

VAT TECHNICAL HELPSHEET

Change of Rate

The new standard rate of 20% applies to goods and services supplied on and after 4 January 2011. The VAT fraction will be 1/6.

- There are no changes to zero-rated, reduced-rated, or exempt supplies.
- New rates for businesses using the small business flat rate scheme are available on the HM Revenue & Customs (HMRC) website www.hmrc.gov.uk
- VAT on fuel scale charges will change, see HMRC website.

Tax Point

The rate to be used depends on the tax point of the sale.

A tax point is created:

- when a payment is received in advance of the supply or of delivering the invoice, or
- when a VAT invoice is delivered either in advance of the date of supplying goods or services, or within 14 days after the date of supply.

The tax point in other cases, unless otherwise agreed with HMRC, is the date of the supply of the goods and services (but see rules for continuous services below).

In some cases, goods or services supplied before 4 January may not be invoiced until or after 4 January. If the invoice is delivered more than 14 days after the date of the supply of the goods or services, the tax

point becomes the date of supply. If the date of supply is before 4 January, the 17.5% rate applicable until 4 January should be used.

Note that payment before 4 January will normally fix the VAT rate at 17.5%, which is a good reason for customers to pay promptly, or even early.

In the case of continuous services, the tax point is the earlier of receipt of payment or the delivery of a VAT invoice.

IMPORTANT

If the customer cannot recover the VAT in full (for example, if they are not registered for VAT or they are a financial institution, charity, etc) an effective rate of 20% may still apply on supplies made on or after 4 January, even though the tax point has been brought forward to before 4 January. This may apply where:

- there are sales to connected persons
- advance payments are funded by or through the seller
- advance VAT invoices are issued that are not due for payment for at least six months
- there are advance VAT invoices or prepayments exceeding £100,000, if this is not normal commercial practice
- there is a supply of a right, or option, to receive goods or services free of charge or at a discount

If any sales may be affected by these factors, check HMRC's detailed guidance or seek advice.

Cash Accounting

Using cash accounting does not delay the tax point of a supply. It only delays having to account for the output tax. This means that the VAT on sales made when the rate was 17.5% must still be accounted for using 17.5% when the customer pays.

Retail Schemes

The new rate applies to all takings received on or after 4 January, except where the customer received goods before 4 January. Those goods are subject to VAT at 17.5%.

Annual Accounting

There is no effect on payments on account.

Flat Rate Scheme

New rates and thresholds will apply, as published on the HMRC website at www.hmrc.gov.uk

Optional Treatment

Where a transaction straddles the date of the change of rate, traders can apply the special rules. These are optional and can be made on a transaction by transaction basis. Under the special rules, the VAT rate can be determined according to the basic tax point, which is the date on which the supply of goods or services is actually made.

For example, goods delivered to the customer before 4 January but not invoiced until after 4 January may still be invoiced at 17.5%, even if under the normal rules the rate should have been 20%. If you want to change an invoice issued using 20% to 17.5% by applying the optional treatment, the credit note must be issued by 17 February 2011. If a deposit was received before 4 January and the VAT on it accounted for at 17.5%, but the goods are not delivered until or after 4 January and you wish to charge 20% on the whole transaction, the VAT on the deposit may be recalculated at 20%.

Credit Notes

Apart from credit notes issued under the optional treatment, credit notes should include VAT at the rate in force when the original supply was made.

Sales Recording and Accounting Software

This will need to be changed to cope with the new rate. Retailers may need to speak to their suppliers regarding programmed tills etc. Accounting software will need to be amended.

Milsted Langdon can help with the changes that need to be made to accounting systems. For instance, cash accounters may have problems in maintaining two standard rates from 4 January as they have to continue to account for receipts relating to pre-January sales at 17.5%.

If the changes cannot be made in time, HMRC will expect manual adjustments to be made when preparing VAT returns so that the correct amount of VAT is declared.

If you have any queries on VAT please call **Elaine Durrant** or **Hugh Mitchell** on **01823 445566** or call your usual Milsted Langdon contact.



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