

## **CHANGE IN VAT RATE – TOP Q&As FOR CONSUMERS**

### **Q1 What's changed?**

The standard rate of VAT has been reduced from 17.5% to 15%, as of 1 December 2008. All other VAT rates (zero, and reduced) stay the same.

### **Q2 What does the standard rate of VAT apply to?**

Many goods and services you buy in the UK, except for those that are:

- zero-rated – eg most foodstuffs; passenger transport (including air travel, domestic and international); children's clothes; and books, newspapers and magazines;
- reduced-rated (at 5%) – eg domestic fuel and power; or
- not subject to VAT at all – eg education; health; financial services.

### **Q3 Do retailers have to change their prices (and so pass on the VAT reduction to their customers)?**

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.

### **Q4 If I ask for a refund on or after 1 December 2008 on goods / services purchased before, what am I entitled to get back?**

If you're entitled to a refund, it should be based on what you actually paid. The change in VAT rate makes no difference.

**Q5 I have a VAT bill dated after 1 December showing VAT at 17.5%. Have I paid too much?**

Businesses should be charging VAT at the new rate from 1 December 2008.

If the VAT bill relates to goods or services you received before 1 December, then the 17.5% rate shown on the bill is right.

If in doubt, you may wish to check with the business that provided the invoice.

**Q6 If I have paid in advance for goods or services before 1 December, but received them on or after 1 December, can I expect a refund of the difference?**

You can ask your supplier for a refund of the difference as they are entitled to give you a refund (and make the necessary adjustment in their VAT records), but it does depend on the particular circumstances – so you may want to consult the supplier to check what they will be doing.

**Q7 I'm paying a subscription, or making a series of payments (eg to a contractor) - what rate of VAT will I be charged for payments due after 1 December?**

If you are paying for standard-rated goods or services, the 15% rate will apply to any payments you make on or after 1 December 2008.

If the price has been fixed before this, the price should be adjusted by your supplier (unless the contract specifies otherwise).

**Q8 I have a quote from a company that is valid for, say, 30 days. Am I entitled to assume that VAT will be charged at the lower rate automatically, or do I need to ask them to re-quote?**

In the vast majority of cases the business will take the change of rate into account, and charge VAT at the rate in force when you take up the quote.

However, the way the quote is structured will vary from case to case and you should check with the company if you are unsure of the contractual position (see next question below).

**Q9 I signed a contract before 1 December for something that I will receive and pay for on or after 1 December. Are there any general rules about whether the price should be adjusted?**

Yes. VAT law (section 89 of the VAT Act 1994) provides that contract prices should always be adjusted where the VAT rate changes before the sale is made (unless the parties have agreed to a contract which explicitly removes the need for such adjustment).