



# VAT rate change from 1 Jan 2010

December 2009



As announced in the 2009 Budget Report, the standard rate of VAT reverts to 17.5% on 1/1/10. This change affects any VAT registered business that sells or purchases goods or services that are subject to the standard rate of VAT.

Businesses must prepare in advance to ensure that they are ready for the change, or else face disruption in the New Year.

Tills and accounting systems will have to be reconfigured to cope with the rate increase and planning should already have taken place to be able to deal with this exercise. Systems may also be required to cope with both rates during the overlap period, especially as regards credit notes. Any credit notes issued for transactions at 15% pre 2010 must be raised at 15%, no matter how long after the rate change.

## HMRC guidance

HMRC have published detailed guidance regarding the reversion on their website. They have also announced special accounting arrangements for businesses operating after midnight on 31/12/09, to allow them to account for VAT at 15% on takings received up to the earlier of:

- the end of trading of the 31/12/09 session or
- 6am on the morning of 1/1/10

It is restricted to those businesses open at midnight on 31/12/09 that account for VAT at the point of sale. For instance businesses on a retail scheme - pubs, shops, restaurants. HMRC have also confirmed that they will adopt a 'light touch' approach to errors made in the first VAT return after the rate change.

## Anti-avoidance rules

Anti-forestalling legislation was introduced by the Finance Act 2009 to prevent artificial manipulation of the tax point rules to exploit the change in rate. It introduces a supplementary VAT charge of 2.5% designed to restrict abusive practices and will apply to certain transactions that span the date of the rate change.

It applies to pre-payments and pre-invoicing for goods or services supplied on or after 1/1/10, where the customer cannot recover the VAT in full.

Please check the list below to consider if your transactions are caught by these rules:

- the goods or services are supplied to a connected person; or
- the supplier provides or arranges funding of the customer's payment; or
- the supplier issues a VAT invoice that does not have to be paid in full within 6 months of the invoice date; or

- the supplier receives payments or issues VAT invoices in excess of £100,000 and this is not normal commercial practice.

If transactions are not caught by these rules, deposits, pre-payments received or invoices issued before 1/1/10 will be taxable at 15%, irrespective of when the goods or services are supplied.

## Anti-avoidance rules Invoices spanning the rate change

Supplies that span the rate change are notoriously difficult to deal with as there are special rules which involve apportioning the VAT charges depending on work carried out before the rate change date. Please note that the application of these special rules is optional. Similarly, continuous supplies of goods or services may also be apportioned to the extent that the goods actually supplied, or the services actually performed, pre-date the rate change.

## Examples of VAT accounting around the rate change

- A landlord invoices quarterly rent in advance, on 25/12/09. It is subject to VAT at 15%, 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 2/1/10 for work completed on 30/11/09. It can be billed at 15%

- An accountant invoices for ongoing tax advice which started in October 2009 and is likely to finish on 31/1/10. He bills the entire fee in advance on 31/12/09. 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 15%.

- A consultant invoices on 31/1/10 for work covering a 2 month period. He can apportion his fee and bill for work pre 2010 at 15% and the rest at 17.5%.

- A manufacturer invoices in advance for £150,000 on 31/12/09. The due date for payment is 31/7/10. If his customer cannot recover VAT in full then HMRC will levy a supplementary charge of 2.5%.

- A business selling caravans takes a deposit and invoices in advance for the full amount pre 1/1/10. Provided none of the rules above are triggered the invoice should be at 15%.

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