

## SUMMARY OF VAT CHANGES FROM 1 DECEMBER 2008

It has been widely suggested that the Chancellor made a huge gamble in his bid to kick start the economy by the announcement in his Pre Budget Report of the VAT rate reduction from 17.5% to 15% with effect from 1 December 2008 for a temporary period of 13 months. Many are sceptical as to whether this will produce the stimulus to consumer demand that the Chancellor would like. Clearly there will be some businesses and institutions that will benefit. Those businesses that are exempt or partly exempt and are therefore restricted on their recovery of input VAT will see the effective rate of VAT reduce and this could produce significant savings. Similarly Charities could benefit and it may be therefore that these organisations would bring forward capital expenditure plans in order to take advantage of the rate reduction. It remains to be seen!

The changes represent a potential administrative headache for businesses and particular for retailers who will have to amend their accounting systems, price tags, etc and decide whether after all that they can pass on all or any of the reduction to their customers.

Just one more matter therefore for the small business to have to cope with but that is what they must do and to help such businesses, set out below is a summary of the main VAT changes announced in the PBR. Further details can also be obtained from HMRC's website.

The VAT rate changes from 17.5% to 15% for goods and services sold/performed 1 December 2008 and thereafter. The VAT fraction on gross invoices changes from 7/47 to 3/23.

### OUTPUT VAT

Deposits received pre 1 December 2008 should have VAT accounted for at 17.5%, however if the goods/services are provided after 1 December 2008 the supplier has the option of raising a credit note to adjust the VAT to 15%, which should have the following details:

- identifying number and date of issue of the credit note;
- supplier's name, address and VAT registration number;
- customer's name and address;
- identifying number and date of issue of the VAT invoice;
- a description which identifies the goods or services supplied; and
- the amount of VAT being credited.

Any credit note issued in accordance with the special rules for sales that span the change in rate must be issued within **45 days** after 1 December 2008.

Likewise if services and goods have been invoiced prior to 1 December 2008 but the goods are delivered/services performed after 1 December the supplier has the option of raising a credit note to adjust the VAT to 15%.

The special change of rate rules are optional and a customer cannot force the supplier to use them.

For continuous services/goods, eg photocopier leasing, water, traders can account for VAT at the new rate on that part of the supply made after 1 December 2008, even though the normal tax point occurred earlier (for example, where a payment is received in advance of the supply). If this is done VAT is charged at 17.5% on the value of the goods actually supplied or services actually performed before the change in rate, and at 15% on the value of the goods actually supplied or services actually performed after the change in rate and a credit note must be raised (as above).

If a single supply is performed over a period pre and post 1 December 2008 then VAT at 15% is charged if the invoice for the work is raised post 1 December 2008. If invoices have been raised pre 1 December 2008 VAT at 17.5% should have been charged and again the supplier has the option of raising a credit note to adjust the VAT to 15%.

If a refund is given on or after 1 December 2008 for a sale made before 1 December 2008, the credit note will need to account for VAT at 17.5%.

If a supplier accidentally charges VAT at 17.5% when they should have charged it at 15%, eg supplier sells a van on 1 December 2008 and charges VAT at 17.5%, 17.5% has to be accounted for to H M Revenue and Customs until a credit note has been raised to correct the mistake.

Fuel scale charges have not changed but the VAT rates have changed to 15% from 1 December 2008.

## **INPUT VAT**

A business is only entitled to reclaim the correct amount of tax. For example a van is purchased on 1 December 2008 and VAT at 17.5% has been incorrectly charged, only 15% can be reclaimed. Purchasers will therefore need to be vigilant in this area although it is understood that H M Revenue and Customs will operate a "light touch" in audit reviews and to mistakes like the above and only raise assessments if failure to do so would lead to a loss in revenue

## **OTHER NOTES**

**Agricultural flat rate scheme** is still 4%.

**Annual accounting scheme.** The instalments will remain the same unless you can show HMRC that they should be different. Calculations will need to be supplied.

**Cash accounting scheme.** VAT should have been charged to customers/clients at the correct rates ie goods and services pre 1 December 2008 at 17.5% and 15% on or after that date. It is therefore likely that post 30 November 2008 anyone on the cash accounting scheme will have VAT to declare to HMRC at both 17.5% and 15%. It will make reconciling output VAT due to HMRC potentially more difficult.

**Flat rate scheme.** The rates have changed for most sectors from 1 December 2008. Details are available on the HMRC website.

**Payment on account regime.** There will be no effect on payments on account unless in the next 12 months the VAT liability is expected to decrease by 20% or more, in which case HMRC can be requested to reduce them. If VAT liability is less than £1.6 million per annum, historically, then it is possible to leave the payment on account regime.

**Continuous supply of services.** If payments are due to be made at regular intervals (for example, by banker's order or direct debit), traders can issue a VAT invoice at the start of any period of **up to one year** (provided that more than one payment is due in the period) to cover all the payments due in that period. If traders issue VAT invoices covering periods up to one year ahead, giving the amounts and dates when payments are due, they are no longer valid for any payments due after the change. Customers cannot use these invoices to support claims for input tax. Replacement VAT invoices for the payments due after the change must be made, showing tax chargeable at the new rate. Replacement VAT invoices issued in these circumstances must refer to and cancel that part of the original VAT invoice which has been superseded.

**VAT on freehold sale.** The basic tax point is date of completion.

#### **Acquisition of business goods from other member states of the EU.**

If required to account for acquisition VAT where acquiring goods from other EC Member States, the tax point is the 15th day of the month following the one in which the goods were sent, or the date the supplier issued their invoice. Acquisitions taking place on this basis after 1 December 2008 will therefore be subject to VAT at 15%. However, if the supplier issued an invoice before 1 December 2008 for goods that were not sent until after that date, VAT previously accounted for at 17.5% can be recalculated using the new rate of 15%. However, this will probably only be necessary if the full amount of VAT already accounted for as input tax cannot be recovered.

*Disclaimer:*

*The above information does not constitute advice and independent professional advice concerning specific application to businesses should be taken where appropriate.*