

CHANGE IN VAT RATE – TOP Q&As FOR VAT-REGISTERED BUSINESS

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.

For those who have more complex VAT affairs, there's also comprehensive technical guidance available on the HMRC website, at www.hmrc.gov.uk. But take a look at the letter first – that may be all you need to know.

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:

- 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 took place before 1 December and you must use the old rate of 17.5%.

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 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.

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 limit).

HMRC we will adopt a "light touch" in relation to errors or mistakes made in the first VAT return after the change. We want to help businesses get it right, not catch them out. So we'll take into account the difficulties a business has faced in adjusting to the change.

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 on the HMRC website (see below). You will need to use the new rates for your sector from 1 December 2008.

Q13 Where can I find out more?

Take a look at the letter from HMRC – that covers the basics. If you then need more detailed guidance there's lots of that available on the website at www.hmrc.gov.uk. If you've got an accountant or tax adviser, you may want to ask them.