



# Taxation

## Coping with the VAT rate change

November 2008

While businesses need to take action quickly, it is vital that the implications of some key issues are understood so that mistakes and unexpected costs are avoided.

The Chancellor has announced that the rate of UK VAT is to decrease to 15% with effect from 1 December 2008. On 1 January 2010, the rate will revert back to 17.5%.

This briefing outlines what we consider to be the main issues that will affect the majority of businesses. However, there are many more complications that may have an impact in various circumstances, so all businesses should take specific advice if there is any doubt about the impact of the rate change.

### If you are a retailer

Apart from considering logistical issues, the VAT points to bear in mind are:

- If you wish to reduce prices to take account of the rate change, then multiply your current selling price by 46/47 in order to arrive at the new price.
- Any payments received in respect of standard rated goods on or after 1 December 2008 should

attract the new 15% rate. The VAT fraction is 3/23.

- Deposits received before 1 December 2008 should attract the 17.5% rate.
- If you have account customers, and goods were taken away or delivered before 1 December 2008, then 17.5% will apply (regardless of when payment is received).

### If you are an invoice trader

If you are selling goods, the date of provision is the date the goods are delivered or collected; if you are providing services they are provided on the date they are completed (but see special rules below). The normal rules are:

- For supplies provided before 17 November 2008, then the 17.5% rate will apply regardless of when you invoice or receive payment.
- For supplies provided after 16 November 2008, the 15% VAT rate will apply if the supply is both invoiced and paid on or after 1 December 2008 and the invoice is within

14 days of provision—otherwise 17.5%.

- For supplies provided on or after 1 December 2008, the 15% VAT rate applies as long as the invoice is issued and payment is made on or after 1 December 2008.

### Special rules

Where services are provided on terms that means the payment is determined or payable from time to time (e.g. construction contracts and solicitors' work are often on this basis), where both invoice and payment is on or after 1 December 2008, the VAT rate will be 15%, irrespective of when the work was completed. If either payment is made or the invoice is issued before 1 December 2008, the rate will be 17.5%.

Invoice traders, who have invoiced or been paid before 1 December 2008 but where the goods or services will not be provided until after November 2008, can opt to apply the 15% rate. This is likely to be the case where rent or a deposit has been

paid in advance. Traders might choose this option where their customer is unable to fully recover VAT incurred, such as banks, charities and schools. If traders do use this option, they must issue a credit note if they have already issued an invoice at 17.5%.

### **Mistakes**

HMRC says that it will adopt a "light touch" approach to errors made relating to the VAT rate change in the first VAT return made after the change: this means that only errors that overall result in a loss of revenue to HMRC must be repaid and penalties may not be imposed. Where a taxpayer business has incorrectly charged a customer 17.5%, it is nevertheless liable to account to HMRC for the amount charged (it cannot account for 15% and pocket the difference). To put right an error, it can issue a credit note to its customer, returning the excess to the customer and reclaiming the excess from HMRC.

### **Systems and administration**

Will your business be able to cope with the new VAT rate on Monday? Will your accounting systems be able to deal with having two VAT rates during one return period? Will your system

recognise that, for a period, the business will have purchases some of which will be at 17.5% and some at 15%? If computer systems are unable to cope, HMRC will expect the taxpayer to make manual calculations and adjustments to ensure VAT is returned correctly.

Self billing - where the customer issues the invoice, the same rules apply as for invoices issued by the supplier. However, as the supplier is liable to ensure the right amount of VAT is accounted for, it should not assume the self billed invoices are correct – you must check that the right VAT has been charged.

Annual invoices showing the VAT due for the forthcoming year will cease to be effective for supplies after 1 December 2008.

Amended invoices, showing the revised rate of VAT are needed.

The fuel scale charge has been revised for December onwards and HMRC has published the new tables which should be used by taxpayers. You will find a copy in Annex D to HMRC's guide, see <http://digbig.com/4xxfm>

### **Payments on account**

For large businesses making VAT payments on account,

HMRC has stated that if you expect that your future VAT liability will be reduced by 20% or more, then you may write to request a reduction in payments on account. If your annual VAT liability is less than £1.6m, then a request can be made to leave the Scheme. However, because this limit is assessed historically, if it is only the temporary VAT decrease that brings a business below the £1.6m level, by the time this has been realised, the rate will be due to increase again.

### **Flat rate scheme**

HMRC have issued new lower percentages for most traders operating the flat rate scheme effective from 1 December 2008. The list of new percentages is in Annex E of HMRC's guide, see <http://digbig.com/4xxfm>

### **Return to 17.5%**

Traders will have to apply the above rules in reverse when the VAT rate reverts to 17.5% on 1 January 2010. They will at least have time to prepare. HMRC anticipates that some businesses might attempt by pre-invoicing or other ingenious methods to hang on to the 15% rate for supplies actually taking place after 2009: HMRC plans to enact legislation to block these attempts.

**For more information on any of the above issue please get in touch with your local PKF VAT contact.**

**[www.pkf.co.uk/vatteam](http://www.pkf.co.uk/vatteam)**

This document has been prepared as a general guide. It is not a substitute for professional advice. Neither PKF (UK) LLP nor its partners or employees accept any responsibility for loss or damage incurred as a result of acting or refraining from acting upon anything contained in or omitted from this document.

PKF (UK) LLP is a limited liability partnership registered in England and Wales with registered number OC310487. A list of members is available at Farringdon Place, 20 Farringdon Road, London, EC1M 3AP, the registered office. Certain of the services described in this document may be provided through PKF Financial Planning Limited. Both PKF (UK) LLP and PKF Financial Planning Limited are authorised and regulated by the Financial Services Authority for investment business and insurance mediation activities. PKF (UK) LLP is a member of PKF International Limited, an association of legally independent member firms.

PKF (UK) LLP operates a code of conduct to ensure that all types of data are managed in a way which complies with the Data Protection Act 1998. If you do not wish to be informed about the services we offer and forthcoming events, please contact your local office. © PKF (UK) LLP November 2008. All rights reserved.