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PRE-BUDGET REPORT NEWSLETTER

November

Issue 12

Welcome to this latest Newsletter from VAT Support Services Ltd. In it we highlight the VAT changes announced in the 2008 Pre-Budget Report. For further and more detailed information, please contact VAT Support at the address or on the usual numbers shown below:

Pre-Budget Report 2008 – VAT issues

- **VAT Rate Changes**

In his Pre-Budget Report on 24 November 2008 the Chancellor announced, as widely anticipated, that the standard rate of VAT will be reduced to 15% on 1 December 2008. [The first such change in the standard rate since 1 April 1991]. This means that for any sales of standard-rated goods or services that take place on or after 1 December 2008 providers should charge VAT at the new rate of 15%.

Only standard-rated sales are affected. There are no changes to sales that are zero-rated or reduced-rated for VAT. Similarly, there are no changes to the VAT exemptions.

The 15% rate will remain in force until 31st December 2009, and from 1 January 2010 it will revert to 17.5%. This limited period reduction [13 months only] has been aimed at stimulating the economy, particularly by increasing retail sales. However, the additional burdens on business of implementing two rate changes appear to have been ignored.



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Some of the most common questions likely to arise in this context are listed below:

CHANGE IN VAT RATE

Q1 I'm a VAT-registered business – what do I have to do?

The Chancellor has announced a reduction in the standard rate of VAT from 17.5% to 15%, with effect from 1 December 2008. So you'll need to make changes to the way you charge and account for VAT.

HMRC is writing to all VAT-registered businesses with a summary of what businesses need to do. That letter covers all the basic questions, and should be enough for most businesses.

Q2 Are there any changes to other VAT rates, or to the scope of the different rates?

No. Only the standard rate of VAT is changing.

Q3 What do I have to do in practice?

For any sales of standard-rated goods or services that take place on or after 1 December 2008 you should charge VAT at the new rate of 15%.

This means that cash businesses which currently calculate their VAT using the VAT fraction of 7/47 should, from 1 December, use the new VAT fraction of 3/23.

- **If you are a retail business making mainly cash sales to customers not registered for VAT (e.g. a shop, restaurant, takeaway, hairdresser)**, the new rate applies to all takings that 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 customers have an account with you). In this case, your sale took 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** the new rate applies for all VAT invoices that you issue on or after 1 December 2008 *except* for where:

- o 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

- o you were paid **before 1 December**.

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



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Q4 Do I have to pass on the rate reduction?

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

The Government is looking to businesses to pass on the benefit to consumers, and has encouraged them to do so. Ultimately, however, decisions on prices, charged by businesses and paid by consumers, are for businesses rather than the Government.

Q5 Will I have to change my software?

If you have a software package that automatically calculates the VAT, you'll need to change from 17.5% to 15% from 1 December 2008. This should be something that you can do yourself – otherwise you may need to contact your software provider or supplier for assistance.

Q6 What about tills?

You may also be able to adjust your electronic till yourself – if necessary you'll need to contact your till supplier for assistance. But don't worry: if your till has not been amended to calculate 15% (rather than 17.5%) by 1 December you can always calculate the VAT manually.

You simply take the standard-rated gross takings calculated by your till and multiply that sum by the new VAT fraction of $\frac{3}{23}$ – this will give you the amount of 15% VAT.

Q7 What do I do about my VAT return?

No changes here. You will continue to receive or file VAT returns in the normal way i.e. either monthly, quarterly or annually. The deadlines for submitting your VAT returns and making payments stay the same. If the period of your return covers both before and after 1 December 2008, you just add together the VAT on sales charged at 17.5% and the VAT on sales charged at 15% to work out the total VAT on sales. This total then goes in Box 1 of your VAT return.

Q8 What about continuous supplies of services e.g. work in progress?

For continuous supplies of services, such as leasing of equipment (eg computers), you should account for the VAT due whenever you issue a VAT invoice or receive payment, whichever is the earlier. In these cases, invoices issued or payments received on or after 1 December will be subject to 15% VAT.



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Q9 Are there any special rules for sales spanning the change of rate?

Yes. If you have received a payment or issued an invoice using the old 17.5% rate before 1 December 2008 for goods that will be provided (or services delivered) after 1 December 2008, you have a choice.

You can choose either to leave the VAT charged to your customers at 17.5% and account for that to HMRC, or to account for VAT at the new rate of 15% on the amounts already received or invoiced. You don't need to tell HMRC if you do this. But you do need to issue a credit note, and refund the difference in VAT to your customer if you have already issued a VAT invoice showing the old rate of VAT. If you haven't issued a VAT invoice, you can account to HMRC for the 15%, and would normally be expected to refund the difference to your customer.

Q10 What about the VAT I claim back on my business purchases?

The general rule is that you claim back the VAT you have been charged by your supplier in the normal way. You may well receive some invoices after 1 December 2008 showing 17.5% VAT. If these relate to purchases you have made before the rate change you can claim back the 17.5% VAT. If they relate to purchases you have made after the rate change you should be entitled to claim a refund from your supplier, and so you should only claim back 15% VAT from HMRC.

Q11 What if I make mistakes?

Just correct them in the normal way - make a voluntary disclosure or correct it on your next return (subject to the normal limits).

HMRC will allegedly adopt a "light touch" in relation to errors or mistakes made in the first VAT return after the change.



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Q12 What about the special VAT schemes for small businesses?

The Cash Accounting and Annual Accounting Schemes remain unchanged.

However, the Flat Rate Scheme percentages are changing to reflect the new rate of VAT. If you are on the Flat Rate Scheme please refer to the additional information below. You will need to use the new rates for your sector from 1 December 2008 .

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



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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

Please note also that the Fuel Scale Charge rates will change from 1st December. A copy of the new rates may be obtained from ourselves.

SPECIFIC TYPES OF BUSINESS

Barristers and Advocates

If you are a barrister or advocate and you follow the arrangements under which fee notes do not become VAT invoices until they are receipted, then the tax point for your fees is normally the date you receive payment. Fees received on or after 1 December will be liable to VAT at 15%. If you have received fees before 1 December for cases that will not be completed until after that date you can recalculate VAT at 15%, but may need to issue a credit note to your instructing solicitor.

Clubs and Associations

The tax point for your membership subscriptions is normally at the start of membership year when a VAT invoice is issued or the subscription is received, whichever happens first. Where 1 December falls part way through the membership year you can recalculate the VAT on the proportion of the subscription covering membership period from 1 December 2008 at 15%. To do this you may need to issue credit notes to members.



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Construction services

If you make supplies (including design, advisory and supervisory services) under a construction contract which involves your customer making stage payments, the tax point is normally the time you issue a VAT invoice; or receive a payment, whichever happens first. However, if your customer makes only a single payment (excluding any agreed retention), perhaps when the work has been completed or is nearing completion, your supply is liable to the normal tax point rules – including a final (basic) point when the work is completed.

If you are carrying out work under a stage payment contract on 1 December any VAT invoices you issue or payments you receive on, or after, that date will be liable to VAT at 15%. Similarly tax points that occur on or after 1 December for construction services that are covered by the normal rules will be liable at the new rate. In both cases this applies even if some of the work was actually performed before 1 December. The special change of rate rules might apply in the following circumstances

(i) Stage payment contracts

If, before 1 December, you have issued a VAT invoice or received a payment which covers work performed on or after 1 December you can apportion the amount involved (based on measurable work or normal costing or pricing structures) and recalculate the VAT at 15% on the work performed on or after 1 December.

(ii) Other (single payment) construction contracts

You may perhaps, in the case of construction work completed on or after 1 December, have issued a VAT invoice or received payment for the work, when the VAT rate was still 17.5%. Provided the work was completed on or after 1 December you can recalculate the VAT on the full contract price using the 15% rate in force when the work was completed.

In both cases you may need to issue a credit note to your customer.



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Solicitors

If you are a solicitor most of your supplies are covered by the normal tax point rules including a tax point on completion of the work. Where, before 1 December, you have issued a VAT invoice or received a payment for work that will not be completed until on or after 1 December, you can recalculate VAT at 15%, but may need to issue a credit note to your client.

If you receive Standard Monthly Payments (SMPs) from the Legal Services Commission for legal aid work, the VAT treatment under the agreed procedures depends on the extent to which each payment relates to completed cases. The special change of rate rules can be applied to SMPs that created tax points before the 1 December (that is where they were attributed to uncompleted cases or work that had not commenced) provided the cases to which they are eventually allocated will be completed on or after 1 December. Where this applies you can recalculate any VAT at 15%.

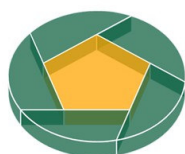
The above is a brief outline of the main effects of the changes. However, specific circumstances are likely to throw up different issues that will require individual attention. Please contact us if in any doubt on this or any other VAT matter.

■ **Business Payment Support Service**

From 24 November 2008, HMRC have introduced a new, dedicated Business Support Service designed to meet the needs of businesses affected by the current difficult economic conditions.

If you are worried about being able to meet VAT payments owed to HM Revenue & Customs, or you anticipate that payments coming due will cause you problems, you can get in touch with Customs to discuss payment options to help you deal with temporary cashflow difficulties. If you do need to phone them you can call the new Business Payment Support Line which is open seven days a week.

They promise to review the circumstances and discuss temporary options tailored to individual business needs, such as arranging for you to make payments over a longer period. There will be no additional late payment surcharges on payments included in the arrangement, although interest will continue to be payable where appropriate. The contact number for new enquiries only is: 0845 302 1435.



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If, however, you already have a payment arrangement in place with Customs but are now experiencing difficulties in meeting any payments already agreed, you should contact the office with which you entered into the agreement and negotiate further with them.

■ Changes to the VAT Retail Scheme Rules

There are five VAT retail schemes available to concerns with turnover of less than £100 million per annum. For businesses operating in excess of that threshold, none of these published retail schemes is available. A special scheme agreed with HMRC must be entered into. However, with effect from 1 April 2009, the turnover figure will be increased to £130 million, thus allowing more retailers to benefit from the provisions of the standard schemes.

■ Flat Rate Scheme Changes

There are currently two tests to determine whether a business may use the scheme, which allows businesses to charge VAT at the appropriate rate on its sales but to account to Customs on a Flat Rate rather than on the full amount charged. Both entry tests must be met:

- the first test requires a business to check that its taxable turnover is less than £150,000;
- the second test requires a business to check that its total income is less than £187,500.

From 1 April 2009 the second test will be removed altogether. Eligibility to join the flat rate scheme will be determined solely by the taxable turnover of the business. **Businesses must check the value of their income annually to determine if they are eligible to remain in the scheme. If annual income exceeds £225,000, a business must leave the scheme.**

Please note that the office will be closed for a short holiday from Wednesday 26th November until Monday 1st December inclusive.

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