

2002 No. 1142

VALUE ADDED TAX

**The Value Added Tax (Amendment) (No. 2) Regulations
2002**

Made - - - - - 24th April 2002

*Laid before the House of
Commons* - - - - - 24th April 2002

Coming into force - - - - - 25th April 2002

The Commissioners of Customs and Excise, in exercise of the powers conferred on them by sections 25(1) and 26B of, and paragraph 2(1) and (11) of Schedule 11 to, the Value Added Tax Act 1994(a), and of all other powers enabling them in that behalf, hereby make the following regulations:

Citation and commencement

1.—(1) These Regulations may be cited as the Value Added Tax (Amendment) (No. 2) Regulations 2002.

(2) These Regulations shall come into force on 25th April 2002 and Part I shall take effect in accordance with paragraph (3) below.

(3) Part I of these Regulations shall take effect—

- (a) in the case of a taxable person who is on 24th April 2002 authorised under regulation 50 of the Value Added Tax Regulations 1995(b), from the first day of his next prescribed accounting period beginning after that date; and
- (b) in the case of any other taxable person, from 25th April 2002.

PART I

ANNUAL ACCOUNTING

2. Amend Part VII of the Value Added Tax Regulations 1995 (annual accounting) in accordance with this Part.

3. In regulation 49—

- (a) for the definition of “the quarterly sum” substitute—
““the quarterly sum” means—

(a) 1994 c. 23. Section 96(1) defines “the Commissioners” as meaning the Commissioners of Customs and Excise and “regulations” as meaning regulations made by the Commissioners under the Act. Section 26B was added by a resolution passed by the House of Commons on 23rd April 2002 under the Provisional Collection of Taxes Act 1968 (c. 2), section 1. This resolution has statutory effect but will cease to have effect on 23rd August 2002 unless re-enacted in the Finance Act 2002. Relevant amendments were made to section 1 of the Provisional Collection of Taxes Act 1968 by section 60 of the Finance Act 1968 (c. 44), section 50 of, and paragraph 1 of Schedule 9 to, the Value Added Tax Act 1983 (c. 55), section 205 of the Finance Act 1993 (c. 34) and section 50 of the Finance (No. 2) Act 1997.

(b) S.I. 1995/2518; relevant amending instruments are S.I. 1996/542, S.I. 2001/677.

- (a) in the case of a taxable person who has been registered for at least 12 months—
 - (i) immediately preceding the first day of his current accounting year, or
 - (ii) for the purposes of regulation 51, immediately preceding the first day of his transitional accounting period,
 a sum equal to 25 per cent. of the total amount of VAT that he was liable to pay to the Commissioners in respect of those 12 months; or
 - (b) in any other case, a sum equal to 25 per cent. of the total amount of VAT that the Commissioners are satisfied he will be liable to pay to the Commissioners in respect of the next 12 months;”;
 - (b) in the definition of “the agreed quarterly sum”, for “20 per cent” substitute “25 per cent.”; and
 - (c) for the definition of “the monthly sum” substitute—

““the monthly sum” means—

 - (a) in the case of a taxable person who has been registered for at least 12 months—
 - (i) immediately preceding the first day of his current accounting year, or
 - (ii) for the purposes of regulation 51, immediately preceding the first day of his transitional accounting period,
 a sum equal to 10 per cent. of the total amount of VAT that he was liable to pay to the Commissioners in respect of those 12 months; or
 - (b) in any other case, a sum equal to 10 per cent. of the total amount of VAT that the Commissioners are satisfied he will be liable to pay to the Commissioners in respect of the next 12 months;”.
4. In regulation 50—
- (a) for paragraph (2)(a)(i) substitute—

“(i) where the taxable person and Commissioners agree to such payment pattern, the quarterly sum, or as the case may be the agreed quarterly sum, no later than the last working day of each of the fourth, seventh and tenth months of his current accounting year;”; and
 - (b) omit paragraph (3).
5. In regulation 51, for paragraph (a)(i) substitute—
- “(i) where the taxable person and Commissioners agree to such payment pattern, pay to the Commissioners by credit transfer on each relevant quarterly date the quarterly sum;”.
6. Immediately after paragraph (1) of regulation 52 insert—
- “(1A) Paragraph (1)(a) above shall not apply where the taxable person has reasonable grounds for believing that the value of taxable supplies made or to be made by him in the period of 12 months beginning on the date of his application for authorisation will not exceed £100,000.”.

PART II

FLAT-RATE SCHEME FOR SMALL BUSINESSES

7. Immediately after Part VII (annual accounting) of the Value Added Tax Regulations 1995(a) insert a Part to be known as “Part VIIA—Flat-Rate Scheme For Small Businesses” as follows—

(a) S.I. 1995/2518; relevant amending instruments are S.I. 1997/1614 and S.I. 2001/677, which amended Part VIII (cash accounting), S.I. 1997/2437, which amended Part IX (supplies by retailers) and S.I. 1996/2960, S.I. 1997/1086 and S.I. 1999/3029, which amended Part XIX (bad debt relief).

“PART VIIA

FLAT-RATE SCHEME FOR SMALL BUSINESSES

Interpretation of Part VIIA

55A.—(1) In this Part—

“capital expenditure goods” means any goods of a capital nature but does not include any goods acquired by a flat-rate trader (whether before he is a flat-rate trader or not)—

- (a) for the purpose of resale or incorporation into goods supplied by him,
- (b) for consumption by him within one year, or
- (c) to generate income by being leased, let or hired;

“change date” has the meaning given in regulation 55J(2);

“end date” has the meaning given in regulation 55Q(2);

“flat-rate trader” means a person who is, for the time being, authorised by the Commissioners in accordance with regulation 55B(1);

“relevant purchase” has the meaning given in regulation 55C;

“start date” has the meaning given in regulation 55B(2);

“the scheme” means the flat-rate scheme for small businesses established by this Part;

“the Table” means the table set out in regulation 55K.

(2) For the purposes of this Part, a person is associated with another person at any time if that other person makes supplies in the course or furtherance of a business carried on by him, and—

- (a) the business of one is under the dominant influence of the other, or
- (b) the persons are closely bound to one another by financial, economic and organisational links.

Flat-rate scheme for small businesses

55B.—(1) The Commissioners may, subject to the requirements of this Part, authorise a taxable person to account for and pay VAT in respect of his relevant supplies in accordance with the scheme with effect from—

- (a) the beginning of his next prescribed accounting period after the date on which the Commissioners are notified in writing of his desire to be so authorised, or
- (b) such earlier or later date as may be agreed between him and the Commissioners.

(2) The date with effect from which a person is so authorised shall be known as his start date.

(3) The Commissioners may refuse to so authorise a person if they consider it is necessary for the protection of the revenue that he is not so authorised.

(4) A flat-rate trader shall continue to account for VAT in accordance with the scheme until his end date.

Relevant supplies and purchases

55C.—(1) Subject to paragraphs (3) and (5), any—

- (a) supply of any goods or services to,
- (b) acquisition of any goods from another member State by, or
- (c) importation of any goods from a place outside the member States by,

a flat-rate trader is a relevant purchase of his.

(2) Subject to the following provisions of this regulation, any supply made by a person when he is not a flat-rate trader is not a relevant supply of his.

(3) Subject to paragraph (4) below, where—

- (a) a supply is made to, or made by, a person at a time when he is not a flat-rate trader, and
- (b) the operative date for VAT accounting purposes is, by virtue of regulation 57 (cash accounting scheme), a date when he is a flat-rate trader,

that supply is a relevant supply or a relevant purchase of his, as the case may be, if otherwise it would not be by virtue of paragraph (2) above.

- (4) Where a person—
- (a) is entitled to any credit for input tax in respect of the supply to, or acquisition or importation by, him of capital expenditure goods,
 - (b) claims any such credit, and
 - (c) makes a supply of those capital expenditure goods,

the supply made by him is not a relevant supply of his, if otherwise it would be.

(5) Where by virtue of any provision of, or made under, the Act a supply is treated as made by a flat-rate trader, whether to himself or otherwise, that supply is neither a relevant supply nor a relevant purchase of his.

Method of accounting

55D. Subject to regulation 55J below, for any prescribed accounting period of a flat-rate trader, the output tax due from him in respect of his relevant supplies shall be deemed to be the appropriate percentage of his relevant turnover for that period.

Input tax

55E.—(1) For any prescribed accounting period of a flat-rate trader, he is entitled to credit for input tax in respect of any relevant purchase of his of capital expenditure goods with a value, together with the VAT chargeable, of more than £2,000.

(2) Where paragraph (1) above applies, the whole of the input tax on the goods concerned shall be regarded as used or to be used by the flat-rate trader exclusively in making taxable supplies.

(3) Section 26B(5) of the Act shall not apply to prevent a taxable person from being entitled to credit for input tax in respect of any supply, acquisition or importation by him that is not a relevant purchase of his.

(4) Nothing in this regulation gives an entitlement to credit for input tax where such entitlement is excluded by virtue of any order made under section 25(7) of the Act.

Exceptional claims for VAT relief

55F.—(1) This regulation applies where—

- (a) the first prescribed accounting period for which a taxable person is authorised to account for and pay VAT in accordance with the scheme is the first prescribed accounting period for which he is, or is required to be, registered under the Act, and
- (b) the taxable person makes a claim in accordance with regulation 111 (exceptional claims for VAT relief).

(2) Where this regulation applies, section 26B(5) of the Act shall not apply to prevent the taxable person from being entitled to credit for input tax in relation to the matters for which he makes the claim described in paragraph (1)(b) above.

(3) Where—

- (a) this regulation applies, and
- (b) the Commissioners authorise the claim described in paragraph (1)(b) above,

the whole of the input tax on the goods or services concerned shall be regarded as used or to be used by the taxable person exclusively in making taxable supplies.

Determining relevant turnover

55G.—(1) The Commissioners shall prescribe, in a notice published by them, three methods to determine when supplies are to be treated as taking place for the purpose of ascertaining the relevant turnover of a flat-rate trader for a particular period, as follows—

- (a) “the basic turnover method”, which shall be a method based on consideration for supplies taking place in a period;
- (b) “the cash turnover method”, which shall be a method based on the actual consideration received in a period;
- (c) “the retailer’s turnover method”, which shall be a method based on the daily gross takings of a retailer.

(2) When exercising their power to prescribe these methods, the Commissioners shall prescribe what rules are to apply when a flat-rate trader ceases to use one of the methods and begins to use a different method.

(3) In any prescribed accounting period, a flat-rate trader must use one of the methods to determine the value of his relevant turnover.

Appropriate percentage

55H.—(1) The appropriate percentage to be applied by a flat-rate trader for any prescribed accounting period, or part of a prescribed accounting period (as the case may be), shall be determined in accordance with paragraphs (2) to (4) below and regulations 55J and 55K.

(2) For the prescribed accounting period current at his start date, the appropriate percentage shall be that specified in the Table for the category of business that he is expected, at his start date, on reasonable grounds, to carry on—

- (a) in that period, or
- (b) if his start date is not the first day of the period, in the remainder of the period.

(3) For any subsequent prescribed accounting period current at an anniversary of his start date, the appropriate percentage shall be that specified in the Table for the category of business that he is expected, on the first day of that prescribed accounting period, on reasonable grounds, to carry on in the period.

(4) For any other prescribed accounting period, if any, the appropriate percentage shall be the same as that applicable for the prescribed accounting period that was current at—

- (a) his start date, or
- (b) the most recent anniversary of his start date,

whichever is the later.

55J.—(1) This regulation applies where a flat-rate trader—

- (a) begins to carry on a new business activity, or
- (b) ceases to carry on an existing business activity.

(2) The first day on which he—

- (a) carries on the new business activity, or
- (b) no longer carries on the existing business activity,

shall be known as “the change date”.

(3) For the unelapsed portion, the appropriate percentage shall be that specified in the Table for the category of business that he is expected, at the change date, on reasonable grounds, to carry on in that period.

(4) “Unelapsed portion” means that part of the prescribed accounting period in which the change date occurs starting with the change date and ending on the last day of that prescribed accounting period.

(5) For any prescribed accounting period that falls between the prescribed accounting period current at the change date and the prescribed accounting period current at the next anniversary of his start date, the appropriate percentage shall be that applicable for the unelapsed portion.

(6) The appropriate percentages specified in paragraphs (3) and (5) above shall be applied to the relevant turnover in the periods described.

Category of business

55K.—(1) Where, at a relevant date, a flat-rate trader is expected, on reasonable grounds, to carry on business in more than one category in the period concerned, paragraph (3) below shall apply.

(2) The following are relevant dates—

- (a) for the purpose of regulation 55H(2) above, his start date;
- (b) for the purpose of regulation 55H(3) above, the first day of a prescribed accounting period current at an anniversary of his start date;
- (c) for the purpose of regulation 55J, the change date.

(3) He shall be regarded as being expected, on reasonable grounds, to carry on that category of business which is expected, on reasonable grounds, to be his main business activity in that period.

(4) In paragraph (3) above, his main business activity in a period is to be determined by reference to the respective proportions of his relevant turnover expected, on reasonable grounds, to be generated by each business activity expected, on reasonable grounds, to be carried on in the period.

TABLE

<i>Category of business</i>	<i>Appropriate percentage</i>
Retail of food, confectionery, tobacco, newspapers or children's clothing	5
Postal and courier services Public house	6
Agriculture not elsewhere listed	6.5
Membership organisation Retail of goods not elsewhere listed Wholesale of food or agricultural products	7
Retail of pharmaceuticals, medical goods, cosmetics or toiletries Sport or recreation Retail of vehicles or fuel Wholesale not elsewhere listed	8
Manufacture of food Library, archive, museum or other cultural activity Printing Vehicle repair	8.5
Packaging Building or construction services where materials supplied Social work Agricultural services	9
Rental of machinery, equipment, personal or household goods Manufacture of textiles or clothing	9.5
Forestry or fishing Other manufacture not elsewhere listed Mining Personal and household goods repair services Photography Publishing Transport, including freight, removals and taxis Travel agency	10
Hotels or accommodation	10.5
Advertising Animal husbandry Manufacturers of fabricated metal products Investigation or security All other activity not elsewhere listed Veterinary medicine Waste and scrap dealing	11
Estate agency or property management Secretarial services	11.5
Entertainment, excluding television, video and film production Financial services Laundry services	12

<i>Category of business</i>	<i>Appropriate percentage</i>
Business services not elsewhere listed	12.5
Restaurants, takeaways or catering services Hairdressing Real estate activity not elsewhere listed	13
Computer repair services Management consultancy Accountancy and book-keeping Architects Lawyers and legal services	13.5
Computer and IT consultancy or data processing Building or construction services where primarily only labour supplied	14.5

Admission to scheme

55L.—(1) A taxable person shall be eligible to be authorised to account for VAT in accordance with the scheme at any time if—

- (a) there are reasonable grounds for believing that—
 - (i) the value of taxable supplies to be made by him in the period of one year then beginning will not exceed £100,000, and
 - (ii) the total value of his income in the period of one year then beginning will not exceed £125,000,
- (b) he—
 - (i) is not a tour operator,
 - (ii) is not required to carry out adjustments in relation to a capital item under Part XV, or
 - (iii) does not intend to opt to account for the VAT chargeable on a supply made by him by reference to the profit margin on the supply, in accordance with the provisions of any Order made under section 50A of the Act^(a),
- (c) he has not, in the period of one year preceding that time—
 - (i) been convicted of any offence in connection with VAT,
 - (ii) made any payment to compound proceedings in respect of VAT under section 152 of the Customs and Excise Management Act 1979^(b),
 - (iii) been assessed to a penalty under section 60 of the Act, or
 - (iv) ceased to operate the scheme, and
- (d) he is not, and has not been within the past 24 months—
 - (i) eligible to be registered for VAT in the name of a group under section 43A of the Act,
 - (ii) registered for VAT in the name of a division under section 46(1) of the Act, or
 - (iii) associated with another person.

(2) In determining the value of a person's taxable supplies or income for the purposes of paragraph (1)(a)—

- (a) any supply of goods or services that are capital assets of the business in the course or furtherance of which they are supplied, and
- (b) any supply of services treated as made by the recipient by virtue of section 8 of the Act (reverse charge on supplies from abroad),

shall be disregarded.

(3) Notwithstanding the above, where a person has been—

- (a) eligible to be registered for VAT in the name of a group under section 43A of the Act,

^(a) Section 50A was inserted by the Finance Act 1995 (c. 4), section 24.

^(b) 1979 c. 2.

- (b) registered for VAT in the name of a division under section 46(1) of the Act, or
- (c) associated with another person,

in the period of 24 months before the date of his application, he shall not be eligible to be authorised, unless the Commissioners are satisfied that such authorisation poses no risk to the revenue.

Withdrawal from the scheme

55M.—(1) Subject to paragraph (2) below, a flat-rate trader ceases to be eligible to be authorised to account for VAT in accordance with the scheme where—

- (a) at any anniversary of his start date, the total value of his income in the period of one year then ending is more than £150,000,
- (b) there are reasonable grounds to believe that the total value of his income in the period of 30 days then beginning will exceed £150,000,
- (c) he becomes a tour operator,
- (d) he intends to acquire, construct or otherwise obtain a capital item within the meaning of regulation 112(2),
- (e) he opts to account for the VAT chargeable on a supply made by him by reference to the profit margin on the supply, in accordance with the provisions of any Order made under section 50A of the Act,
- (f) he becomes—
 - (i) eligible to be registered for VAT in the name of a group under section 43A of the Act,
 - (ii) registered for VAT in the name of a division under section 46(1) of the Act, or
 - (iii) associated with another person,
- (g) he opts to withdraw from the scheme, or
- (h) his authorisation is terminated in accordance with regulation 55P below.

(2) A flat-rate trader does not cease to be eligible to be authorised by virtue of paragraph (1)(a) above if the Commissioners are satisfied that the total value of his income in the period of one year then beginning will not exceed £125,000.

(3) In determining the value of a flat-rate trader's income for the purposes of paragraphs (1)(a) and (b) and (2) above, any supply of goods or services that are capital assets of the business in the course or furtherance of which they are supplied, shall be disregarded.

Notification

55N.—(1) Where for any prescribed accounting period the appropriate percentage to be applied by a flat-rate trader in accordance with regulation 55H(3) differs from that applicable for the previous prescribed accounting period, he shall notify the Commissioners of that fact within 30 days of the first day of the prescribed accounting period current at the anniversary of his start date.

(2) Where regulation 55J applies to a flat-rate trader he shall notify the Commissioners of—

- (a) that fact,
- (b) the change date, and
- (c) the appropriate percentages to be applied in each respective part of the prescribed accounting period current at the change date,

within 30 days of the change date.

(3) Where any of sub-paragraphs (a) to (g) of regulation 55M(1) apply, the flat-rate trader shall notify the Commissioners of that fact within 30 days.

(4) Any notification required by this regulation shall be given in writing.

Termination by the Commissioners

55P. The Commissioners may terminate the authorisation of a flat-rate trader at any time if—

- (a) they consider it necessary to do so for the protection of the revenue, or

- (b) a false statement was made by, or on behalf of, him in relation to his application for authorisation.

Date of withdrawal from the scheme

55Q.—(1) The date on which a flat-rate trader ceases to be authorised to account for VAT in accordance with the scheme shall be—

- (a) where regulation 55M(1)(a) applies—
 - (i) in the case of a person who is authorised in accordance with regulation 50(1) (annual accounting scheme), the end of the prescribed accounting period in which the relevant anniversary occurred, or the end of the month next following, whichever is the earlier, or
 - (ii) in all other cases, the end of the prescribed accounting period in which the relevant anniversary occurred,
 - (b) where regulation 55M(1)(b) applies, the beginning of the period of 30 days in question,
 - (c) where regulation 55M(1)(c), (d), or (f) applies, the date the event occurred,
 - (d) where regulation 55M(1)(e) applies, the beginning of the prescribed accounting period for which he makes the election described by that provision,
 - (e) where regulation 55M(1)(g) applies, the date on which the Commissioners are notified in writing of his decision to cease using the scheme, or such earlier or later date as may be agreed between them and him, and
 - (f) where regulation 55M(1)(h) applies, the date of issue of a notice of termination by the Commissioners or such earlier or later date as may be directed in the notification.
- (2) The date with effect from which a person ceases to be so authorised shall be known as his end date.

Self-supply on withdrawal from scheme

55R.—(1) This regulation applies where—

- (a) a person continues to be a taxable person after his end date,
 - (b) for any prescribed accounting period for which he was a flat-rate trader, he was entitled to, and claimed, credit for input tax in respect of any capital expenditure goods, and
 - (c) he did not, whilst he was a flat-rate trader, make a supply of those goods.
- (2) Where this regulation applies, those goods shall be treated for the purposes of the Act as being, on the day after his end date, both supplied to him for the purpose of his business and supplied by him in the course or furtherance of his business.
- (3) The value of a supply of goods treated under paragraph (2) above as made to or by a person shall be determined as though it were a supply falling within paragraph 6(1) of Schedule 6 to the Act.

Adjustments in respect of stock on hand at withdrawal from scheme

55S.—(1) This regulation applies where—

- (a) a person continues to be a taxable person after his end date,
 - (b) at his end date, he has stock on hand in respect of which he is not entitled to credit for input tax, and
 - (c) the value of the stock on hand referred to in sub-paragraph (b) above exceeds the value of his stock on hand in respect of which he was entitled to credit for input tax, at his start date.
- (2) Where this regulation applies, the taxable person, for the prescribed accounting period following that in which his end date falls, is entitled to credit for input tax in respect of his stock on hand in such amount as may be determined in accordance with a notice published by the Commissioners.

Amendment by notice

55T. The Commissioners may vary the terms of any method prescribed by them for the purposes of regulations 55G or 55S by publishing a fresh notice or publishing a notice that amends an existing notice.

Reverse charges

55U. Section 8 of the Act (reverse charge on supplies from abroad) shall not apply to any relevant supply or relevant purchase of a flat-rate trader.

Bad debt relief

55V.—(1) This regulation applies where—

- (a) a person has made a relevant supply,
- (b) he has used the cash turnover method to determine the value of his relevant turnover for the prescribed accounting period in which the relevant supply was made,
- (c) he has not accounted for and paid VAT on the supply,
- (d) the whole or any part of the consideration for the supply has been written off in his accounts as a bad debt, and
- (e) a period of 6 months (beginning with the date of the supply) has elapsed.

(2) Where this regulation applies—

- (a) section 36 of the Act (a) (bad debts) and any regulations made thereunder shall apply as if the conditions set out in subsection (1) of that section are satisfied, and
- (b) the amount of refund of VAT to which the person is entitled under that section shall be the VAT chargeable on the relevant supply described in paragraph (1) above less the flat-rate amount.

(3) In paragraph (2)(b) above, the flat-rate amount is—

$$A \times B$$

where—

A is the appropriate percentage applicable for the prescribed accounting period, or part thereof, in which the relevant supply was made, and

B is the value of the relevant supply together with the VAT chargeable thereon.”.

8. In Part VIII of the Value Added Tax Regulations 1995 (cash accounting), immediately after regulation 57 insert—

“**57A.**—(1) A person shall not account for VAT in accordance with the scheme in respect of any relevant supplies or relevant purchases of his.

(2) In this regulation, “relevant supplies” and “relevant purchases” have the same meanings as in Part VIIA (flat-rate scheme for small businesses).”.

9. In Part IX of the Value Added Tax Regulations 1995 (supplies by retailers)—

(a) immediately before the definition of “notice” insert—

““flat-rate trader” has the meaning given in regulation 55A;”;

(b) immediately after regulation 69, insert-

“**69A.** No retailer may use a scheme at any time for which he is a flat-rate trader.”; and

(c) in regulation 71, make the existing provision paragraph (1) and after it insert—

“(2) Paragraph (1) shall not apply where a retailer ceases to operate a scheme solely because he becomes a flat-rate trader.”.

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24th April 2002

M. J. Eland
Commissioner of Customs and Excise

(a) Section 36 was amended by the Finance Act 1997 (c. 16), section 39 and Schedule 18, Part IV, the Finance Act 1998 (c. 36) section 23 and Schedule 27, Part II and the Finance Act 1999 (c. 16) section 15.

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations, which come into force on 25th April 2002, further amend the Value Added Tax Regulations 1995 (S.I. 1995/2518) (the “principal Regulations”). However, Part I of the Regulations, which amends the annual accounting scheme, has effect in the case of persons who are already operating the annual accounting scheme only from the beginning of their relevant accounting periods starting after 24th April.

Regulation 3 amends the definitions of “the agreed quarterly sum”, “the quarterly sum”, and “the monthly sum” prescribed in regulation 49 of the principal Regulations. The effect of the changes is that the amount of the quarterly sum and the agreed quarterly sum is increased, and new provision is made to define the latter two terms in respect of persons who have not been registered for VAT for 12 months (such persons were formerly not permitted to use annual accounting).

Regulations 4 and 5 amend regulations 50 and 51 respectively, of the principal Regulations. The effect is that persons using annual accounting will make payments of the monthly sum or the agreed monthly sum, unless the Commissioners agree that payment may be made of the quarterly sum or the agreed quarterly sum instead. The rules that formerly allowed some persons using annual accounting to make no interim payments are removed.

Regulation 6 amends the rule in regulation 52 of the principal Regulations that a person must have been registered for VAT for 12 months before he is eligible to apply to use annual accounting. The effect of the amendment is that the rule does not apply where a person has reasonable grounds for believing that the value of taxable supplies made or to be made by him in the period of 12 months following his application will not exceed £100,000.

Part II of these Regulations inserts a new Part VIIA, comprising new regulations 55A to 55V, into the principal Regulations and makes consequential amendments to the principal Regulations. This new Part VIIA of the principal Regulations establishes the flat-rate scheme for small businesses (“FRS”).

The new regulation 55A of the principal Regulations defines terms used within the new Part VIIA.

The new regulation 55B provides that the Commissioners may authorise a taxable person to commence using the FRS, or may refuse to do so for the protection of the revenue. It also prescribes the date of entry, including provision that the Commissioners and a taxable person may agree the date of his entry to the FRS, which date may be earlier or later than the taxable person’s application.

The new regulation 55C defines what are to be considered “relevant purchases” and “relevant supplies” for the purposes of the FRS, including making provision regarding supplies that are made at a time when a person is using the cash accounting scheme established by Part VIII of the principal Regulations.

The new regulation 55D sets out the basic rule of accounting for the FRS which is that, subject to some exceptions, the VAT due from a person operating the FRS for any prescribed accounting period is the appropriate percentage of his relevant turnover for that period.

The new regulation 55E allows a person using the FRS to recover input tax incurred on the purchase of a capital item that exceeds a value of £2,000 (including VAT), that he would otherwise not be entitled to deduct by virtue of section 26B(5) of the Value Added Tax Act 1994 c. 23 (“the Act”). The new regulation 55E also permits the whole of this input tax to be treated as if used exclusively in making taxable supplies. It also provides that section 26B(5) of the Act shall not deny the right to recover VAT on any supply, acquisition or importation which is not a relevant purchase. However, it does not create an entitlement to credit for input tax where this is otherwise blocked under section 25(7) of the Act.

The new regulation 55F allows a person whose first prescribed accounting period is also the first for which he operates the FRS to recover the whole of the input tax validly claimed under regulation 111 of the principal Regulations in respect of VAT on goods or services to him before registration.

The new regulation 55G permits the Commissioners to prescribe in a notice three methods (one of which a person operating the FRS must use) for determining when supplies take place for the purposes of ascertaining a person's relevant turnover. It also allows the Commissioners to set rules in a notice that are to apply when a person changes from one method to another.

The new regulation 55H sets out the basic rules under which a person operating the FRS must determine, based on the category of business that he is going to carry on, which appropriate percentage from those listed in the Table he must apply for a particular period. The determination is made at the beginning of the period in question.

The new regulation 55J provides for an exception to the general rule set out in regulation 55H where a person operating the FRS either begins or ceases to carry on a business activity. It provides that he must determine the appropriate percentage to be applied from the date of the change.

The new regulation 55K contains the Table setting out what appropriate percentage is to apply to a person operating the FRS, depending on what category of business he carries on. It also sets out rules for determining what category of business a person is to be regarded as carrying on where he carries on business in more than one category.

The new regulation 55L sets out the turnover limits for eligibility to join the FRS and which supplies are to be counted when determining the turnover for this purpose. It also sets out other conditions that must be met in order for a person to be eligible to join the FRS. The new regulation 55M sets out the circumstances in which persons operating the FRS cease to be eligible to continue to do so.

The new regulation 55N provides that various matters regarding the appropriate percentage to be applied and matters affecting eligibility to continue to operate the FRS must be notified to the Commissioners in writing.

The new regulation 55P permits the Commissioners to terminate a person's authorisation to operate the FRS in order to protect the revenue or where a false declaration is made at the time of application.

The new regulation 55Q prescribes the dates from which a person ceases to be authorised to operate the scheme where any of the matters listed in regulation 55M occur.

The new regulation 55R provides that a self-supply charge shall arise where a person ceases to operate the FRS, but remains registered for the purposes of VAT and has claimed input tax on the purchase of capital expenditure that he has not supplied whilst he was using the FRS.

The new regulation 55S provides for an input tax adjustment to be made in respect of stock on hand when persons cease operating the FRS but remain registered for the purposes of VAT. The regulation provides that the amount of the adjustment is to be determined in accordance with a notice published by the Commissioners.

The new regulation 55T allows the Commissioners to vary the terms of any method for determining relevant turnover or the amount of the stock adjustment, by publishing a new notice or by amending an existing one.

The new regulation 55U provides that there is no requirement to raise a reverse charge to account for VAT on supplies from abroad where this is a relevant supply or purchase.

The new regulation 55V provides that, provided the conditions of the regulation are met, a person using the cash turnover method of determining his relevant turnover may recover VAT on bad debts, and sets out the method of calculation.

Regulation 8 inserts a new regulation 57A into the principal Regulations, which provides that a person may not use the cash accounting scheme for any relevant supplies or purchases within the scope of the FRS.

Regulation 9 amends Part IX of the principal Regulations such that a person using a retail scheme must cease to do so if he starts to operate the FRS.

A Regulatory Impact Assessment on the Introduction of a Flat-Rate Scheme and Changes to the Annual Accounting Scheme was published on 25th April 2002 and is available at www.hmce.gov.uk.

£2.50

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Her Majesty's Stationery Office and Queen's Printer of Acts of Parliament.
E0834 5/2002 120834 19585

ISBN 0-11-039982-X



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