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Focus on

VAT rate increase

Are you ready to make the most of the VAT rate increase?

The standard rate of VAT will be increasing to 20% on 4 January 2011. This will have a direct impact on organisations in the education, finance and charity sectors and where the end consumer is the customer, as VAT is a real cost.

Action should be taken now to maximise opportunities to raise invoices or take payments in advance to enable VAT conscious customers to benefit from the VAT rate change. Where advance invoices are raised they must be issued to the customer.

Before proceeding proactively, businesses should be aware that there are anti-forestalling rules in place which are designed to prevent manipulation and abuse of the lower rate. It only applies in limited circumstances where the customer cannot recover VAT in full on the VAT charged to him.



The supplementary charge to VAT is due on 4 January 2011 and must be accounted for on the supplier's VAT return covering that date.

The tests are at least one of:

- the supplier and customer are connected parties;
- the value of the supply (and any related supplies made under the same scheme) exceeds £100,000. But this does not apply if the prepayment or issuing an advance VAT invoice is normal commercial practice;
- the supplier or someone connected to the supplier funds a prepayment for the goods or services; or
- an advance VAT invoice is issued where payment is not due in full within six months (except hire purchase invoices issued in accordance with normal commercial practice).

Where the tests are met a supplementary charge of 2.5% will apply. Therefore care should be taken before entering into such arrangements.

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Examples of VAT accounting around the rate change

- A business selling goods to private individuals takes a deposit and invoices in advance for the full amount pre 4/1/11. Provided none of the rules above are triggered the invoice should be at 17.5%. For example, if the business provided funding in the form of a loan to the customer, this would be caught by the rules and 20% VAT should be charged.
- A landlord invoices quarterly rent in advance, on 25/12/10. It is subject to VAT at 17.5%, provided the anti-avoidance rules do not apply. If the amount was above £100,000 we would need to look closely at the definition of 'normal commercial practice'.

- A solicitor raises an invoice on 5/1/11 for work completed on 30/11/10. It can be billed at 17.5% on the basis that the work was carried out pre rate change.
- An accountant invoices for ongoing tax advice which started in October 2010 and is likely to finish on 31/1/11. He bills the entire fee in advance on 31/12/10. It is to a private individual, due to be paid by the end of March and is for £25,000. It does not trigger the rules above therefore the invoice is at 17.5%.
- A consultant invoices on 31/1/11 for work covering a 2 month period. He can apportion his fee and bill for work pre 4/1/11 at 17.5% and the rest at 20%.
- A manufacturer invoices in advance for £150,000 on 31/12/10. The due date for payment is 31/7/11. If his customer cannot recover VAT in full then a supplementary charge of 2.5% is due.

Contact

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