

VAT rate changes on 1 January 2010

From 1 January 2010 the standard rate of VAT will return to 17.5%. Steve Chamberlain, our Director of VAT Consultancy, has put together this FAQ so you can decide what this means for your business.

Q1. Will the rate change as scheduled on 1 January?

A1. Yes. This has been confirmed in this year's Pre-Budget report. Personally, I think it would have been better to defer the change until past the New Year's Eve/January sales period. And if, given the economic situation, the rate had to go up beyond 17.5%, it would have seemed sensible to have just the one change. But, anecdotally, I understand that the necessary changes were made to HMRC's systems so that it was then difficult to defer the change, regardless of what Ministers wanted to do.

Q2. I'm a retailer. What should I do about prices?

A2. Clearly, the extent to which you increase your prices is a commercial decision. The price marking order allows businesses a period of time in which to display a general sign announcing that prices will be adjusted at the till, allowing you a little more time to make the necessary price changes. The current price marking order allows the general sign to be displayed for a fortnight after the change in VAT rate. However, a recent consultation has been held the result of which is that the price marking order will be changed so that the general sign can be displayed for 28 days. The price marking order is scheduled to be altered before the rate change.

Q3. I'm a pub, and will be open after midnight on New Year's Eve. When do I have to start accounting for 17.5% VAT?

A3. If you are a pub, club, shop; restaurant or a provider of telecommunications and your business will be operating beyond midnight on 31 December 2009, HMRC say the rate change must be applied at the earlier of:-

- The end of trading of the 31 December 2009 session or
- 6am on the morning of 1 January 2010.

Q4. I've supplied goods or services before 1 January 2010 but my VAT invoice won't be issued until after that date. Do I need to charge 17.5% or can I account for VAT at 15 per cent?

A4. If you provide goods or services before 1 January 2010 and raise a VAT invoice after that date you can choose to account for VAT at 15 per cent. You don't need to tell HMRC if you do this.

Q5. I've issued a VAT invoice, or received payment, before 1 January 2010 but I won't deliver the goods or services until after that date. Do I charge 17.5% or 15 per cent?

A5. Normally, you should charge 15%, unless you are caught by the rules in Q6. But HMRC do allow you to charge 17.5% in these circumstances, e.g. if your systems automatically default to the rate of VAT applicable on delivery.

Q6. My client can't recover all its VAT. So can I just bill him in advance, before 1 January 2010, even though I won't supply my goods or services until on or after 1 January?

A6. Under some circumstances, an additional 2.5% charge kicks in. These rules only apply where the customer cannot recover VAT on the supply, and:-

- the customer is a connected party; or
- you fund your customer's payment (e.g. by providing a loan); or
- you issue a VAT invoice to your customer that does not have to be paid in full within six months; or
- the payment or VAT invoice is in excess of £100,000, and this is not normal commercial practice.

The above is a simplified summary. The rules are more complex, to catch clever planning. For example, there are rules to prevent a connected supplier and customer avoiding the test by inserting a co-operative unconnected person into the supply chain between them.

However, on the face of it, getting unconnected charitable clients or private clients to pay modest amounts early; giving them an absolute saving and your business better cashflow; can be acceptable if the customer genuinely pays early and the amount is less than £100,000.

- Q7. What about jobs in progress as at 1 January 2010, and not billed/paid for pre-1 January?**
A7. HMRC's position is that if you start work on a job before 1 January 2010 but finish afterwards you may account for the work done up to 31 December 2009 at 15 per cent and the remainder at 17.5 per cent. If you choose to do this you will have to be able to demonstrate that the apportionment is fair.
- Q8. Will the flat rates used in the flat rate scheme be changed to reflect the VAT rate change?**
A8. Yes. A table of new rates was published further to the Pre-Budget report. Please contact us if you need a copy of this table.

If you have any further questions, HMRC has published some guidance on its website, available here:-

<http://www.hmrc.gov.uk/vat/forms-rates/rates/rate-changes.htm>

But if you'd prefer to talk to a commercially focussed adviser about your own circumstances, please don't hesitate to contact Steve or JulianBorley of our VAT Department on 01865 261158.