

VAT rate reverts back to 17.5%

How to take advantage of the transitional rate change

There are a number of circumstances where the 15% VAT rate can still apply after 1 January 2010 by taking advantage of the transitional rate change rules. In this factsheet we examine the opportunities that are available.

The UK's standard rate of VAT, which was temporarily reduced to 15% on 1 December 2008, reverts back to 17.5% on 1 January 2010. Therefore, in principle, any sales of standard rated goods or services that are supplied after 1 January 2010 will be subject to 17.5%. Below we outline some circumstances where the increase need not to be applied.

Optional rules to delay VAT rate increase

The normal tax point rules would require VAT to be paid at 17.5% where an invoice is issued or a payment is made on or after 1 January 2010.

However, optional rules may be used, without notifying HMRC, to override the normal tax point rules and continue to charge VAT at 15%. You would only wish to adopt these rules if the supply was being made to a private consumer or to a business that could not recover all the VAT that it incurs. These rules can be applied in the following circumstances:

1. Goods or services provided **before** 1 January 2010

Where you issue a VAT invoice after 1 January 2010 for goods provided, or services that you completed, before 1 January 2010, you can, if you so choose, invoice at the 15% rate.

2. Goods or services provided **after** 1 January 2010

You may also apply the 15% rate where you receive a payment or issue a VAT invoice before 1 January 2010 for goods or services that you will not provide until after that date. This will, for example, apply to property rental

periods commencing on the quarter date of 25 December provided a tax invoice (and not just a rent demand) is issued before 1 January 2010.

However, you should be aware that advancing the date of issue of an invoice may require VAT to be accounted for to HMRC earlier than would otherwise be the case. You may wish to ensure that your customers pay you earlier, at least for the 15% VAT element where this is payable to HMRC.

There are also anti-forestalling rules designed to avoid advancing the tax point in certain circumstances. These are set out in more detail below.

3. Continuous supplies of goods or services

If you make a continuous supply of goods (e.g. gas, electricity) or services (equipment leasing) you may account for 15% VAT on any part of the supply made before 1 January 2010 (e.g. where payment is received in arrears).

4. Single supplies that span 1 January 2010

Where you provide a single supply of services which commences before but is not completed until after 1 January 2010 (e.g. repairs and renovation work to a house) you may if you wish apportion the supply.

You will be required to evidence which part of the work was actually carried out prior to 1 January 2010 in order to apply the 15%. This may, for example, be business timesheets or perhaps simply days or hours worked.

Concession for retailers operating at midnight on 31 December 2009

Pubs, clubs, restaurants and similar businesses operating at midnight on 31 December 2009 will be allowed to account for VAT at 15% on takings received up to the earlier of:

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

This is a facilitation measure for businesses operating a retail scheme that would otherwise be required to adjust their prices or tills to account for the VAT increase mid trading session. The concession will not apply to invoiced sales, mail order, on-line sales, and sales made through a coin operated or similar vending, amusement or gaming machine.

Anti-forestalling legislation

Rules to avoid advancing the tax point and taking advantage of the 15% rate have been introduced. They will only apply in limited circumstances and are unlikely to affect many businesses. However, a supplementary 2.5% tax charge will apply where the customer cannot recover VAT in full on the supply and at least one of the following criteria applies:

- the supplier and customer are connected with each other;
- the supplier, or a person connected to the supplier, finances the prepayment by the customer;
- payment is not due in full within six months of the invoice date; or
- the value of the supply is more than £100,000 (unless the prepayment or advance invoice is in accordance with normal commercial practice that would have existed regardless of the VAT rate change).

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