

Unsure of the differences in VAT schemes in Mighty? We'll explain here!

VAT

Last updated 8 October 2026

Overview:

In Mighty, there are different VAT schemes that you can select in the HMRC & Tax Settings tab. These will dictate how your VAT return within Mighty is calculated, so it's important that you get this right. The different options that can be selected for VAT schemes are:

- Standard
- Cash Accounting Scheme
- Flat Rate Scheme (Invoice Accounting)
- Flat Rate Scheme (Cash Accounting)
- Not Registered

It's important to note that the scheme you select must be the scheme that you have applied for and been accepted onto with HMRC. In this article, we'll explain what each of these mean.

Standard:

We call this the 'standard' scheme, as it is the most common, but you may see or hear it referred to as 'invoice accounting' or 'accruals accounting'.

On this scheme, there's two important things to distinguish:

- The VAT that you will pay to HMRC will commonly be the VAT that you charge your clients less the VAT that you incur on eligible expenditure (as opposed to the flat rate scheme calculation - discussed further down).
- This VAT is also calculated on an invoice basis, hence often being referred to as 'invoice accounting'. This means your VAT liability/refund is calculated when you raise the invoices and receive supplier invoices, as opposed to necessarily when they're paid (as opposed to the cash accounting scheme - discussed next). So, if you raise an invoice within VAT Quarter 1, but it isn't paid until VAT Quarter 2, it will still be included in VAT liability within VAT Quarter 1.

Cash Accounting Scheme:

The cash accounting scheme has one key difference to the standard scheme above: rather than VAT being calculated on an invoice basis, it is calculated based on payments (i.e. cash!). So, if you raise an invoice within VAT Quarter 1, but it isn't paid until VAT Quarter 2, it won't be included in VAT Quarter 1's VAT calculation (i.e. when it was raised), but instead within VAT Quarter 2 (i.e. when it was paid).

Why use the cash accounting scheme? Commonly, the cash accounting scheme is applied for with HMRC as it can help from a cash flow perspective, as VAT isn't due until you are actually paid for your invoices.

Flat Rate Scheme:

On the flat rate scheme, you still charge your clients VAT as normal and pay VAT on your expenditure, but the VAT to pay to HMRC calculation is different to the previously discussed schemes. Instead of paying the VAT charged to your clients and deducting the VAT you've incurred, you will pay a set percentage (i.e. a flat rate) of your sales back to HMRC. This percentage will depend on what your business trade is, unless you are a limited cost trader.

Limited Cost Traders: the flat rate scheme is much less common for contractors and freelancers due to the introduction of the 'limited cost trader' category that was introduced in 2017, which means that most freelancers and contractors have to use a 16.5% rate, making the scheme less financially attractive vs the standard scheme. See [here](#) for more information on limited cost traders.

You cannot reclaim the VAT on expenses, unless you have purchased a capital asset that costs £2,000 or more including VAT.

Flat Rate Scheme (Invoice Accounting): On the flat rate invoice accounting scheme, the VAT is calculated when invoices are raised/received, as opposed to when they are paid.

Flat Rate Scheme (Cash Accounting): On the flat rate cash accounting scheme, the VAT is calculated when invoices are paid, as opposed to when they are raised/received.

Changing Schemes:

If you change your VAT scheme, once this is accepted by HMRC, you will need to update this within Mighty. However, depending on the timings of transactions and the timing of this change, a VAT adjustment may need to be made to the first VAT return after this change. Please contact support and we can support you with this.

If you have any questions with VAT schemes, please contact support (support@mightyaccounting.com) and we would be happy to help.

