

Worked example

Flat Rate Scheme @ 16.5% compared to standard method

Net sales £80,000

Net expenditure attracting input VAT £5,000

Current flat rate 12.0%

	A)	B)	C)
Sales (including VAT)	£96,000	£96,000	£96,000
Expenses (£5,000 plus VAT)	£6,000	£6,000	£6,000
VAT inclusive expenditure for 'limited cost trader' test	£950	£1,750	£3,000
Relevant expenses as a percentage of sales	0.99%	1.82%	3.13%
Are relevant expenses less than 2% of sales?	Yes	Yes	No
Are goods purchased less than £1,000 per annum	Yes	No	No

Both tests must be **No** in order to avoid being deemed a Limited Cost Trader

Applicable flat rate percentage	16.50%	16.50%	12.00%
VAT liability under FRS	£15,840	£15,840	£11,520
VAT liability under standard			
<i>Output tax</i>	£16,000	£16,000	£16,000
<i>Input tax</i>	£1,000	£1,000	£1,000
	£15,000	£15,000	£15,000
VAT (cost)/benefit of remaining in FRS	£(840)	£(840)	£3,480

Under the worked example above, the amount of VAT payable under the standard method would be less than due if the new rate of 16.5% has to be adopted. The existing rate of 12% remains beneficial.