusions in both directions: in other words, there are goods which are specifically **not** permitted to be relevant goods; and there are goods which are specifically permitted **to be** relevant goods, **but only** for particular business sectors. So not confusing at all…

With this in mind, it's perhaps worth highlighting the question of fuel, vehicle repairs, etc, on the one hand, and capital expenditure goods on the other.

- *Drivers*

The rise of Amazon has spawned the development of numerous support industries, of which perhaps the most obvious example is the self-employed driver. There is anecdotal evidence that many of these drivers are registered for the FRS. It is important to note, however, that unless these drivers actually purchase the goods in question – principally, fuel in practice – it is not clear that they will actually be able to avoid the LCT rules. It is also important that the driver should actually own or hire the vehicle he is driving. Again, failure to do this will mean that the fuel will no longer be regarded as a relevant good.

This example helps to highlight just how complex the relevant goods rules are. Any adviser who considers the FRS for their client should be very careful to ensure that the LCT does not apply to them before proceeding.

- *Capital Expenditure Goods*

The specific exclusion of capital expenditure goods is a further sign of just how tricky the relevant goods rules can be.

It is definitely not enough to ask the client if they are spending "more than £1,000 per annum on goods". The expenditure will need to be itemised and considered from the perspective both of its purpose and of its accounting treatment.

Summary

To sum up, it probably makes sense to filter the client's business by way of the LCT tests before going any further with the FRS…

If you have any questions about whether the LCT rules might affect you or your client, please don't hesitate to get in touch on **02871 876 220**, or at **ciaranmcgee@cjmtax.co.uk**.

5. How Flat Is Flat?

Working out the flat rate turnover figure is a more complex topic than it looks at first glance. The VAT Notice sets out guidance which is fairly clear and comprehensive in paragraph 6. What follows is a summary of the key points to note.

The question of time of supply and calculating which income to include on a given return is dealt with via one of three methods:

- The basic method, which is essentially the accruals basis
- The cash-based turnover method, which resembles the cash accounting scheme. Further comment on this follows below
- The retailer's turnover method. This is dealt with in para 10 of the Notice, and is not discussed further here, as it's unlikely to be of interest to most readers of this Update

However, it is obviously vital to work out which elements of a business's turnover are included, and which are not. Given the avowed goal of simplification which underlies the FRS, much more is included in the FRS turnover than under the normal VAT rules. This has implications for the attractiveness of the FRS, as noted above.

What's In?

Para 6.2 sets out what should be included in the FRS turnover, and it is not repeated here. However, it is important to note the following items in particular will be included, which would not be subject to VAT under normal VAT rules:

- Zero-rated income
- Exempt income
- "Dispatches" for goods shipped from Northern Ireland to the EU, though the guidance could be a little more explicit on this point

There are also special rules for "capital expenditure goods", discussed at greater length in section 6 below. Essentially, where input VAT was reclaimed on the goods, an onward sale is subject to normal VAT rules.

However, where input VAT has not been reclaimed on the goods (for whatever reason), then the sale is included in the FRS turnover figure. It is worth noting in passing that such a sale would typically be exempt from VAT under the normal VAT rules.

What's Out?

Given the special rules for the FRS, it is worth checking what is specifically excluded, as set out in para 6.3 of the Notice. While the wording of this paragraph is not crystal-clear, the basic idea can be made out.

In terms of exclusions, it is worth noting the following (non-exhaustive!) list:

- Sales of goods owned but not used in the business
- Sales of capital expenditure goods on which input VAT has been reclaimed

- Sales which are outside the scope of UK VAT, such as services subject to the reverse charge in the customer's hands (if in doubt, ask…)
- "Distance sales" from NI to the EU where VAT is due in the member state of delivery

It's Complicated…

One of the most important parts of the Notice is para 6.4, which includes a helpful table setting out the treatment for FRS purposes of a variety of different transactions. In particular, it is worth highlighting the following scenarios as ones which can give rise to difficulties under the FRS:

- Purchases of services from overseas subject to the reverse charge. **Normal VAT rules** apply to these services. They are not included in the FRS turnover
- Partially exempt businesses operating the FRS. These businesses do not need to make the normal partial exemption calculations because they are regarded as being fully taxable. However, the downside is that, as noted above, exempt income is included in the FRS turnover figure
- Acting as agent and making disbursements on behalf of the client. The rules for disbursements are strict, and if in doubt, seek advice. Where these rules are met, the disbursements are not included in the FRS turnover
- Businesses trading in goods under the Northern Ireland Protocol. Whereas goods sold ("dispatches") **are included** in the FRS turnover, purchases of goods ("acquisitions") **are not**. Instead, the acquisition VAT is accounted for at the appropriate rate (usually 20%) in Box 2 of the VAT return
- The discussion of distance sales is now very clear and helpful. If in doubt, ask…!
- Sales of services to overseas customers subject to the reverse charge. The Notice (para 6.3 and 6.4) is now a lot clearer on this point, at least for NI to EU services, but the logical corollary of leaving out income which is "outside the scope of UK VAT" from the FRS turnover is that sales of services which do not have a UK place of supply should not be included
- Note also that since June 2022, **postponed import VAT** is also handled via the normal VAT rules. Para 6.5 of the VAT Notice explains this clearly

Tax Point Issues

As noted above, the basic turnover method means you apply the accruals basis to your sales (basically – if in doubt, check the VAT Notice). For many businesses, this will be perfectly fine. However, what if you're typically waiting a while to be paid?

While the FRS cannot be used in conjunction with the normal cash accounting scheme, it is still open to FRS participants to (essentially) account for VAT on a cash basis. The rule is in principle very simple: the FRS percentage is applied to VAT-inclusive supplies for which the business has been paid in the accounting period. There are some "funnies" to watch out for, however, so do check out the VAT Notice (para 9) before battering on…

Unsurprisingly, moving from the cash-based turnover to the basic turnover method creates a need for adjustment... watch out!

Bad Debt Relief

Finally, it's worth noting that the normal bad debt relief rules apply to the FRS where the basic turnover method is used.

However, para 14.2 sets out a special FRS version of bad debt relief for the cash-based turnover method, and is clear and should be referred to in cases of doubt.

Note that even after businesses leave the FRS, they should still use the FRS bad debt relief rules for sales accounted for under the cash-based turnover method while the business was in the FRS.

If you're wondering what items of income are covered by the FRS and what aren't, please don't hesitate to get in touch on **02871 876 220**, or at **ciaranmcgee@cjmtax.co.uk.**

6. Capital Idea: What Input VAT Can You Actually Get Back?

As readers who are still with me will have picked up by now, the FRS prevents you from getting your VAT back in the same way as under the normal rules.

However, VAT on "capital expenditure goods" can be reclaimed. Perhaps unsurprisingly, once again the definitions involved are more complex than you might think. Let's get stuck in…

The Basics

A single purchase of capital expenditure goods worth more than £2,000 including VAT is eligible for input VAT relief. The VAT return entries are as for the normal rules – in other words, the input VAT is included in Box 4.

Clearly, there is room for dispute as to the definition of a "single purchase", and para 15.3 gives some examples. The number of invoices, etc, will be regarded as indicative by HMRC, it would seem.

Leave It Out

The rules also specifically exclude several items, as listed in para 15.1, as follows:

> "Capital expenditure goods in the Flat Rate Scheme are capital goods that would fall into the definition, but also specifically exclude any goods bought to:
>
> - resell

- incorporate into other goods for onward supply
- consume (or completely use) within one year
- generate business income by being leased, let or hired
- goods covered by the Capital Goods Scheme ("CGS")

> Nothing in this section allows a business using the Flat Rate Scheme to reclaim VAT on goods which it would not be able to claim under the normal VAT rules."

Usually this will be easy enough to identify, but some clients may need to be assisted to avoid excessive claims being made.

Selling On

As noted in section 5 above, capital expenditure goods on which input VAT has been recovered, and which are resold, must be treated as subject to the normal VAT rules. In other words, VAT must be charged and accounted for in full.

Kramer v Kramer: Or Is It Goods At All?

With money at stake, it's perhaps not a surprise that there have been numerous cases where disputes arose as to whether or not specific items of expenditure should be regarded as goods or services. **Services of any kind are not eligible for relief, hence the dispute!**

In general, building work, which has been the subject of most of the cases, will not be regarded as a supply of "capital expenditure goods", but rather as a supply of services (even if they result in the creation of a capital good).

Letting (Go of VAT?) and Private Interests

Goods held for letting or hire cannot qualify for input VAT relief under these rules, regardless of their cost.

However, ne slightly unusual benefit of the FRS is that assets purchased for mixed business and private use are **not subject to apportionment to exclude the private element from VAT relief**. Similarly, no adjustment is made for any exempt use. In other words, the entire value of the input VAT may be reclaimed.

Sudden Impact: CGS Assets and the FRS

As noted in section 2 above, acquiring, or planning to acquire, CGS items such as:

- Computer equipment with a value of £50,000 plus VAT or more, or
- Land, buildings or construction works with a value of £250,000 plus VAT or more

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Will mean a business must leave the FRS with immediate effect. Don't forget the planned changes to the CGS, which will see computers removed as an asset class, and a rise in the land and building threshold to £600,000 plus VAT. Eventually.

If you're spending money on capital goods and want to be sure you can get your VAT back in the FRS, please don't hesitate to get in touch on **02871 876 220**, or at **ciaranmcgee@cjmtax.co.uk**.

7. Summary: What Are The Key Points I Need to Remember?

The FRS is a simplification scheme which isn't always that simple. The eligibility rules and the impact of the LCT rules will need to be considered before signing up.

Once you do sign up, the basic idea is straightforward enough. You pay the FRS percentage on all of your turnover, and you only get input VAT back on "capital expenditure goods" purchased in a single purchase worth £2,000 or more. Even then, you will need to be aware of the items which are included and excluded from the FRS turnover, which aren't always immediately obvious. Paragraph 6 of the VAT Notice will help here.

Finally, when you do seek to reclaim input VAT on capital expenditure goods, be aware of the distinction between goods and services, especially with building work, and don't forget that if you resell it in due course, you will need to charge "normal" VAT…

HMRC's (helpful) guidance in this area can be found in the relevant VAT Notice as follows:

- **VAT Notice 733:** Click **HERE**

Hopefully this Update has been helpful, and should you wish to discuss any of the issues arising – or indeed anything else VAT-related – please don't hesitate to contact me for a free, no obligation initial enquiry.

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