

## What will the New Year bring? One thing's for sure.....

### **The VAT rate will revert back to 17.5% with effect from 1 January 2010.**

Basically, the normal tax point rules will apply: date of invoice or date of payment, whichever comes first. So if the invoice or payment is made before 1 January, VAT will be at the rate of 15%; anything after will be at 17.5%.

#### **Basic rules**

1. Retailers should start accounting for VAT at 17.5% with effect from 1 January, using the VAT fraction 7/47ths. Those who reduced their prices (2.13 % was the calculated reduction) should increase them by the same figure. If the customer has an account and he takes the goods away prior to the change, then you account for VAT at 15%.
2. For all other businesses issuing VAT invoices after 1 January, they should be at 17.5%, unless the goods/services were supplied before the rate change. You can then choose to charge at 15%.

For supplies of services that span the change, then you can charge 15% for those services provided before the change, 17.5% afterwards OR charge all at 17.5%.

Suppliers issuing invoices prior to the rate change, but where delivery will take place after the 1 January, may charge VAT 17.5%.

These rules are optional and you do not need to notify HMRC.

3. Businesses issuing quotes and estimates for work to commence after 1 January should quote the 17.5% rate. Customers willing to pay before that date can be charged at 15%, subject to the anti-forestalling legislation.
4. Refunds or credit notes should be dealt with at the same rate originally declared or invoiced i.e. if the adjustment is made after 1 January and it relates to a sale declared at 15%, then the adjustment is at 15%.
5. Invoices issued for 12 months in advance, with monthly payments plus VAT must show VAT at 15% for all the monthly payments up to 31 December 2009. All payments after that date must be at 17.5%.
6. Sales of tickets to events (theatre, cinema, football season tickets) before 1 January 2010 will attract VAT at 15%, even if the event takes place after the rate change in 2010. The tax point is the receipt of payment.

**Remember**

The increase in VAT will lead to changes to the Flat Rate Scheme percentages and to the Fuel Scale Charges – all effective from 1 January 2010. Those people, whose VAT returns span the change, will have to carry out two separate calculations. However, HMRC have not as yet published the rates for the Flat Rate Scheme which suggests that this will not be a simple reversion to the pre-December 2008 regime.

**Should you have any queries please do not hesitate to contact our office.**

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