

# 2008 Pre-Budget Report



PBRN26

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## CHANGES TO THE STANDARD RATE OF VAT

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### Who is likely to be affected?

1. All businesses registered for VAT.

### General description of the measure

2. This measure will reduce the standard rate of VAT from 17.5 per cent to **15 per cent** from 1 December 2008.
3. The rate will remain at 15 per cent until 1 January 2010 when it will revert to 17.5 per cent.
4. Zero rated supplies, such as basic foodstuffs, children's clothing and books; exempt supplies, such as education and health; and supplies subject to VAT at 5 per cent, such as domestic fuel and power are not affected by this change.
5. Anti-forestalling legislation will be introduced in Finance Bill 2009 to ensure that businesses are not able to use artificial arrangements to reduce the VAT rate on goods or services to be provided after the VAT rate reverts to 17.5 per cent where there is no current economic activity. Genuine commercial transactions should not be affected. The Financial Secretary to the Treasury, Stephen Timms, will make a written ministerial statement to Parliament on 25 November 2008 setting out the details of the types of arrangements the legislation will be designed to capture.
6. The measure includes two consequential changes. Firstly, it amends the percentages used in the flat rate scheme for small businesses to reflect the reduction in the standard rate of VAT. Secondly, it introduces a change to the timing of credit notes issued following a change of rate.

### Operative date

7. The 15 per cent rate will have effect for:
  - supplies of goods and services made on or after 1 December 2008;
  - imports on or after 1 December 2008; and
  - acquisitions of goods from other Member States on or after 1 December 2008.

8. The anti-forestalling legislation will have effect for arrangements entered into on or after 25 November 2008.
9. The consequential changes to the flat rate scheme percentages and the timing of credit notes will have effect on and after 1 December 2008.

### **Current law and proposed revisions**

10. Section 2 of the VAT Act 1994 (VATA) specifies that VAT shall be charged at 17.5 per cent on the supply of goods or services; the acquisition of goods from another EC Member State; or, the importation of goods from outside the Member States. The rate in section 2 will be amended to 15 per cent with effect from 1 December 2008 by secondary legislation. This amendment will only be effective for 12 months. Legislation will therefore be included in Finance Bill 2009 to extend the period of reduction to 31 December 2009.

#### Anti-forestalling

11. Legislation will be introduced in Finance Bill 2009. It will apply in the circumstances outlined by the Financial Secretary to the Treasury, Stephen Timms, in a Written Ministerial Statement to Parliament on 25 November 2008.
12. The legislation may also include additional or alternative provisions to those outlined in the Written Ministerial Statement which will not take effect until, at the earliest, the date when any further announcement is made.

#### Flat rate scheme

13. The percentages applicable to the flat rate scheme for small businesses are set out in regulation 55K of the VAT Regulations 1995/2518. These will be amended by secondary legislation which will have effect from 1 December 2008. The new table of rates is reproduced in a supplementary document, "VAT - Change in the standard rate: A detailed guide for VAT - registered businesses", that has been published today on the HM Revenue & Customs (HMRC) website.

#### Credit notes for payments received and VAT invoices issued in advance of 1 December 2008

14. Where payment has been received or a VAT invoice issued before 1 December 2008, VAT will have been charged at 17.5 per cent. But where that payment or invoice relates to goods or services that are provided after 1 December 2008, the rules in section 88 of VATA allow the supplier to apply the new VAT rate, 15 per cent, to the earlier payment or invoice.

15. Suppliers who choose to apply the rate of 15 per cent to the earlier payment or invoice are required to issue a credit note to their customer, if they have issued a VAT invoice, to evidence the credit for the reduction in VAT that is now due.
16. Regulation 15 of the VAT Regulations 1995/2518 specifies that a credit note relating to an election under section 88 of VATA (supplies spanning change of rate etc.) must be provided to the recipient of the supply within 14 days after the change of rate. The time limit will be extended to 45 days by secondary legislation.

### **Further advice**

17. Detailed information about this measure is provided in two supplementary documents, "VAT – Change in the standard rate: A summary guide for VAT-registered businesses", and "VAT – Change in the standard rate: A detailed guide for VAT registered businesses", that have been published today on the HMRC website. Information about Pre-Budget Report measures is available on the HM Revenue & Customs website at [www.hmrc.gov.uk](http://www.hmrc.gov.uk).