

VAT rise Jan 2011

As we predicted, the Chancellor announced that the standard rate of VAT will rise to 20%. We now know that the rise takes effect on 4 January 2011.

The 6 month advance notice gives taxpayers the option of bringing forward expenditure to before the rate rise. However, there are "anti-forestalling" rules to prevent, for example, artificial pre-payments securing the 17.5% VAT for vast amounts of goods and services actually supplied after 4 January 2011. This still gives scope for some buying at the 17.5% rate, but this needs to be done with care.

Although the choice of the 4th rather than the 1st of January avoids the issue of introducing a change in rate on the one day many pubs and restaurants are open well after midnight, it does raise other matters.

Some apportionments, e.g. where a business accounts for road fuel scale charges; uses the flat rate scheme, etc. will be necessary due to the rise happening mid-month. There will still need to be an action plan to adjust accounting systems; prices; etc. with the rate rise occurring on what for many will be the first working day after the Christmas holidays.

We therefore suggest clients have an implementation plan in place, considering:-

- will I have to absorb the VAT hike or can I increase prices?
- have I scheduled changes to accounting systems/price lists/catalogues?
- can I (or my customers) bring forward expenditure to secure the lower rate of VAT?
- how do I deal with deposits/invoices deliveries spanning the change or rate?

And more generally, since an increase in the VAT rate will increase the amount of VAT passing through the books; taxpayers should review:-

- what can I do to manage cashflow?
- am I charging the right rate of VAT?
- what can charities and partly exempt businesses do to mitigate irrecoverable VAT?
- do I control risk in my VAT Accounting? (HMRC Penalties are charged as a percentage of the tax misdeclared.)

4 January 2011 also sees a rise in Insurance Premium Tax. The higher rate, charged on some contracts relating to electrical appliances; motor vehicles and travel, will rise to 20% to match VAT. The standard rate of IPT will increase from 5% to 6%.

The General Election meant that some measures announced in the March Budget were not implemented, but have now been reinstated. These include changes to:-

- the exemption for certain postal services-31/1/11;
- Lennartz accounting for assets used for mixed business/non-business purposes-1/1/11; and
- the zero-rating of certain aircraft 1/1/11.

For further information, or for commercial and practical advice on any aspect of VAT, contact Steve Chamberlain or Julian Borley