

25/11/08 VAT Fact File

Following the announced reduction in VAT to 15%, effective from Monday 1st December 2008 up to 31st December 2009, the basic rules are as follows:

1. Normal tax points rules will apply. Invoices issued or money received prior to 1st December remain at 17.5%. Requests for payments issued [where the continuous supply of services rules apply] including VAT will have a tax point when payment is received.

If the invoice is received after 1st December, it can be issued at 15%, decreasing the VAT, but increasing the customer's net payment. The VAT should be adjusted on the next bill.

Example: A request for £1175 will be invoiced at £1021.74 plus 153.26 VAT. Or the supplier can re-issue the request for £1150. The Government will hope that the latter option is selected in order to pass on the VAT reduction.

2. All quotes /estimates issued VAT inclusive or at 17.5% can be amended to adjust for the reduction. VAT inclusive quotes must be adjusted by reducing the price quoted by 2.13%. Note this is not compulsory, but encouraged by the Government to pass on the saving onto the consumer.

Example: A quote at £1,000 including VAT; the VAT would be £148.94, the net £851.06. At the new rate the quote will be reduced to £978.70, the VAT being £127.66 and the net £851.04.

3. Retailers should reduce the selling prices of their standard rated goods by 2.13% to reflect the reduction in VAT. Again this is not compulsory, but encouraged by the Government. If the prices do not reduce, retailers may have irate customers. Retailers who are already offering major discounts may decide to do nothing. Retailers selling low value items will have the greatest difficulty i.e. confectioners/stationers/supermarkets/corner shops.

4. There is no requirement to amend the prices, either through any EPOS system or ticket pricing. This could be a major cost, in money and in time, therefore retailers may wish to discount at the till. Perhaps a sign in the shop stating all prices of standard rated goods marked are discounted by 2.13 % would be helpful.

To avoid confusion for the customer, one could discount by 2.5% or 2% stating that the lesser reduction is due to administration costs. This is especially so since the reduction is to last for 13 months only. Remember customers will be expecting a 2.5% cut.

5. Invoices and supplies already made will remain at 17.5%. No adjustment to the VAT is allowed, even if paid for after 1st December 2008. If invoices have been pre-issued, but the supply not yet made, then a credit note can be issued and re-invoiced at 15% upon delivery.

6. Incorrectly charged VAT should strictly be adjusted by the supplier. If invoiced incorrectly then it will be necessary to recover the 17.5% VAT as charged and await a credit note. Suppliers incorrectly charging will hopefully pay the 17.5% to Customs, hence no adjustment required. Non-VAT registered businesses should always ensure the VAT rate charged is correct.

7. Refunds to customers after the rate change, where the sale was made at 17.5%, should be dealt with at the rate declared. If 17.5% VAT was declared, then the VAT account should be adjusted at the same rate. If returned goods were invoiced at 17.5%, the credit note must be issued for the same value and same VAT rate, as originally charged.

8. The new VAT fraction for VAT inclusive sales is 3/23rds [15/115]

9. Goods ordered but supplied after 1st December 2008 will be at 15%. The Retail Sales

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Price will need to be amended or invoiced accordingly to reflect VAT reduction.

10. If the business records are computerised and the VAT fraction is automatically set, or the computerised till is set to account for VAT and issue receipts with the VAT calculated at the old rate of 7/47ths, please amend to the new fraction with effect from midnight on the 30th November.

11. Visitors to pubs/clubs/restaurants will expect to see a reduction in the selling prices. If a pint of beer sells at £2.50, a drinker might expect to see a reduction of 5p; however, the increase in the duty on beer, wine and spirits will cancel this out. Meals at £10 should be reduced by 21p.

12. Rounding up or down is at the discretion of the retailer, when applying the 2.13% reduction.

13. Section 4 of the Pre-Budget Report Supporting Business states at 4.12 "Alongside the temporary reduction of the standard rate of VAT, the Government will also amend the pectoral rates of the VAT Flat Rate Scheme in line with the standard rate reduction allowing 180,000 small businesses in the scheme to benefit from the rate reduction." At this time we do not have further detail.