

For Immediate Release

25th November 2008

VAT PRE-BUDGET REPORT – “EVERY LITTLE HELPS”

In a VAT career spanning more than 20 years I never expected to be writing an article on the implications of a reduction in the standard-rate of VAT.

However, VAT is to be reduced to 15 % for a temporary period, from 1 December 2008 until 31 December 2009. EU rules prevent states having a standard rate of VAT below 15%.

The new VAT fraction will be 3/23rds.

With VAT receipts for 2007-08 running at £84.9 billion, the reduction could cost the Exchequer some £1 billion per month.

Practical issues for business

There will be some costs for businesses- reprogramming accounting systems, reprinting catalogues and price lists, and re-issuing some invoices issued in advance.

For businesses selling to other businesses, the reduction will impact on cashflow, including potentially on the size of any payments on account the taxpayer has to make. It will help suppliers to the exempt sector, ironically reducing the cost of goods and services to banks,

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etc. Likewise, the reduction in VAT will make supplies to unregistered businesses, and those small businesses using the flat rate scheme, cheaper in real terms.

On the subject of the flat rate scheme, at the time of writing, I haven't seen the detail of the promised reductions to the flat rate percentages as a consequence of the VAT reduction. Businesses using the scheme will need to review whether it is still of benefit.

The real question is whether those selling to the public, i.e retailers, will reduce their prices, and whether the reduction in VAT will persuade consumers to buy, thus stimulating the economy. (Presumably, retail sales between the PBR Announcement and December 1st could be pretty poor if people wait for the reduction to come into effect.)

The reduction won't reduce food prices, (generally zero-rated for VAT) housing, (no VAT) or domestic fuel, (5% rate of VAT applies.) And the Chancellor said that Excise Duty on cigarettes, fuel and alcohol will rise to eliminate the VAT reduction on these items.

But it will affect most consumer goods. The reduction could make a plasma TV, normally retailing for £1000, cost just over £21 less this Christmas. Still, as they say, every little helps....

If you think you may be affected by this and for intelligent VAT advice please contact Steve Chamberlain on 01865 261100 or email schamberlain@critchleys.co.uk

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Notes

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Fresh Start is an industry led initiative to encourage new entrants into farming as well as to help established farmers think about how they can develop their business or even plan their exit from the industry handing on to the next generation.

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