

VAT - Reversion Of The Standard Rate To 17.5%

The VAT rate reverts back to 17.5% with effect from 1st January 2010. HMRC have produced an excellent guide to the change, available on their website – <http://www.hmrc.gov.uk/vat/forms-rates/rates/rate-changes.htm>. It is interesting to note, however, that HMRC have not as yet published the rates for the Flat Rate Scheme which suggests that this will not be a simple reversion to the pre-December '08 regime. We will update you once these have been published.

Basically, the normal tax point rules will apply: date of invoice or date of payment, whichever comes first. So if the invoice or payment is made before 1st January, VAT will be at the rate of 15%; anything after will be at 17.5%. Customs have issued some anti-forestalling legislation to stop blatant avoidance, and these are summarised later, but first the basic rules:

Basic rules

1. Retailers should start accounting for VAT at 17.5% with effect from 1st January, using the VAT fraction 7/47ths. Those who reduced their prices (2.13 % was the calculated reduction) should increase them by the same figure. If the customer has an account and he takes the goods away prior to the change, then you account for VAT at 15%.
2. For all other businesses issuing VAT invoices after 1st January, they should be at 17.5%, unless the goods/services were supplied before the rate change. You can then choose to charge at 15%.

For supplies of services that span the change, then you can charge 15% for those services provided before the change, 17.5% afterwards OR charge all at 17.5%

Suppliers issuing invoices prior to the rate change, but where delivery will take place after the 1st January, may charge VAT 17.5%

These rules are optional and you do not need to notify HMRC.

3. Businesses issuing quotes and estimates for work to commence after 1st January should quote the 17.5% rate. Customers willing to pay before that date can be charged at 15%, subject to the anti-forestalling legislation.
4. Refunds or credit notes should be dealt with at the same rate originally declared or invoiced i.e. if the adjustment is made after 1st January and it relates to a sale declared at 15%, then the adjustment is at 15%.
5. Invoices issued for 12 months in advance, with monthly payments plus VAT must show VAT at 15% for all monthly payments up to 31st December 2009. All payments after that date must be at 17.5%
6. Sales of tickets to events (theatre, cinema, football season tickets) before 1st January 2010 will attract VAT at 15%, even if the event takes place after the rate change in 2010. The tax point is the receipt of payment.

Remember

The increase in VAT will lead to changes to the Flat Rate Scheme percentages and to the Fuel Scale Charges - all effective from 1st January 2010. Those people, whose VAT returns span the change, will have to carry out two separate calculations.

Anti-forestalling legislation

As mentioned earlier, the normal tax point rules take precedence. If the supply of goods or services is made before 1st January, OR payment is received before that date, then VAT is due at 15%. However, there are some anti avoidance rules which affect only certain transactions where the actual supply of the goods or services is made on or after the 1st January 2010. These are:-

You receive pre-payments from persons connected to you for future supplies; OR

You issue advance VAT invoices to persons connected to you for future supplies; OR

You provide or arrange funding to your customers to enable them to pay in advance for goods or services to be supplied by you; OR

You issue VAT invoices that do not have to be paid for at least six months; OR

You receive pre-payments or issue advance VAT invoices in excess of £100,000, and this is not your normal commercial practice; OR

You supply rights or options to receive goods and services from you free of charge or at a discount i.e. receive payment prior to the rate change for a supply to take place after.

These rules will not affect many businesses and they are only invoked if your customer cannot recover the VAT charged in full. Details and further explanatory notes are available on HMRC's website under "Anti-Forestalling Legislation"

Example

You sell a car for £20,000, but delivery is after the rate change. If the invoice is dated 31st December 2009 and the customer pays within 6 months, then VAT is due at 15%. Of course if he actually pays in full for the car before the 1st January, VAT of 15% is payable, irrespective of delivery or invoice date.

The anti-forestalling legislation kicks in if the car is sold to the dealer's wife or family, or if payment does not have to be made until July 2010.

For further information please contact us by calling **0870 166 6270** or email sales@abbeytax.co.uk.

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