HMRC - FRS6600 - Anti-Avoidance Rules: What Is The Treatment Of Capital Assets On Leaving The Flat Rate Scheme?

Regulation 55R of VAT Regulations 1995 covers self supply on leaving the scheme. If the business directly recovers the VAT on capital assets whilst using the scheme and does not supply those assets whilst using the scheme, there is a deemed self-supply of those assets when the business ceases to use the flat rate scheme. This might arise under the concession to allow input tax recovery for assets with a tax inclusive value above £2,000 and to the concession for goods on hand at registration. ‘Capital assets’ in this context has the meaning described in Notice 733 VAT flat rate scheme for small businesses.

The charge bites in the first period of normal accounting following withdrawal of the scheme and is intended to prevent manipulation by partially exempt companies. If the business is fully taxable then the self-supply is recoverable in full. If the business is partly exempt, the self-supply will be recoverable to the extent allowed by the business’ partial exemption method.

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