



# PKF

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# Taxation

## VAT returns to 17.5% on 1 January 2010

December 2009

The temporary reduction in the standard rate of VAT from 17.5% to 15% ends at midnight on 31 December 2009 – are you ready for the changeover?

In many cases, the changeover can be managed by applying the normal VAT tax point rules: simply charging 15% VAT on sales up to the end of 31 December 2009 and 17.5% thereafter, although special transitional rules can be adopted – see the flowchart overleaf. HMRC has also announced anti-avoidance rules for the changeover period, and businesses making supplies to consumers, or other clients not entitled to recover all the VAT they pay, must know these rules in detail.

### Sales that span the rate change

The transitional rules allow invoices raised after 31 December 2009 to show 15% VAT if the relevant goods are delivered or services performed before 1 January 2010. Supplies which span the change in rate can be apportioned between the 15% and 17.5% rates. However, the rules are optional, and businesses can simply apply the 17.5% rate to all post 1 January invoices, subject to the normal tax point rules. This may be preferred if the customer can recover the VAT and it is easier administratively.

For example, legal work for a customer who is not VAT registered, which began on 1 December 2009 and finished on 20 January 2010, and is invoiced on 1 February 2010 can be split between the two rates if no staged payments were received beforehand (so there is no earlier tax point). It would show 15% VAT on measured work carried out before 31 December 2009 and 17.5% on work carried out afterwards.

Where part or all of a supply takes place after 1 January 2010, any payments made pre 1 January 2010 without an invoice will only crystallise a tax point at 15% VAT to the extent of the amount paid.

For a continuous supply of services, e.g. leasing, 15% VAT can be charged on the value of the service up to and including 31 December 2009, even if the invoicing or payment takes place after this date. For example,

where a photocopier is leased at £500 per month plus VAT, a £1,500 invoice issued on 28 February 2010 for 3 months in arrears can show VAT at 15% on £500 for December 2009 and 17.5% VAT on £1000 for January and February 2010.

### VAT planning and anti-avoidance rules

If you are considering raising invoices or encouraging payment early, in advance of 1 January 2010, you must also consider the anti-forestalling legislation, which specifically targets avoidance schemes where invoices are raised in 2009 at 15% but, in reality, the supply takes place in 2010 or later when 17.5% should be charged. If any of the following applies to you, take detailed advice on the anti-avoidance rules:

- you receive prepayments from persons connected to you for future supplies
- you issue advance VAT invoices to persons connected to you for future supplies
- you receive an advance payment pre 1 January 2010 which you have helped a customer to fund
- you issue VAT invoices that do not have to be paid in full within six months
- you issue advance invoices (or receive payment) pre 1 January 2010 in excess of £100,000, and this is not normal commercial practice
- you supply rights or options pre-1 January 2010 for customers to receive goods and services from you free of charge or at a discount afterwards.

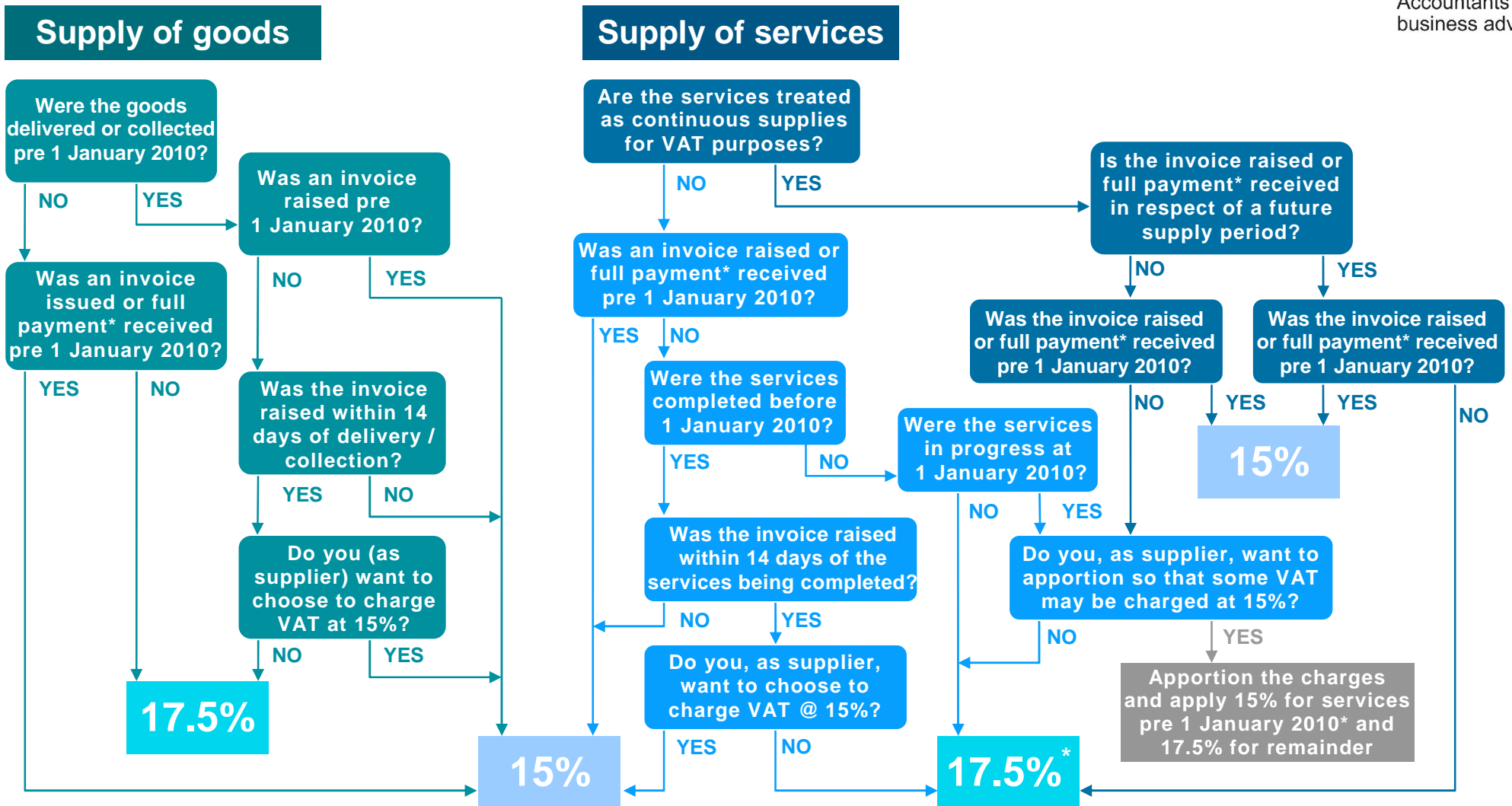
### Other changeover issues

Telecoms providers, pubs, bars and restaurants will have difficulty changing the VAT rate on tills from midnight on 31 December. Therefore, such businesses may continue to apply the 15% rate until 6am or the end of the session, whichever is earlier.

Any **credit note** or refund given to a customer is based on the same rate of VAT that was charged on the original sale. The same applies to bad debts.

Retailers re-pricing their products should multiply the current VAT inclusive price by the fraction 47/46.

# VAT rate change on 1 January 2010 – which rate should you charge?



**N.B. The transitional anti-avoidance rules mentioned overleaf must be considered for all transactions spanning 1 January 2010. \* See overleaf re advance part payments.**

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