



Pre-Budget Changes to Vat

Sales

When do I have to start charging the 15% Rate?

You have to charge the 15% rate on sales of standard rated goods and services made on or after 1 December 2008.

Which of my sales are affected?

This depends on how you account for VAT: - **If you are a retail business making mainly cash sales to non business customers (e.g. a shop, restaurant, takeaway, hairdresser) and do not have to raise VAT invoices-**

You must use the new rate for all takings you receive on or after 1 December 2008.....

.....**except** for where your customer pays for something they took away (or you delivered) **before 1 December** (e.g. where trade customers have an account with you).

In this case, your sale takes place before 1 December and you must use the old rate of 17.5%.

If you are a business that sells mainly to other VAT registered businesses and have to issue VAT invoices-

You must use the new rate for all VAT invoices you issue on or after 1 December 2008.....

.....**except** for where you provided goods or services **more than 14 days before you issue the VAT invoice**. For example, if you issue a VAT invoice on 1 December for goods or services provided before 18 November 2008, or you were paid **before 1 December**,

In these cases, your sale takes place before 1 December and you must use the old rate of 17.5%.

Note if you received part payment before 1 December, use the old rate for the part payment.

What are tax points?

These are the rules in place, for VAT purposes, for determining when a sale takes place (also known as the 'time of supply'). These rules will already be familiar to many businesses, but as they become particularly important when a rate changes, there is a simple summary below.

Basic tax points

If you supply...

goods

goods **but** they are not to be sent or taken away (for example because you put them together on your customer's premises)

services

Then the basic tax point is...

usually the date when you send them to your customer or the customer takes them away. This includes supplies under hire-purchase, credit sale or conditional sale agreements.

the date you make them available for your customer to use.

the date when the service is performed (normally taken as the date when all the work except invoicing is completed).

Actual tax points

If you...

(a) either issue a VAT invoice or receive a payment before the basic tax point

(b) issue a VAT invoice up to 14 days* after the basic tax point

(*or a longer period where this has been allowed by HMRC)

Then the...

tax point for the amount you invoice or receive is the date you issue the invoice or receive the payment, whichever happens first.

date when you issue the invoice becomes the tax point.

But remember that if you have already issued a VAT invoice (for a part payment) or received a payment before the basic tax point, this will have created a tax point under (a) for the amount invoiced or received.

My prices are VAT inclusive. How do I calculate the new rate?

If you've charged a VAT inclusive price, you should use the VAT fraction to work out the VAT element. The VAT fraction for the 15% rate is 3/23.

For example, If you sell something for...	And the VAT rate is....	Then the amount of VAT is.....
£115	15%	£15

But £15 is not 15% of £115, it is 3/23 of £115.

Special Rules for sales that span the change in rate

Under the normal rules, all payments received before 1 December 2008 and VAT invoices issued before 1 December 2008 for standard rated sales will be liable to the old rate of 17.5%.

However, there are optional change of rate rules that you may be interested in applying.

What are these rules?

These optional change of rate rules are for pre-payments and deposits received before a change of rate, but relating to goods or services to be provided after a change of rate. They also apply when VAT invoices are issued before a change of rate which relate to goods or services to be provided after a change of rate.

So, if you received a payment before 1 December 2008, or issued a VAT invoice before 1 December, for goods that you will provide, or services that you will carry out after 1 December 2008, you can, if you wish, apply the 15% rate. You will need to comply with some conditions, which include providing your customer with a credit note in cases where you have previously issued a VAT invoice.

Note: The special change of rate rules are **optional** – you do not have to apply them and you are unlikely to want to if your customer can recover all the VAT you charge them.

How do the rules work?

Goods provided after 1 December

I issued a VAT invoice to my customer before 1 December 2008 for a supply of goods (e.g. a bicycle) that I provide during December 2008. I have charged VAT at 17.5%. Can I now charge VAT on this supply at 15% instead?

Yes. Under the special rules you may decide to charge the new standard rate of VAT. If you decide to use the special rule you must issue a credit note to your customer to adjust the amount of VAT charged on any original VAT invoice you issued. This will reduce the amount of VAT you are liable to account for on the sale. If your customer is VAT registered this will reduce the amount of VAT she can recover on the purchase. There is no requirement to issue a credit note if you had not previously issued an invoice.

Retail business making mainly cash sales to non-business customers (e.g. a shop, restaurant, takeaway, hairdresser)

For most retail sales it is a straightforward matter to decide when to apply the new rate – a customer enters the shop on or after 1 December 2008 and pays cash for a standard rated item which he takes away – VAT of 15% is due.

If you take deposits or make sales on credit, you will need to determine the correct tax point for sales to make sure you use the correct VAT rate.

Will I need to change my till and accounting system?

Many retailers have till systems which calculate VAT at the point of sale. If you use an electronic system to record retail sales you will need to make sure it is adjusted to take account of the new rate with effect from 1 December 2008. You may need to consult the manufacturer or supplier of your particular system to find out how to make the necessary adjustments.

Some retail systems will then post VAT to your main accounting records. But other systems will require you to apply the VAT fraction to daily gross takings using one of the retail schemes.

How much do I need to reduce my prices by to take account of the reduction in VAT?

To reduce your VAT inclusive prices to reflect the reduction in the VAT rate to 15% you should multiply your old prices by $115/117.5$, which is equal to $46/47$.

Do I have to pass on the VAT reduction to my customers by reducing my prices?

The Government is making this change as part of a broader package of fiscal measures to give the economy a boost. Passing on the tax reduction through reduced prices will stimulate consumer spending and mean that both businesses and consumers benefit

from this change. But ultimately decisions on prices charged by business and paid by consumers, are for them rather than the Government.

What about retail invoices?

There is no requirement to show VAT or the VAT rate on retail invoices supplied to unregistered customers. However, if you do provide information about the VAT rate and or the VAT charged on your invoices, you will need to change the rates.

PURCHASES

A VAT registered business can claim back the VAT it incurs on standard rated purchases – subject to the normal rules on deducting VAT including any restrictions for purchases used to make exempt supplies. This is normally the VAT that is shown on the purchase invoice. However, following the introduction of the new standard rate of VAT businesses will be receiving invoices showing VAT at the previous rate of 17.5% as well as the new rate of 15%. This section explains what businesses are entitled to recover on their VAT returns.

What VAT can I claim back on my purchases?

Invoices received at the new VAT rate

I have received a VAT invoice for goods purchased for resale by my business on 1 December. I have been charged 15% VAT. Can I claim it back?

Yes, provided that you could have claimed it back when the rate was 17.5%.

Invoices received at previous VAT rate

I received a VAT invoice from my supplier in November 2008 for a supply of goods he is making in December 2008 and the invoice shows VAT charged at 17.5%. Shouldn't the VAT amount be 15% on this invoice?

Following the change in the VAT rate it is permitted for a supplier to use the special rules to amend the rate of VAT charged where the actual supply takes place on or after 1 December 2008. But he is not obliged to do so and he may opt to leave the VAT charged on the November 2008 invoice at 17.5%.

I received a VAT invoice from my supplier dated 1 December 2008 for goods delivered on the same day. The invoice shows VAT of 17.5%. How much can I reclaim?

You should only treat as input tax the amount you should have been charged. If your supplier incorrectly charges you 17.5% on or after 1 December 2008, treat 15% of the tax exclusive (net) charge as input tax. You may ask your supplier to provide you with a credit note for the over charged VAT.

Manual Records

For businesses with very simple manual records only very minor changes may be required. The key issue will be ensuring you enter the correct rate of VAT in your sales

and purchase books to record VAT at both the old and new standard rates for at least the first return after the change.

For businesses that rely on more complex electronic accounting systems (including both in-house and off the shelf software) the changes are likely to be more involved.

Computer systems

I use accounting software to maintain my VAT records, including issuing VAT invoices and posting invoices for expenses and goods and services I buy. Can I continue to use the package following the change in VAT rate, and are there any changes I will need to make?

Yes, you can continue to use accounting software. However, you will need to check that your accounting software can process VAT invoices during the transitional period, when you may be issuing and receiving VAT invoices showing either the 17.5% and 15% VAT rates. You need to ensure that for standard rated supplies of goods or services made or received on or after 1 December 2008 the VAT rate being used and shown on the invoices is 15%.

What if I can't change my systems in time for the rate change on 1 December 2008?

HMRC recognises that the timescale for making changes is tight. If you can't make full and final changes to your accounting and billing systems in time that is not necessarily a significant problem – you may be able to make some temporary arrangements or manual adjustments so that you can account for the correct amount of VAT in your first VAT return after the change.

For retailers, the takings you receive from 1 December 2008 onwards will be liable to VAT at 15%. If your systems (including tills) have not been amended to account for 15% (rather than 17.5%) by 1 December, you will need to calculate the VAT manually on your standard-rated takings using the VAT fraction of 3/23.

Will the rate change affect my flat rate percentage? Yes. The table of flat rates has been changed to reflect the new rate of VAT.

Flat Rate Scheme – New Percentage Rates

Category of business	Appropriate percentage
Accountancy or book-keeping	11.5
Advertising	8.5
Agricultural services	7
Any other activity not listed elsewhere	9
Architect, civil and structural engineer or surveyor	11
Boarding or care of animals	9.5
Business services that are not listed elsewhere	9.5
Catering services including restaurants and takeaways	10.5
Computer and IT consultancy or data processing	11.5
Computer repair services	10
Dealing in waste or scrap	8.5
Entertainment or journalism	9.5
Estate agency or property management services	9.5
Farming or agriculture that is not listed elsewhere	5.5
Film, radio, television or video production	9.5
Financial services	10.5
Forestry or fishing	8
General building or construction services*	7.5
Hairdressing or other beauty treatment services	10.5
Hiring or renting goods	7.5
Hotel or accommodation	8.5
Investigation or security	9
Labour-only building or construction services*	11.5
Laundry or dry-cleaning services	9.5
Lawyer or legal services	12
Library, archive, museum or other cultural activity	7.5
Management consultancy	11
Manufacturing that is not listed elsewhere	7.5
Manufacturing fabricated metal products	8.5
Manufacturing food	7
Manufacturing yarn, textiles or clothing	7.5
Membership organisation	5.5
Mining or quarrying	8
Packaging	7.5
Photography	8.5
Post offices	2
Printing	6.5
Publishing	8.5
Pubs	5.5
Real estate activity not listed elsewhere	11
Repairing personal or household goods	7.5
Repairing vehicles	6.5
Retailing food, confectionary, tobacco, newspapers or children's clothing	2

Annual accounting scheme

Will HMRC change my instalments?

No. The precise effect of the rate change will vary from business to business and HMRC will not be changing the instalments already notified.

Fuel Scale Charges

VAT registered businesses that reclaim VAT on road fuel are required to account for VAT to reflect the private use of business vehicles. There is no change to the fuel scale charges which have applied since 1 May 2008 but the VAT on these charges will have to take account of the new rate of 15% from 1 December 2008. The new amounts applicable from 1 December 2008 are shown in the tables at Annex D.

VAT fuel scale charges for 3 month period

CO2 band	VAT fuel scale charge, 3 month period, £	VAT on 3 month charge, £	VAT exclusive 3 month charge, £
120 or less	138.00	18.00	120.00
125	207.00	27.00	180.00
130	207.00	27.00	180.00
135	207.00	27.00	180.00
140	221.00	28.83	192.17
145	234.00	30.52	203.48
150	248.00	32.35	215.65
155	262.00	34.17	227.83
160	276.00	36.00	240.00
165	290.00	37.83	252.17
170	303.00	39.52	263.48
175	317.00	41.35	275.65
180	331.00	43.17	287.83
185	345.00	45.00	300.00
190	359.00	46.83	312.17
195	373.00	48.65	324.35
200	386.00	50.35	335.65
205	400.00	52.17	347.83
210	414.00	54.00	360.00
215	428.00	55.83	372.17
220	442.00	57.65	384.35
225	455.00	59.35	395.65
230	469.00	61.17	407.83
235 or more	483.00	63.00	420.00

visit the HMRC website <http://www.hmrc.gov.uk/pbr2008/vat-guide-det.pdf> for further information