

**PRE-BUDGET REPORT – 24<sup>TH</sup> NOVEMBER 2008  
THE CHANGE IN VAT RATE FROM 17.5% to 15% – QUESTIONS AND ANSWERS**

***When does the change in rate take effect?***

The new VAT rate takes effect from Monday 1st December 2008.

***What is the new VAT Fraction?***

The new VAT fraction is 3/23

If you know the gross amount, multiply by 3/23 to calculate the VAT or 20/23 to calculate the net.

If you know the VAT amount, multiply by 23/3 to calculate the gross or 20/3 to calculate the net.

If you know the net amount, multiply by 3/20 to calculate the VAT or 23/20 to calculate the gross.

***If I issue an invoice after 1<sup>st</sup> December for a supply made in November, which rate of VAT should I use?***

If you received payment for the goods or services **before** the actual supply took place, and the supply took place before the VAT rate changed, i.e. before 1<sup>st</sup> December 2008, you should account for VAT at 17.5%

If payment was not received before the actual supply took place, and you are issuing the invoice within 60 days, and after 1<sup>st</sup> December 2008, you should account for VAT at 15%

***If I issued a VAT invoice in November, but the supply will not be made until December can I issue a credit note to reduce the VAT amount?***

Where full or part payment is made, or a VAT invoice issued, before the basic tax point, VAT will normally be due on the amount paid or invoiced at the rate in force at that date. If there is a change in the VAT rate before the supply is actually made, VAT may be charged at the rate applicable when the supply is made and a credit note, headed 'Credit note – change of VAT rate', issued to amend the VAT invoice.

***I am issuing a credit note against an invoice I issued last month. What VAT rate should I use?***

Where a credit note (not arising from the change in rate) is issued to adjust an original invoice, VAT should be credited at the rate in force at the tax point of the original supply.

***I have received a purchase invoice in November, which I will not be processing until December. Can I reclaim VAT at 17.5% or can I only claim 15%?***

Following a change in VAT rate input tax will typically be recovered at the rate charged by the supplier. So, if the supplier charged 17.5% on an invoice raised in November you are entitled to recover that 17.5% VAT charge when processed in December. Where the amount of VAT is not separately shown, VAT is calculated by applying the VAT fraction which was appropriate at the tax point created by that invoice, viz. the date of the invoice.

***I am leasing goods and the leasing company has issued an invoice with monthly tax points spanning the change in rate. Can I recover input tax at the rates shown?***

No, where an invoice is issued by the supplier up to one year ahead, giving the amounts and dates when payments are due, it is invalid in respect of payments due after the change in VAT rate (and not received before it). A new invoice, referring to, and cancelling, the superseded part of the original invoice, must be issued by the supplier. You cannot use the original invoice to support a claim for input tax after the change in VAT rate and must make the necessary adjustments on receipt of the new invoice.

***We have received a payment, under a price adjustment clause, for a supply we made last year. What rate of VAT should we use?***

Where an additional payment is required after a change in the VAT rate, and after the tax point for the original supply determined under the normal rules, VAT is chargeable on the further payment at the old rate. Where VAT was not determined under the normal rules on the original supply, the tax point for the additional payment is the earlier of the date of receipt of a further payment or the issue of a VAT invoice and VAT is chargeable at the rate then in force.

***What rate of VAT applies to hire purchase, conditional and credit sales spanning the two rates of VAT?***

Under any of these agreements, there is a single supply of goods and the normal tax point is the earliest of –

- (a) the date of removal of the goods;
- (b) the date of issue of the agreement (provided the agreement is in the form of a VAT invoice); and
- (c) the date of the issue of a separate VAT invoice.

The signing of an agreement, or its date, does not constitute a tax point. Where there is a change in the VAT rate, the tax point will be whichever of (a) to (c) above results in the lower rate of VAT being charged.

***Where we charge a VAT inclusive price, for example casual swims at leisure centres, do we have to change our prices to reflect the reduced VAT rate?***

The VAT laws do not require you to do so – this will be a policy decision. However, if you maintain current pricing, revenue on standard-rated supplies will increase by a little over 2%.

In some instances, such as off-street parking, the price is set by Order and cannot be readily adjusted. You should bear in mind that if off-street parking is a non-business activity a change in VAT rate will **not** impact on the fee charged and, should you choose to reduce off-street car parking charges to reflect the change in VAT rate, this could prejudice the argument that VAT is not a cost component of your off-street parking charge.

***We currently operate an input tax estimation procedure. Will the rate change impact on this?***

Yes, the tax throughput will be reduced and your procedures should be reviewed to take account of this. You should also consider the impact of the reduced tax throughput on your partial exemption estimates.