

Cashflow Manager and the Flat Rate Scheme for VAT

When you use standard VAT accounting, the VAT you pay to HM Revenue & Customs (HMRC) or claim back from them is the difference between the VAT you charge your customers and the VAT you pay on your purchases.

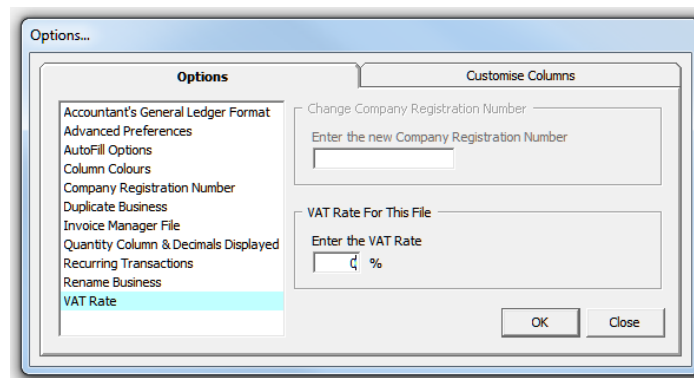
Cashflow Manager makes this very easy with the tax types that apply to each column and the automatic calculation of VAT based on the rate set in your Options.

An alternative method is to simply pay a flat rate of VAT calculated by multiplying your flat rate turnover to the flat rate percentage for your industry.

To make this easy in Cashflow Manager...

1. Set your VAT rate to 0%.

You can do this when creating your file or, if you have an existing file, click on the Options icon. Select 'VAT Rate' and change it to 0%. Then click [OK].



2. Continue to use the tax types for your columns as this will assist you to calculate your 'Flat Rate Turnover' to which the Flat Rate Scheme applies. While we do not provide tax advice, the following is from the HMRC website:

Your flat rate turnover is all the supplies your business makes including all:

- VAT inclusive sales for standard rate, zero rate and reduced rate supplies
- sales of exempt supplies, such as rent or lottery commission - you don't have to make any partial exemption calculations
- sales of capital expenditure goods - unless you have previously reclaimed the VAT, in which case they must be accounted for at the standard rate and not the flat rate.
- sales to other EU countries
- bank interest received on a business account
- sales of second-hand goods - but if you sell a lot of these, you may be better off leaving the Flat Rate Scheme and using a margin scheme

Don't include:

- services you've purchased from outside the UK that you've had to reverse charge
- disbursements - costs you pass on to your clients that meet the necessary VAT conditions
- private income, for example income from shares
- the proceeds from the sale of goods you own but which have not been used in your business
- any sales of gold that are covered by the VAT Act, Section 55 - see the link below
- non-business income and any supplies outside the scope of UK VAT
- sales of capital expenditure goods on which you have claimed back the VAT you paid

Based on this, it would seem that the default tax types on most columns are already established. However, the default tax type for Bank Interest is currently set to 'Outside the Scope'. As Bank Interest on your business account is to be included in flat rate turnover, we recommend changing this to either VAT or Exempt so you remember to include this in the VAT calculation.

Calculate the VAT payable by printing the VAT report and then multiplying the amount shown at label 6 by the flat rate for your industry.

3. When you record receipts, the total amount will be allocated to the column that applies to the type of receipt. (Nothing will be recorded in the VAT column.)

You cannot reclaim VAT on purchases so do not record any amount in the VAT column. Allocate the total to the applicable allocation column. (The only exception to this is when you can reclaim the VAT on capital expenditure on assets worth more than £2000. For more information please check with your accountant or visit the HMRC website:

<http://www.hmrc.gov.uk/vat/start/schemes/flat-rate.htm>)

4. You calculate your VAT payable to HMRC by applying your flat rate VAT percentage to your 'flat rate turnover'.

Add the totals of all the VAT columns together and then multiply the total by your Flat Rate Percentage to calculate the amount payable.

(If your columns are set up correctly, you could print the VAT Report. Your 'Flat Rate Turnover' should be the amount at item 6.)

Provided the tax types of your columns are set up correctly, the VAT rate is set to 0%, and you have not recorded any VAT in the VAT column of the Receipts section, your 'flat rate turnover' should be the amount shown at label 6 in the VAT Report (Total value of all sales and other outputs excluding VAT).

As we have outlined, when you use the Flat Rate Scheme you don't need to record how much VAT you charge on every sale in your accounts. Nor do you need to record the VAT you pay on every purchase. However, you still need to show a VAT amount on each sales invoice.

For more information please check with your accountant or visit the HMRC website:

<http://www.hmrc.gov.uk/vat/start/schemes/flat-rate.htm>

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