



## **VAT Newsflash: VAT Changes in the Pre-Budget Report**

As you are no doubt aware, in today's Pre-Budget Report the Chancellor announced that the standard rate of VAT will be reduced to 15% for 13 months from 1 December 2008. There were also changes to the bespoke retail scheme and entry to and exit from the Flat Rate Scheme.

### **Impact of VAT Rate Change**

#### **Persons or organisations unable to recover VAT**

Where a person who, or organisation that, is unable recover VAT is about to make a large purchase, the timing of that purchase should be examined to make sure that advantage is taken of the VAT rate reduction.

Anyone making purchases of continuous supplies of services, such as solicitors' or accountants' services, should ask the supplier to delay invoicing or should delay making a payment until after 1 December. Additionally, where a supply of goods or services was made after 17 November, the supplier may be able to delay issuing an invoice until after 1 December and issue it at the lower rate.

#### **Suppliers**

Suppliers of large value items to persons or organisations that cannot recover VAT are likely to find that customers will want to shift the date of purchase until after 1 December.

However, it may also be possible to reduce the VAT charged or accounted for on goods or services where payment has been made or an invoice issued but the supply has not yet been made. This could have affect for:

- Tickets - Theatre, cinema, concert or other tickets sold in advance of a performance.
- Deposits taken for supplies not yet made.
- Payments in advance of supply - such as electrical goods or furniture on which payment has been received but delivery not yet made.

Where an invoice has been issued for a supply and the supplier chooses to change the VAT rate then a credit note showing the change in VAT must be issued. However, if an invoice has not been issued and the supplier chooses to reduce the VAT rate it may be possible to recover the VAT overdeclared without notifying customers.

## **Contracts already negotiated**

Legislation allows for prices quoted in contracts negotiated for supplies not yet made to be automatically adjusted for the VAT rate change unless the contract specifically states otherwise.

## **Multiple tax point invoices**

Some supplier of continuous supplies of services, such as lease fire suppliers, issue a single invoice that lists each payment, its tax point and the VAT on that payment. New invoices must be issued for any payments due after 1 December showing the new VAT rate.

## **Flat Rate Scheme**

The Flat Rate Scheme percentages are to be changed with effect from 1 December so that anyone on the scheme should not be disadvantaged. More details are available **by referring to annex E in the attached "New 15% Vat guide" or by calling our office direct**

Because the FRS percentage takes account of input VAT as well as output VAT the percentages will not be reduce by the full 2.5%.

## **Fuel Scale Charge**

The VAT payable on the Fuel Scale Charge will change with the change in VAT rate. The new rates **by referring to annex D in the attached "New 15% Vat guide" or by calling our office direct**

## **Accounting Systems**

Implementing the VAT rate change in computerised accounting systems could be complex, especially bespoke systems where the VAT rate is hard coded into the software. HMRC will apply a light touch in enforcing the changes and may allow temporary "work arounds". For further advice, please contact our office

## **VAT Fraction**

For those of you whose memories don't stretch back to 1991, the VAT fraction (the way to calculate how much VAT is in a VAT inclusive price) for 15% VAT rate is 3/23, approximately 0.13.

## **Forthcoming VAT increase**

On 1 January 2010 the VAT rate will return to 17.5%. HMRC will introduce legislation that affects any transaction made after 25 November 2008 to stop businesses abusing the time of supply rules to charge VAT at 15% on supplies that actually occur after 1 January 2010.

## **Other changes**

### **Bespoke Retail Scheme**

The turnover threshold above which retailers must agree a bespoke retail scheme has risen from 100 million to 130 million. The new limit comes into effect on 1 April 2009.

### **Flat Rate Scheme**

In addition to the Flat Rate Percentage changes, with effect from 1 April 2009, the test governing when businesses can enter or must leave the Flat Rate Scheme is being simplified. It will now look just at a business's taxable turnover. The exit limit turnover will be based on invoice or cash accounting based on what the business which method the business used to account for VAT whilst in the scheme.

**Please refer to annex E in the attached "New 15% Vat guide"**

If you require further information please contact RWCo Ltd 0191 – 491 0019