

A summary for VAT Registered Businesses

Standard rate of VAT reverting to 17.5% with effect from 1 January 2010.

The standard rate of VAT is due to revert back to 17.5% with effect from 1 January 2010. The Revenue has produced detailed guidance on the VAT rate change and anti-forestalling provisions and these can be obtained using the following links:

www.hmrc.gov.uk/vat/forms-rates/rates/rate-rise-guidance.pdf

www.hmrc.gov.uk/vat/forms-rates/rates/anti-forestall-guidance.pdf

The VAT rate change guidance runs to 45 pages and 13 pages of anti-forestalling guidance. A brief summary of the key implications are summarised below. It should also be noted that the Pre-Budget Report is to be held on 9 December 2009. Whilst we have no reason to believe that the standard rate of VAT will not revert back to 17.5% on 1 January 2010 it will be interesting to see if any announcements are made on this matter.

Retail Businesses

If you are a retail business, making mainly cash sales and do not have to raise invoices, you must use the 17.5% rate for all takings that you receive on or after 1 January 2010. But if your customer pays after 1 January 2010 for something they took away (or you delivered) before 1 January 2010, your sale took place before 1 January 2010 and you should use the 15% rate.

Businesses that issue invoices

The general rule is that you must use the 17.5% rate for all VAT invoices that you issue on or after 1 January 2010. But see below for the special rules for sales that span the change in rate.

Sales that span the change in rate

If you provide goods or services before 1 January 2010 and raise a VAT invoice after that date you can choose to account for VAT at 15%. You don't need to tell HMRC if you do this.

1. Single supply of goods or services that are in progress on 1 January 2010.

If you start work on a job before 1 January 2010 but finish afterwards the general rule is that you must charge VAT at 17.5% on the whole of the work unless you have received payment or issued a VAT invoice before 1 January 2010. However, you may account for the work done up to 31 December 2009 at 15% and the remainder at 17.5%. If you choose to do this you will have to be able to demonstrate that the apportionment is fair.

2. Continuous supplies

If you provide a continuous supply of services, such as leasing of photocopiers, you should account for the VAT due whenever you issue a VAT invoice or receive payment, whichever is the earlier. You must charge 17.5% on invoices you issue and payments you receive on or after 1 January 2010. You may, if you wish, charge 15% on the services you have provided in the period up to 31 December 2009 and 17.5% on the remainder. If you choose to do this you will have to be able to demonstrate that the apportionment is fair.

Dealing with Deposits or prepayments

The general rule is that you should account for VAT on a deposit or prepayment at the VAT rate in force when you receive it. If you receive a deposit before 1 January 2010 for goods or services that you will supply on or after that date the 15% VAT rate will apply to the deposit and 17.5% will apply

to the balance. If your customer can recover the VAT you have the option to charge 17.5% on the deposit to simplify matters.

Cash Accounting Scheme

If you use the Cash Accounting Scheme you will need to be able to identify payments received after 1 January 2010 that relate to supplies made before that date. VAT at a rate of 15% will be due on these payments.

Refunds

If you are issuing a credit note for a customer on or after 1 January 2010 and this is in respect of an invoice raised prior to 1 January 2010 where you charged VAT at 15% the VAT rate to be used on the credit note is 15% and not 17.5%.

Using a computer, VAT software or an electronic till

If you have a software package that automatically calculates the VAT, you will need to ensure that the VAT rate is changed from 15% to 17.5%. This may be something that you can do yourself – otherwise you will need to contact your software provider or supplier for assistance.

Anti-forestalling legislation

This legislation is designed to restrict the extent to which a benefit can be obtained by the 15% rate of VAT being applied to certain supplies of goods or supplies provided on or after 1 January 2010 when the standard rate of VAT returns to 17.5%.

It is anticipated that this legislation will affect very few businesses. It will apply where a business receives a payment or issues an invoice before 1 January 2010 for goods or services that you are to provide on or after 1 January 2010 and one of the following conditions are met:

1. You supply goods or services to a connected person (e.g. relative, business partner or another business controlled by you); or
2. You provide or arrange funding of your customer's payment; or
3. You issue a VAT invoice to your customer that does not have to be paid in full within 6 months; or
4. The payment or VAT invoice is in excess of £100,000, and this is not normal commercial practice.

In these circumstances the Revenue will expect the business to issue a further invoice to account for the additional 2.5% VAT that is due.

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If you require any help or information about VAT, please contact Brian King, Tax Partner, on 01926 330464 or e-mail: brian.king@dafferns.com