CHAPTER 31

FARMERS' FLAT-RATE SCHEME

31.1 Introduction

A farmer normally makes supplies of food. These are zero-rated taxable supplies. Thus, with 0% VAT to charge and full input VAT recovery, a farmer is in an ideal position to recover VAT on every VAT return. However, a farmer may argue that being within VAT is not so pleasant due to the high levels of administration required not to mention all the penalties and interest charges if he gets it wrong. SI 1992/3220 s.54

31.2 The Scheme

The farmers' flat-rate scheme aims to simplify VAT by taking farmers "out of VAT". Thus, there is **no requirement to register for VAT, complete VAT returns etc.**

The scheme also seeks to **compensate farmers for the loss of the ability to recover input tax** now that they are no longer within the VAT system. Compensation is by way of a **4% addition to sale price, which the farmer keeps for himself.**

An unusual aspect of the scheme is that it is available to all farmers in the U.K., whether they are registered or not.

Farmers choose whether or not to join the scheme. Farmers who were VAT registered must deregister on joining the scheme.

31.3 Designated Activities

A person who carries on "designated activities" is entitled to join the scheme.

"Designated activities" are farming and related operations. Examples include **general stock** farming, **fruit and vegetable** production and **fish** farming, snail and frog farming, breeding of oysters, and beekeeping.

The legislation outlines the following designated activities;

- **Crop production**

  e.g.
  - growing fruit
  - growing vegetables
  - growing flowers
  - production of mushrooms

- **Stock farming**
  e.g. - poultry
  - rabbit
  - beekeeping
  - snails

SI 1992/3220

- **Forestry**

- **Fisheries**
  e.g. - fish farming
  - frog farming

- **Processing**
  i.e. the processing of products derived from the above activities.

- **Services**
  e.g. - field work such as reaping, mowing, harvesting, planting.
  - storage of agricultural products
  - hiring out of farming equipment
  - destruction of weeds and pests.

31.4 Certification

A person carrying on designated activities can apply for "certification" as a flat-rate farmer. The issue of the certificate cancels any VAT registration. SI 1995/2518 Reg. 202 - 211

Some farmers often make supplies which are **not designated activities**, for example, **camping facilities, bed and breakfast** and **tea rooms**. If such non-designated activities exceed the VAT registration threshold, then VAT registration is compulsory. VAT registration cancels the certificate. Thus, where a farmer has a **high turnover from non-farming activities, he cannot be part of the flat-rate scheme**.

Once a farmer is within the flat-rate scheme no VAT returns are made. A flat-rate addition (FRA) of **4% is added to the sale price of supplies** of "designated activities", but **only if the customer is a VAT registered person.** The farmer keeps this 4% flat-rate charge. It is his "compensation" for losing the ability to recover input tax. VATA 1994, s. 54(3)(4) SI 1992/3221

The VAT registered customer recovers the 4% flat-rate charge as if it was input tax on a supply. SI 1995/2518 Reg. 209

To recover the flat-rate charge, the customer needs an invoice showing the charge. The farmer **issues an invoice showing his farmers' certificate number.** This is not a VAT invoice, because, of course, the farmer is not within VAT.

Example 1

Let us test your understanding to date with some multiple-choice questions. Choose the letter or letters which are correct.

1) The flat-rate addition (FRA) is charged to:
   a) VAT registered customers
   b) Unregistered customers

2) Farmer Giles is a flat-rate farmer selling his produce to a large supermarket chain. On which sales does he charge the 4% FRA?
   a) Sales of tomatoes
   b) Packaging of tomatoes

31.5 Restriction

There is one restriction on who can join the flat-rate farmers' scheme. HMRC have the right to refuse to issue a certificate to a farmer who looks likely to benefit by more than £3,000 in his first year in the scheme. This would only occur if 4% of a farmer's designated supplies exceeded input tax incurred by £3,000.

31.6 Leaving the scheme

There are two ways to leave the farmers' flat rate scheme. Either the farmer **chooses to leave** or is **told to leave** by HMRC.

Once a farmer has been in the scheme for at least one year, he can write to his local VAT office, at any time, requesting that his certificate be cancelled. Thus, he will leave the scheme. SI 1995/2518 Reg. 206-207

HMRC can expel a farmer from the scheme at any time in a number of circumstances;

- If a farmer is found to be recovering substantially more money as a flat-rate farmer than he would have if just a normal VAT registered farmer, he will be told to leave the scheme.
- If the level of a farmer's non-designated supplies exceeds the VAT registration threshold for VAT, he will have to leave the scheme as VAT registration and certification are mutually exclusive.
- Once a farmer ceases to make designated supplies he must leave the scheme.
- If a farmer becomes insolvent, or similarly incapacitated, he must also leave the scheme.

Illustration 1

Farmer John makes the following supplies in his year ended 31 December 2010:

Sale of vegetables to Fresco plc	£35,000
Sale of vegetables at Farmers' Market held monthly in Bristol	£10,000
Income from bed and breakfast (VAT exclusive)	£18,000

He purchased a new potato harvester in the year for £30,000 plus VAT.

Calculate how much FRA Farmer John charged if he was a flat-rate farmer during the year.

Designated activities	
Sale of vegetables to Fresco plc	£35,000
FRA @ 4% = £1,400	

Only the sale of vegetables is a designated activity. In addition, the FRA is only charged where designated activities are supplied to VAT registered customers.

Presumably, only Fresco plc is VAT registered so the sales to Fresco plc will have suffered the 4% addition. Thus, £1,400 of FRA was charged and kept by Farmer John. Because he is not "in VAT", the input tax of £5,250 on the potato harvester was not recoverable.

Example 2

The same details as Illustration 1 but this time Farmer John is VAT registered.

How much VAT would be due or recovered by Farmer John for the year?

Answer 1

1) Only a) is correct.

2) Both a) and b) are correct.

Answer 2

Output tax is due as follows:

	£
Sales of vegetables at 0% £35,000 + £10,000 = £45,000 @ 0%	Nil
Bed and Breakfast @ 17.5% £18,000 @ 17.5%	3,150
Output Tax	3,150
Less: Input Tax on potato harvester	(5,250)
Net VAT recoverable	(2,100)

Output tax will be charged on all Farmer John's taxable supplies. Thus, the sales of vegetables will be subject to VAT at 0%. VAT ignores the status of the customer, as you know.

The bed and breakfast supplies are standard-rated taxable supplies. Thus, at 17.5% there is VAT of £3,150. Note that we charge VAT on top since we were told that the £18,000 was VAT exclusive. Thus, £3,150 of output tax was charged and is payable to HMRC for the year.

However, some input tax was incurred on the new potato harvester; this is recoverable in full. So, the £5,250 of input VAT is deducted from the £3,150 of output VAT due.

Thus for the year Farmer John will get an overall repayment of £2,100.

Now compare this to the £1,400 Farmer John received as a flat-rate farmer.

In this example, Farmer John would be £700 better off as a VAT registered farmer.