

Foreword

This notice cancels and replaces Notice 700/46 (April 2011).

1. Basic information about the agricultural flat rate scheme

1.1 What is this notice about?

It explains the Agricultural Flat Rate Scheme, who can use it and how to apply to join.

1.2 What has changed from the previous version?

This revised notice replaces the April 2011 edition and includes an example of the VAT 98 - Flat Rate Scheme for agriculture - application for certification.

It also includes amendments which reflect businesses that are required to register for VAT under VAT Act 94, Schedule 1A. For more information regarding VAT registration see **Notice 700/1- Should I be registered for VAT.**

You can access details of any changes to this notice since it was published either on our website at **hmrc.gov.uk** or by phoning the VAT Helpline on **0845 010 9000**.

1.3 Force of law

Section 10 contains an example of the VAT 98 form which carries the force of law under the VAT Regulations 1995, Regulation 204(c).

1.4 Who is the flat rate scheme for?

The flat rate scheme is an alternative to VAT registration for farmers.

If you register as a flat rate farmer you do not account for VAT or submit returns and so cannot reclaim input tax. But you can charge and keep a flat rate 'addition' (FRA) when you sell goods or goods and services to VAT registered customers. You cannot join the scheme if the value of your non-farming activities is above the VAT registration threshold.

The flat rate addition is not VAT but acts as compensation for losing input tax on purchases. It is not intended as reimbursement for all the VAT incurred on purchases. The flat rate addition is 4%.

1.5 What is the definition of a ‘farmer’?

For the purposes of this scheme only, the definition of a **farmer** is someone who carries on any of the agricultural production activities or agricultural production activities and services listed in Section 3.

Although the term ‘farmer’ is used throughout this notice, there are a number of activities, such as horticulture, which are not usually called **farming** but are covered by the scheme. Section 3 will help you decide if the scheme covers your activities.

1.6 Rules for joining the scheme

To join you must:-

- (a) be in business as a farmer supplying goods, or goods and services (but not services alone), which qualify for inclusion in the scheme – for details of these see Section 3.
- (b) cancel your VAT registration, if you are currently registered. You can only do this if your turnover for non-farming goods and services is below the VAT registration threshold. For details of the current VAT registration threshold, see **Notice 700/1** (Should I be registered for VAT?), and
- (c) not, in the three years before your application, have been convicted of any offence in connection with VAT or have been penalised for any kind of VAT offence under Section 152 of the Customs and Excise Management Act 1979, or been assessed to a penalty under Section 60 of the VAT Act 1994.

1.7 Who cannot join the scheme?

You cannot join the scheme if...	For example, if you...
your primary activity is to buy and sell animals	<ul style="list-style-type: none">• deal in, or train, animals.
you are engaged in an activity once removed from farming	<ul style="list-style-type: none">• process farm produce. Examples include dairy co-operatives (who buy milk from farmers and produce dairy products) and sawmills.
your turnover for non-farming activities exceeds the registration threshold	<ul style="list-style-type: none">• let holiday cottages.

1.8 Do I have to join the scheme if I qualify for it?

No. You can choose to remain registered for VAT if you wish.

1.9 Where is the scheme covered in the law?

The scheme is covered in UK law in VAT Act 1994, section 54 and VAT Regulations 1995, regulations 202-211. The VAT (Flat Rate Scheme for Farmers) Designated Activities Order 1992 details those activities covered.

2. Joining the scheme: how and when to notify us

2.1 Forms you must complete

You should complete application Form VAT 98 Flat Rate Scheme for Agriculture. You can print a copy of the form from hmrc.gov.uk. An example of this form can be seen in [section 10](#) of this notice.

Once completed you should send your application form to Grimsby VAT Registration Service. HM Revenue & Customs, Imperial House, 77 Victoria Street, Grimsby, NE Lincs DN31 1DB who will:

- issue a certificate to confirm when your membership starts, or
- give reasons why, if your application has been rejected.

2.2 When can I apply to join the scheme?

You can apply at any time, but your certificate will only take effect from the date we receive your application. To make sure registration by your preferred date, you can apply up to 30 days in advance, as that way you can be more certain when your certificate will start. If you are VAT registered your certificate will not take effect from a date before your registration is cancelled. Please allow up to 3 weeks for a certificate to be issued.

2.3 What will my certificate show?

Type of business...	Your certificate will show the...
Sole proprietor or company	<ul style="list-style-type: none">• full name of the business owner• address of the business.
Partnership	<ul style="list-style-type: none">• trading name of the business, if there is one, or• names of at least two partners. <p>In either case, the certificate covers all partners who were named on the application form and any accompanying list.</p>

3. Farming activities that qualify for the scheme

3.1 Which activities qualify for the scheme?

Activities	You can normally join the scheme if you are involved in any of the following...
Crop production	<ul style="list-style-type: none"> • general agriculture, including viticulture • growing of fruit and of vegetables, flowers and ornamental plants, whether in the open or under glass • production of mushrooms, spices, seeds and propagating materials, or • nurseries, this covers the rearing of young plants for sale.
Stock farming	<ul style="list-style-type: none"> • general stock farming • poultry farming • rabbit farming • beekeeping • silkworm farming, or • snail farming.
Forestry	<ul style="list-style-type: none"> • growing, felling and general husbandry of trees in a forest, wood or copse including the conversion of felled timber into sawlogs, industrial small diameter roundwood, pitprops, cordwood, fencing material and firewood.
Fisheries	<ul style="list-style-type: none"> • fresh-water fishing • fish farming • breeding of mussels, oysters and other molluscs and crustaceans, or • frog farming.

3.2 Which types of processing qualify for the scheme?

Those types of processing for which you have **grown the products** being processed qualify.

An example would be if you grow trees, fell them and process the timber, perhaps by cutting it into logs. But not if you are processing timber that someone else has grown.

3.3 Which services qualify for the scheme?

The following services qualify, if they are linked to one of the activities listed at paragraph 3.1:-

- field work, reaping and mowing, threshing, bailing, collecting, harvesting, sowing and planting
- packing and preparing for market (including drying, cleaning, grinding, disinfecting and ensilaging) of agricultural products for market
- storage of agricultural products
- stock minding, rearing and fattening;
- hiring out of equipment for use in any of the activities described in this list
- technical assistance in relation to any of the activities described in this list
- destruction of weeds and pests, dusting and spraying of crops and land;
- operation of irrigation and drainage equipment, and
- lopping, tree felling and other forestry services.

3.4 Which activities fall outside the scheme?

Type of activity	You cannot join the scheme if...
Crop production	<p>you are...</p> <ul style="list-style-type: none"> • a marketing co-operative; or • selling peat or top soil.
Stock farming	<p>you are...</p> <ul style="list-style-type: none"> • raising budgerigars and other birds in aviaries purely as pets • raising butterflies and any other animals or birds raised for similar purposes, for example cats and dogs (except sheep dogs); providing most other activities involving animals, for example pony trekking, riding lessons, hunting and so on • training animals as a specialist activity • training horses bred for racing and any specialist training of horses for show-jumping or eventing, or • training pigeons for racing (however, the breeding, rearing and care of pigeons would fall within the scheme)
Forestry	<ul style="list-style-type: none"> • the activity involves any processing beyond the conversion of felled timber into sawlogs, industrial small diameter roundwood, pitprops, cordwood, fencing material and firewood.

Services	<ul style="list-style-type: none">• the services concern the sale or leasing of milk quotas. Even if they are sold with land, these services are not considered a qualifying activity under the flat rate scheme.
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4. Non-farming activities

4.1 Non-farming turnover is below the VAT registration threshold

If the level of your taxable turnover of your non-farming business activities is less than the VAT registration threshold, you can still be a flat rate farmer. For the current threshold, see **Notice 700/1** Should I be registered for VAT? Non-farming activities includes things like the provision of bed and breakfast or holiday accommodation, charges to visit the farm, riding lessons etc.

4.2 Non-farming turnover is above the VAT registration threshold

If you are already a flat rate farmer and your non-farming turnover goes over the threshold you must leave the scheme and register for VAT. However, you should also read paragraph 4.4 below. If your non-farming turnover is above the threshold and you are already registered for VAT you must remain so.

4.3 Do I charge VAT on non-farming activities?

No. If you are not VAT registered, you cannot charge VAT on your non-farming activities, such as bed and breakfast. You cannot charge the flat rate addition on these supplies either.

4.4 Can I register the non-farming side of my business separately?

Yes, if it is run as a separate business and it is run by someone not granted a flat rate certificate.

For example, if you have a flat rate farming certificate as a sole proprietor, you can register for VAT as a partnership or limited company, as long as the partnership or company owns the non-farming business.

You cannot reclaim VAT through the registered partnership or limited company, on expenses you incur on your farm activities.

4.5 What if I buy items that are used for both my farming and non-farming activities?

If you buy machinery and/or equipment which has a dual purpose and is for legitimate use in both businesses, you may reclaim on your VAT return only the proportion of VAT proper to the use of that equipment in your VAT registered business.

4.6 Can you refuse my application?

We can refuse if...

- your non-farming activities are over the VAT threshold, or
- you would recover substantially more money through the flat rate scheme than the input tax you claim through VAT registration. This might happen because your input tax, when compared to your sales, is a much smaller percentage than the flat rate addition. But your application on these grounds will only be refused if the amount you stand to gain is more than £3,000 in the year following your application. This is calculated by comparing the flat rate addition that you would be able to charge, with the input tax you would normally be able to reclaim.

4.7 Can I appeal if my application is refused?

Information on reviews and appeals is available on our website at www.hmrc.gov.uk. You can find out more about tribunals and obtain the relevant forms from the Tribunals on their **website** or you can phone them on **0845 223 8080**.

5. Accounting procedures under the scheme

5.1 Do I charge VAT if I join the flat rate scheme?

No. You can add the flat rate addition of 4% to the sale price of qualifying goods or goods and services sold to VAT registered customers even where these sales would be zero-rated for VAT. This is because the flat rate addition is not a VAT rate or amount.

5.2 Adding the flat rate addition to sales

You do not have to add the flat rate addition to your sales, but when you do, you may keep it. However, you must **not** charge the flat rate addition on sales of:

- machinery, or

- land, and the repair and maintenance of farm buildings belonging to other farmers.

And you must **not** charge the flat rate addition on sales to:

- people who are not registered for VAT, or
- other flat rate farmers.

This is because they are unable to reclaim the addition.

5.3 Must I complete VAT returns and pay the flat rate addition to HMRC?

No. You do not have to complete any VAT returns or pay anything to HMRC, if you are using the scheme.

5.4 Must I issue invoices?

You must issue invoices if you charge the flat rate addition on your qualifying goods and services to your VAT registered customers. They will need invoices to claim back the addition on their VAT return.

Invoices must show:

- an identifying invoice number
- your flat rate certificate number
- your name and address
- the name and address of your VAT registered customer
- the date of the sale
- a description of the goods or services
- the price payable excluding the flat rate addition, and
- the rate and amount of the flat rate addition described as **Flat Rate Addition** or **FRA**.

Your customer can prepare an invoice for you provided the arrangements meet the legal conditions laid down in the VAT regulations and in Notice 700/62 Self Billing.

5.5 VAT on equipment on hand on joining the scheme

If you cancel your VAT registration to join the scheme, you will not have to pay VAT on the value of any stocks and assets of your business.

5.6 What records must I keep?

If you become a flat rate farmer, you must keep your normal business records and copies of all invoices on which the flat rate addition is shown for 6 years.

5.7 Will I still get visits from your officers?

Generally our officers will not visit you but, exceptionally, an officer may ask to see your records. If this happens you must make them available.

5.8 Treatment of flat rate additions by your customers

Your VAT registered customers will be able to reclaim flat rate additions on their VAT returns if the goods or services you sell them are for business use. They treat the addition as input tax. If a customer claims an unauthorised amount, for example an amount charged on goods which are not agricultural produce, we will disallow it. The customer may then have to pay a financial penalty.

6. Imports and exports

6.1 What if I sell to other EU Member States?

No VAT is due when agricultural produce is sent or taken to a VAT registered person in another EU Member State but if you, as a UK flat rate farmer, sell agricultural produce to a VAT registered person in another EU Member State, you will be able to charge the flat rate addition. Your VAT registered customers in other EU Member States can reclaim the flat rate addition you have charged. You will need to issue them with a flat rate invoice so that they can do this. Paragraph 5.4 tells you the details you will need to include on the invoice.

6.2 What if I buy from other EU Member States?

If you are registered for VAT in the UK and you buy goods from suppliers in other EU Member State, on which a flat rate addition has been charged, you can reclaim this amount from the tax authority in the supplier's Member State.

As a UK flat rate farmer acquiring goods, other than new means of transport, from other EU Member States, if those acquisitions reach the current VAT registration threshold in a calendar year, you may have to register for VAT and leave the flat rate scheme. If you think this affects you, please ask the VAT Registration Service for advice (see paragraph 9.1 for the address).

Special arrangements apply to new means of transport. Notice 728 VAT: Motor vehicles, boats, aircraft: intra-EC movements by private persons will give you the details.

6.3 What happens if I make sales to customers outside the EU?

As a flat rate farmer you will be able to charge the flat rate addition when you sell agricultural produce to customers outside the EU, provided the produce is for the customer's business.

7. Leaving and rejoining the flat rate scheme

7.1 Under what circumstances can my membership of the scheme end?

You can leave the scheme voluntarily, or HMRC can remove you compulsorily if you no longer qualify for the scheme.

To leave voluntarily, you must have been in the scheme for at least a year. If you meet this condition, you must apply in writing to the VAT Registration Service (see paragraph 9.1 for the address).

7.2 When must I leave the scheme?

You must leave the scheme if you:

- become liable to be registered for VAT as a result of your non-farming supplies going over the threshold
- cease to produce agricultural goods qualifying for the flat rate scheme
- cease to qualify as a flat rate farmer because you sell your business or ownership of the business changes from sole proprietor to limited company, in which case you can apply for a new certificate
- become insolvent or otherwise incapacitated, or

- are found to be recovering substantially more as a flat rate farmer than you would if you were registered for VAT in the normal way.

7.3 When can Customs remove me compulsorily from the scheme?

Some of the circumstances where we may cancel your certificate include where:

- it is discovered that you made a false statement on your application
- you have received a penalty for VAT evasion or been convicted of an offence in connection with VAT
- you cease to be involved in designated activities
- you die, or become bankrupt or incapacitated
- you become liable to be registered under the VAT Act 1994, Schedules 1, 1A or 3
- you make an application in writing for registration under Schedule 1, 1A or 3 to the Act, which shall be seen as an application for cancellation of your certificate, or
- they consider it is necessary to do so for the protection of the revenue.

7.4 Can I rejoin the scheme?

If you have registered for VAT since leaving the scheme, you can only rejoin the scheme if at least:

- 3 years have passed since you left the scheme, or
- 1 year has passed since you left the scheme, and at the time you apply to rejoin, the tax due on your assets on hand is less than £1,000.

If you have not registered for VAT since leaving the scheme, and were not required to be registered, you may rejoin the scheme at any time.

8. Special cases

8.1 Produce sold through farmers' groups and co-operatives

If you are selling produce, which is combined with that of other farmers, you may only charge the price agreed for the produce without the flat rate addition.

In these cases, the buyer should pay the farmers' group only the price agreed for the produce, without the flat rate addition. The farmers' group will pay the flat rate addition to those farmers who have a certificate, when the proceeds of the sale are shared out. The farmers' group will be able to reclaim this addition on their own VAT return, as though it were input tax.

8.2 Rules for auctioneers' sales

If you are using the Auctioneers' Scheme or the Margin Scheme and acting in your own name, you are regarded as a principal for VAT purposes, buying and selling the goods. In this case, flat rate farmers will be able to charge you the flat rate addition. You will be able to reclaim it on your VAT return. The sale will be subject to the normal VAT rules.

If you are not using either of these schemes and you are not acting in your own name, you will not be regarded as purchasing and selling the goods for VAT purposes. In this case, the flat rate farmer will not be able to charge you, the auctioneer, the flat rate addition. However, the farmer will be able to charge the flat rate addition to the eventual buyer of the goods if the buyer is VAT registered.

9. Notifying changes in circumstances

9.1 When must I notify you of any changes?

Written notification of any variation to your certificate should be sent to Grimsby VAT Registration Service, HM Revenue & Customs Imperial House, 77 Victoria Street, Grimsby, NE Lincs DN31 1DB.

You must notify us if you:

- (a) change your name or address
- (b) are in partnership and a partner joins or leaves the business, by providing the full name of the partner concerned. If a partner leaves to run another farming business and a new certificate is required in respect of the new business, a fresh application must be made, or
- (c) are a sole proprietor who takes on a partner, by providing the full name of your new partner.

In these cases we will reissue your certificate with the same number.

In all other cases where the legal entity changes, the existing certificate must be cancelled, but the new entity may apply for a new certificate.

10. VAT 98 - Flat Rate Scheme for Agriculture - Application for Certification.

This is the VAT 98. The first page of this Form is published by the Commissioners under Regulation 204(c) of the VAT Regulations 1995. It is the form which must be completed if a business wants to apply to join the scheme.

[VAT 98 - Flat Rate Scheme for agriculture - application for certification](#)

Your rights and obligations

Your Charter explains what you can expect from us and what we can expect from you. For more information, go to hmrc.gov.uk/charter.

Do you have any comments or suggestions?

If you have any comments or suggestions to make about this notice, please write to:

HM Revenue & Customs
VPOT SME
1st Floor Regian House
LIVERPOOL
L75 4AD

Please note this address is not for general enquiries.

For your general enquiries please phone our Helpline **0845 010 9000**.

Putting things right

If you are unhappy with our service, please contact the person or office you have been dealing with. They will try to put things right. If you are still unhappy, they will tell you how to complain.

If you want to know more about making a complaint go to hmrc.gov.uk and under quick links, select Complaints and appeals.

How we use your information

HM Revenue & Customs is a Data Controller under the Data Protection Act 1998. We hold information for the purposes specified in our notification to the Information Commissioner, including the assessment and collection of tax and duties, the payment of benefits and the prevention and detection of crime, and may use this information for any of them.

We may get information about you from others, or we may give information to them. If we do, it will only be as the law permits to:

- check the accuracy of information
- prevent or detect crime
- protect public funds.

We may check information we receive about you with what is already in our records. This can include information provided by you, as well as by others, such as other government departments or agencies and overseas tax and customs authorities. We will not give information to anyone outside HM Revenue & Customs unless the law permits us to do so. For more information go to **hmrc.gov.uk** and look for Data Protection Act within the Search facility.