HM Revenue & Customs

VAT – REVERSION OF THE STANDARD RATE TO 17.5%:

A DETAILED GUIDE FOR VAT-REGISTERED BUSINESSES

[ ] 2009

Contents **Page**

1 INTRODUCTION

Reduction of the standard rate of VAT
In his Pre-Budget Report of 24 November 2008 the Chancellor announced a temporary reduction in the standard rate of VAT to 15% between 1 December 2008 and 31 December 2009.

Standard rate from 1 January 2010
The standard rate of VAT returns to 17.5% on 1 January 2010.

Effect on businesses – what you need to do
This change affects any VAT registered business that sells or purchases goods or services that are subject to the standard rate of VAT.

You should charge VAT at the rate of 17.5% on any sales of standard rated goods or services that you make on or after 1 January 2010.

Other rates of VAT are not affected
This change in the standard rate of VAT does not affect sales of goods or services that are charged at another rate of VAT. These are:

- *Zero rated* – for example most foodstuffs, children's clothing or books,
- *Reduced rated* – for example children's car seats, domestic supplies of fuel and power, and
- *Exempt* – for example education, health and financial services.

Businesses that only supply goods or services at other rates

If your business only supplies goods or services that are subject to one of the other rates of VAT (above) you do not have to change the rate of VAT that you charge.

All businesses – input tax

The rate of VAT on goods and services that your business purchases will be higher and as a result, your claims to input tax will increase.

If you make a mistake in applying the change in the standard rate of VAT

HMRC wants to encourage and assist businesses as they make the changes necessary to deal with the change in the standard rate.

If a business discovers that it has made mistakes, it should correct them through the normal error correction procedures, either in its current VAT return or, for larger mistakes, by submitting a form VAT 652 (see Notice 700/45 - How to correct VAT errors and make adjustments or claims).

HMRC will be operating a 'light touch' in dealing with errors made in the first VAT return after the change, where the error relates to a change of rate issue. This means that in planning our audit work we will not target change of rate errors that are unlikely to lead to any material net revenue loss. And if we find errors which relate to a change of rate issue we will not seek an adjustment unless we have reason to suppose that there is an overall revenue loss.

In situations where HMRC do need to adjust (and issue an assessment) we will take into account the difficulties the business has faced in adjusting to the change in considering whether penalties apply.

Annex A sets out guidance for HMRC compliance staff on what ‘light touch’ means.

Using this guide

This guide tells you in practical terms how to deal with and apply the change to the standard rate of VAT from 1 January 2010, based on common questions we think you might have.

The guide is divided into a number of sections. You do not have to read it all but should read those parts that affect your particular business.

Section 2 provides an overview of how sales generally should be treated after the change and provides information that might be of use to all businesses.

Section 3 gives a brief guide to businesses on how to deal with sales where you provide goods or services before 1 January 2010 and raise a VAT invoice on or after 1 January 2010.

Section 4 considers how retailers and other businesses that make mainly cash sales to non-business customers should deal with sales at the 17.5% rate.

Section 5 describes how VAT should be reclaimed on purchases.

Section 6 explains what changes need to be made to accounting systems following the return of the standard rate to 17.5%.

Section 7 explains what you need to do when completing your VAT return after the change.

Section 8 provides further advice for businesses in the following special VAT accounting schemes:-

- **Agricultural Flat Rate Scheme**
- **Annual Accounting Scheme**
- **Cash Accounting Scheme**
- **Flat Rate Scheme**
- **Payment on Account Regime**

- **Second-hand sales - Margin scheme for second-hand goods, antiques, works of art and collectors' items**
- **Tour Operators' Margin Scheme**

Section 9 provides additional guidance for the following types of business:-

- **Auctioneers**
- **Barristers and Advocates**
- **Clubs and Associations**
- **Construction services**
- **Solicitors**

Section 10 considers the VAT arrangements for the following type of transactions:-

- **Coin operated machines**
- **Continuous supplies**
- **Hire purchase, conditional sales and credit sales**
- **Investment gold**
- **Property**
- **Royalties and similar payments**
- **Self billing**
- **Sales of tickets to events (theatre, concert, football season tickets etc)**
- **Goods in warehouse regimes (excise, customs or fiscal warehouses)**
- **International trade**
    - **Imports**
    - **Exports**
    - **Acquisitions**
    - **Dispatches**
    - **Importation of works of art, antiques and collectors' items eligible for reduced valuation**

Section 11 provides a short overview of the anti-forestalling legislation introduced to prevent avoidance at the rate change, and gives details of where to find more extensive guidance.

Section 12 provides contact details for HMRC should you need further advice.

Annexes A-C give more detailed guidance on:-

- **HMRC's approach to errors - the 'light touch'**
- **Time of supply**
- **VAT payable on fuel scale charges following the change of rate**

2 SALES

2.1 When do I have to start charging the 17.5% Rate?

You have to charge the 17.5% rate on sales of standard rated goods and services you make on or after 1 January 2010.

2.2 Which of my sales are affected?

This depends on how you account for VAT**: -**

If you are a retail business making mainly cash sales to non business customers (e.g. a shop, restaurant, takeaway, hairdresser) and do not have to raise VAT invoices-

You should use the 17.5% rate for all takings that you receive on or after 1 January 2010 …

… **except** for where your customer pays for something they took away (or you dispatched) **before 1 January** (e.g. where customers have an account with you).

In this case, your sale took place before 1 January and you must use the 15% rate.

If you are a business that sells mainly to other VAT registered businesses and have to issue VAT invoices-

You should use the 17.5% rate for all VAT invoices that you issue on or after 1 January 2010 and which are issued within 14 days of you providing the goods or services (or any longer period for invoicing which you have agreed with HMRC).

However, there are special rules for supplies which span the change of rate (see section 3). Under these rules if you provide goods or perform services before 1 January 2010 and raise a VAT invoice after that date you can choose to account for VAT at 15%. You don't need to tell HMRC if you do this.

There are also special rules for businesses that make continuous supplies of goods or services – see section 3.4.

2.3 What are tax points?

Sometimes reference is made in this guidance to the "tax point". These are the rules in place, for VAT purposes, for determining when a sale takes place (also known as the 'time of supply'). These rules will already be familiar to many businesses, but as they become particularly important when a rate changes, there is a simple summary at Annex B of how they will apply to you.

2.4 My prices are VAT inclusive. How do I calculate the new rate?

If you charge a VAT inclusive price, you should use the VAT fraction to work out the VAT element. The VAT fraction for the 17.5% rate is 7/47.

For example,

If you sell something for…	**And the VAT rate is….**	**Then the amount of VAT is……**
£117.50	17.5%	£17.50

But £17.50 is not 17.5% of £117.50, it is 7/47 of £117.50.

This is how the VAT fraction is worked out:

$$\frac{\text{Rate of tax}}{100 + \text{rate of tax}}$$

So, with VAT at 17.5%, the VAT fraction is:

$$\frac{17.5}{117.5} = \frac{7}{47}$$

2.5 How do I correct VAT charged at the wrong rate (Credit notes)?

If you charge the wrong rate of VAT on an invoice in error you will need to provide your customer with a credit note to cancel the original invoice and issue a new invoice at the correct rate. A credit note should contain the following details:

- the identifying number and date of issue of the credit note;
- your name, address and VAT registration number;
- your customer's name and address;
- the identifying number and date of issue of the VAT invoice;
- a description which identifies the goods or services supplied; and
- the amount of VAT being credited.

See also sections 3.3 and 10.2 below.

2.6 How do I deal with deposits or pre-payments?

The normal rule is that you should account for VAT on a deposit or pre-payment at the rate in force when you receive it. If you receive a deposit before 1 January 2010 for goods or services that you will supply on or after that date the 15% rate of VAT will apply to the deposit and 17.5% will apply to the balance. You do have the option to charge 17.5% on the deposit which may simplify matters if your customer can recover the VAT (see section 3).

However, legislation has been introduced to limit the extent to which the 15% rate can apply to deposits or prepayments for certain supplies of goods or services provided on or after 1 January 2010 when the standard rate returns to 17.5%. It is intended to prevent artificial avoidance and, in practice, should affect very few businesses (see section 11).

I receive a deposit of £100 on 20 December 2009 for a computer that retails for £1,000. The balance of £900 is paid when the computer is delivered on 10 January 2010. What rate of VAT is due?

The deposit is received before 1 January 2010 so VAT of 15% is due:-

£100 x 3/23 = £13.04

The balance is received after 1 January so VAT of 17.5% is due:-

£900 x 7/47 = £134.04.

Another customer pays in full for a similar computer on 21 December which is due to be delivered on 11 January 2010. What rate of VAT is due?

The payment is received before 1 January 2010 so VAT of 15% is due:-

£1000 x 3/23 = £130.43.

2.7 Bad debt relief

Any bad debt relief you claim on sales must be at the same rate of VAT as that used for the sales (i.e. 15% for bad debt relief on sales before 1 January 2010).

3 Special Rules for sales that span the change in rate

Under the normal rules, standard rated supplies with tax points created by payments received or VAT invoices issued on or after 1 January 2010 will be liable to the 17.5% rate.

However, there are **optional** change of rate rules that you may be interested in applying. You can apply the rules selectively to different customers. Also, you can adopt them without notifying HMRC.

Note: The special change of rate rules are **optional** – you do not have to apply them and you are unlikely to want to if your customer can recover all the VAT you charge them (unless it is administratively more convenient for you).

3.1 How do the rules work?

3.2 Goods or services provided before 1 January 2010

The change of rate rules may be used where you provide goods or perform services before 1 January 2010 and raise a VAT invoice and, in some cases, receive a payment after the rate change.

So, for example, if you issue a VAT invoice after 1 January 2010, for goods you provided, or services that you completed before 1 January 2010, you can, if you wish, apply the 15% rate.

You can decide to apply these rules even after you have issued a VAT invoice showing 17.5% VAT. If you do, you must issue a special credit note giving credit for the extra 2.5% VAT, within 45 days of the rate change (i.e. by 14 February 2010). The credit note details required are given in section 2.6 above. You should not cancel the original invoice.

I deliver a computer to a customer on 22 December 2009 when the VAT rate is 15%. On 2 January 2010 I issue a VAT invoice in respect of the sale. What rate of VAT do I charge?

Under the normal tax point rules 17.5% VAT is due as the invoice was issued after the increase in the rate and within 14 days of the supply of the computer. However, under the special rules you may decide to charge the 15% standard rate of VAT which was in effect when the computer was delivered. This will reduce the amount of VAT you are liable to account for on the sale. If your customer is VAT registered and able to recover the VAT charged in full the use of the special rules will not save them any tax.

I carry out a service on a car on 28 December 2009 and on 10 January 2010 I issue a VAT invoice to my customer. Can I charge VAT on this supply at 15%?

Yes. The position here is the same as in the previous example

3.3 Goods or services provided after 1 January 2010

You can also opt to use the rules where you receive a payment or raise a VAT invoice before 1 January 2010 for goods or services you will be providing on or after that date. Under the normal rules you should account for VAT at 15% (but see section 11 about special rules to prevent avoidance for certain deposits or prepayments).

However, under the special rules you may account for VAT at 17.5%, not 15%, on the payment or amount invoiced before 1 January 2010. You may find it more convenient to do this and to issue a VAT invoice for the 17.5% rate in cases where your customer can recover all the VAT you charge them.

3.4 Supplies that are in progress on 1 January 2010

It will happen that a service commences before 1 January 2010 and is still in progress after that date. The normal rule is that where an invoice is issued or a payment received after 1 January 2010 VAT is due at 17.5% even if part of the supply was undertaken before that date. However, the special rules also apply here both in relation to continuous supplies of services and to single supplies of services carried out over a period of time. Two examples might help to explain the difference between these two types of supplies.

> An office equipment company has a contract to lease photocopiers to a bank. The contract is open-ended but can be terminated by either party with three month's notice. Payment is made by the bank monthly in arrears. This would be regarded as a continuous supply.
>
> The same office equipment company prepares a report for the bank about its future photocopier needs. The report takes four months to compile. This would be a single supply of services (i.e. of the completed report) carried out over a period of time.

3.4.1 Continuous supplies

If you make a continuous supply of goods (gas, electricity or water liable at the standard rate) or services (e.g. leasing equipment) and are currently applying the tax point rules at paragraphs 14.3 and 30.10 of the VAT Guide (Notice 700) you may account for VAT at the 15% rate on that part of the supply made before 1 January 2010. This is the case, even if the normal tax point occurs later (for example, where a payment is received in arrears of the supply).

If you decide to do this, you should account for VAT at 15% on the value of the goods actually supplied or services actually performed before 1 January 2010, and at 17.5% on the value of the goods actually supplied or services actually performed after. For guidance on the invoicing arrangements for continuous supplies please go to section 10.2.

I lease computer equipment to a local dental practice for £100 per month plus VAT. I invoice quarterly in arrears. What VAT do I charge for the quarter covering 1 November 2009 to 31 January 2010?

The normal rule is that the entire £300 fee is liable to VAT at 17.5% because the invoice is issued after 1 January 2010. However, you can, if you wish, charge VAT at 15% on the payment for November and December 2009. As the dental practice is unlikely to be able to recover all of the VAT that it incurs using the special rules will result in a VAT saving for them.

3.4.2 Single supplies carried out over a period of time

You may make a single supply of a service which is nevertheless carried out over a period which commences before 1 January 2010 but is not completed until after that date (e.g. decorating a house). Unless you have received payment or issued a VAT invoice before 1 January, the whole supply should be charged at the 17.5% rate under the normal rules. However, you may if you wish, charge VAT at 15% on the work done up to 31 December 2009 and 17.5% on the remainder. You will have to be able to demonstrate that the apportionment between the two amounts accurately reflects the work done in each period.

I am a plumber and have been employed to carry out some major works to a house for a private customer. The work commenced in early December 2009 and won't finish until mid January 2010. How do I calculate the VAT?

You may account for VAT at 15% on the work carried out before 1 January 2010 and 17.5% on the remainder. You will need to be able to show that your calculation is accurate – perhaps you charge a daily or an hourly rate that you could use to demonstrate this.

See section 9 for further information about the rules that must be followed for particular types of business and section 10 for particular types of transactions.

4 Retail business making mainly cash sales to non-business customers (e.g. a shop, restaurant, takeaway, hairdresser)

For most retail sales it is a straightforward matter to decide when to apply the new rate – a customer enters your shop on or after 1 January 2010 and pays cash for a standard rated item which he takes away – VAT of 17.5% is due.

If you take deposits or make sales on credit, you will need to determine the correct tax point for sales to make sure you use the correct VAT rate. See section 2.6 on deposits. See Paragraph 10.3 for hire-purchase, conditional sales and credit sales.

4.1.1 Will I need to change my till and accounting system?

Many retailers have till systems which calculate VAT at the point of sale. If you use an electronic system to record retail sales you will need to make sure it is adjusted to take account of the new rate with effect from 1 January 2010. You may need to consult the manufacturer or supplier of your particular system to find out how to make the necessary adjustments.

Some retail systems will then post VAT to your main accounting records. But other systems will require you to apply the VAT fraction (see paragraph 2.4) to daily gross takings using one of the retail schemes.

If you use a retail scheme see the guidance at paragraphs 4.1.5 to 4.1.12.

We acknowledge that some retailers may be unable to adjust their electronic cash registers or tills and there may be instances where either a VAT rate of 15% or an incorrect VAT amount will be shown on till receipts after 1 January 2010 even though the gross price may have been increased. Nonetheless the retailer must account for VAT at the correct rate of 17.5% (7/47 of the VAT-inclusive invoice value). We expect retailers to be producing correct till receipts as soon as possible. This is a particular priority if the till receipts are less detailed VAT invoices and you have business customers – see section 4.1.4 below.

4.1.2 How much do I need to increase my prices by to take account of the increase in VAT?

To increase your VAT inclusive prices to reflect the increase in the VAT rate to 17.5% you should multiply your old prices by 117.5/115, which is equal to 47/46. This is an increase of about 2.2% in the VAT-inclusive price.

4.1.3 Do I have to pass on the VAT increase to my customers by increasing my prices?

This is a commercial decision for you to make.

4.1.4 What about retail invoices?

There is no requirement to show VAT or the VAT rate on retail invoices supplied to unregistered customers. However, if you do provide information about the VAT rate and or the VAT charged on your invoices, you will need to change the rate to avoid queries by your customers. If you issue VAT invoices to registered customers on request, you will need to ensure they show the correct VAT and VAT rate.

Where separate systems exist to supply VAT invoices or less detailed VAT invoices to business customers, these must be changed as a matter of priority. Businesses customers that have made purchases from a retail shop after 1 January 2010 should be entitled to recover VAT of 17.5% rather than the 15% shown on the invoice. Showing the incorrect rate will impose a burden on both you and your business customers in correcting the VAT position.

4.1.5 What if I use a retail scheme?

You calculate your daily gross takings in the normal way and apply the new VAT fraction (7/47) to sales on or after 1 January 2010.

4.1.6 What if the VAT rate change occurs part-way through one of my VAT periods?

You will have to make two calculations for that period, one with the 3/23 VAT fraction applied to receipts before 1 January 2010 and one with the 7/47 VAT fraction applied to receipts after. Section 7 of Notice 727 *VAT Retail Schemes* tells you more about this and the following paragraphs briefly tell you about the effect on each of the schemes.

4.1.7 I use the Point of Sale scheme – how will the change affect me?

You will have to make sure that any till technology you use to calculate VAT on your transactions is adjusted to reflect the 17.5% rate with effect from 1 January 2010.

If your till system does not calculate VAT at the point of sale, and the rate change occurs part-way through one of your VAT periods, then you will need to make two calculations for that period. You will have to make one calculation applying the VAT fraction of 3/23 to your daily gross takings figure from the start of the period up to and including 31 December 2009; and another applying the new fraction of 7/47 to your daily gross takings from 1 January 2010 to the end of your period.

4.1.8 I use an Apportionment scheme – how will the change affect me?

If 1 January 2010 falls part way through one of your VAT periods, you will have to make two calculations for that period and add the resulting amounts together to give your VAT liability for the period.

You will also have to make two calculations when making your annual adjustment, one for the period from the start of the year up to and including 31 December 2009; and one for the remainder of the year.

4.1.9 I use a Direct Calculation scheme – how will the change affect me?

When you increase your prices to take account of the change in rate you will need to adjust your Expected Selling Prices (ESPs) accordingly.

If 1 January 2010 falls part way through one of your VAT periods, you will have to make two calculations for that period, and add the resulting amounts together to give your VAT liability for the period.

Your annual adjustment (if you are on Scheme 2) will also have to take account of any change in your ESPs.

4.1.10 I use a bespoke retail scheme agreement. How will the rate change affect me?

If your scheme contains detailed provisions about the action to be taken when there is a rate change you must follow what it says. If it does not cover this, the general rule is that bespoke schemes are about valuing supplies at different rates and their terms should not be read as implying authority to account for VAT at the wrong rate. The general provisions on change of rate will apply to retailers using bespoke schemes as they apply to other VAT businesses.

4.1.11 What about refunds?

If you give a refund on or after 1 January 2010 for a sale you made before 1 January, you will have to adjust your daily gross takings to take account of the VAT originally charged at 15% by using the VAT fraction of 3/23.

4.1.12 Further advice

For further advice see Notice 727 *VAT Retail Schemes* and associated notices (727/2, 727/3, 727/4, 727/5).

5 PURCHASES

A VAT registered business can claim back the VAT it incurs on standard rated purchases – subject to the normal rules on deducting VAT including any restrictions for purchases used to make exempt supplies. This is normally the VAT that is shown on the purchase invoice. However, following the return to the 17.5% standard rate of VAT, businesses will be receiving invoices showing VAT at the previous rate of 15% as well as the 17.5% rate. This section explains what businesses are entitled to recover on their VAT returns.

5.1 What VAT can I claim back on my purchases?

5.1.1 Invoices received at the new VAT rate

I receive a VAT invoice for goods purchased for resale by my business on 5 January 2010. I have been charged 17.5% VAT. Can I claim it back?

Yes, subject to the normal rules on input tax recovery.

5.1.2 Invoices received at previous VAT rate

I receive a VAT invoice from my supplier in December 2009 for a supply of goods he will make in January 2010 and the invoice shows VAT charged at 15%. Shouldn't the VAT amount be 17.5% on this invoice?

The normal rule is that VAT is due at the rate in force on the date that the invoice is issued so the 15% rate is correct. Your input tax claim should be based on the VAT shown on the invoice. However, suppliers can opt to apply the new rate to such advance invoices, so if the invoice had shown a 17.5% rate, that would also be correct. Also note that anti-forestalling legislation exists to prevent avoidance around the rate change (see section 11).

I receive a VAT invoice from my supplier dated 7 January 2010 for goods delivered on the same day. The invoice shows VAT of 15%. How much can I reclaim?

You should only treat as input tax the amount shown on the invoice. If your supplier incorrectly charges you 15% on or after 1 January 2010, you can only treat 15% of the tax exclusive (net) charge as input tax. You may ask your supplier to provide you with a credit note to cancel the original invoice and to issue a new invoice showing the correct rate.

5.1.3 Less detailed VAT invoices and the VAT fraction

I purchase goods (e.g. petrol) from retail suppliers and receive less detailed VAT invoices for these supplies, which show the VAT inclusive values of the supplies. How do I calculate the VAT I can claim back?

Less detailed VAT invoices show a VAT inclusive value, and the VAT rate applicable, but they do not always show the VAT amount separately. To calculate the standard rated VAT element included in this value you must use the VAT fraction (3/23 for 15% rate invoices, 7/47 for 17.5% rate invoices). See paragraph 2.4.

What if the less detailed invoice shows the VAT rate as 15% on goods I purchase after 1 January 2010?

You can only treat 15% of the net amount as input tax. You will need to apply the VAT fraction of 3/23 to the total to calculate the VAT you can claim.

What if my VAT return covers the change of rate and some less detailed invoices are at the old rate?

You will need to identify those less detailed invoices that were issued with a tax point date up to 31 December 2009 and use the VAT fraction for 15%, which is 3/23. For less detailed VAT invoices with a tax point date on or after 1 January 2010 which show the standard rate of 17.5% you should use the 7/47 VAT fraction.

5.1.4 Invoices with VAT schedules

I have a VAT invoice that includes an annual schedule of monthly charges including VAT relating to a standard rated supply. Do I recover VAT based on the schedule even though the rate is wrong from 1 January 2010?

Amounts shown on the invoice schedule for periods after 1 January 2010 cannot be reclaimed as input tax. Your supplier will need to provide an amended invoice schedule for those periods. See section 10.2

5.1.5 Cross-border supplies of services

I receive cross-border services that are subject to the reverse charge provisions. What rate of VAT do I use?

If you receive cross-border services that are subject to the reverse charge, the tax point (see paragraph 2.3) up until 31 December is the date you pay for the services.

Coincidentally, there are also changes to the tax point rules for reverse charge services from 1 January. This will affect the time at which you are required to account for and, where appropriate, recover the VAT on the supply

From 1 January 2010 the tax point rules will change so that:

- for single supplies, the tax point will occur when the service is completed or when it is paid for if this is earlier;

- in the case of continuous supplies, the tax point will be the end of each periodic billing or payment period, but if a payment is made before the end of the period to which it relates or before the end of the billing period then the payment date, rather than the end of the period, will be treated as the tax point, and

- for continuous supplies that are not subject to billing or payment periods, the tax point will be 31 December each year unless a payment has been made beforehand, in which case the payment will create a tax point.

These new tax point rules are expected to only apply where the resulting tax point is on or after 1 January 2010. Otherwise the old payment tax point will apply. For example a single supply of services completed before 1 January 2010, but paid for on or after that date is expected to have a tax point on payment (though you would be able use the special change of rate rules in section 3 in such cases). Please see the link below for more detailed guidance, which will cover the change of rate position.

For further details of the 1 January 2010 changes to the VAT rules relating to cross-border supplies of services, please go to
www.hmrc.gov.uk/vat/cross-border-changes-2010.htm

This also provides information about forthcoming changes to:
- the intra-EU reporting requirements for goods; and
- the method for reclaiming VAT incurred in another EU.

5.1.6 Imports of goods, intra-EC acquisitions of goods

Please see section 10.10.

6 WHAT CHANGES DO I NEED TO MAKE TO MY INVOICING AND ACCOUNTING SYSTEMS?

The changes you need to make to your invoicing and accounting systems will depend on what system you currently operate.

6.1 Manual Records

For businesses with simple manual records only very minor changes may be required. The key issue will be ensuring you enter the correct rate of VAT in your sales and purchase books to record VAT at both the 15% and 17.5% standard rates for at least the first return after the change.

For businesses that rely on more complex electronic accounting systems (including both in-house and off the shelf software) the changes are likely to be more involved.

6.2 Computer systems

I use accounting software to maintain my VAT records, including issuing VAT invoices and posting invoices for expenses and goods and services I buy. Can I continue to use the package following the change in VAT rate, and are there any changes I will need to make?

Yes, you can continue to use accounting software. However, you will need to check that your accounting software can process VAT invoices during the transitional period, when you may be issuing and receiving VAT invoices showing either the 15% or 17.5% VAT rates. You need to ensure that for standard rated supplies of goods or services made or received on or after 1 January 2010 the VAT rate being used and shown on the invoices is 17.5%.

6.2.1 What if I can't change my systems in time for the rate change on 1 January 2010?

HMRC recognises that the rate change will occur at a busy time for many businesses. If you can't make full and final changes to your accounting and billing systems in time that is not necessarily a significant problem – you may be able to make some temporary arrangements or manual adjustments so that you can account for the correct amount of VAT in your first VAT return after the change.

> **For retailers**, the standard rated takings you receive from 1 January 2010 onwards will be liable to VAT at 17.5%. If your systems (including tills) have not been amended to account for 17.5% (rather than 15%) by 1 January, you will need to calculate the VAT manually on your standard-rated takings using the VAT fraction of 7/47.

For businesses issuing VAT invoices, you will need to ensure that you are charging VAT of 17.5% rather than 15% on the invoices you raise for sales made on or after 1 January 2010. For businesses issuing manual invoices this should be straightforward. For those issuing invoices automatically from an accounting system you will need to explore how you change the VAT field from 15% to 17.5%. You may be able to do this yourself or you may need to contact your software provider for assistance. Most software packages should have the in-built capability to deal with changes in rate.

6.2.2 What if I charge my customer the wrong rate of VAT on an invoice?

If you continue to charge 15% VAT on invoices raised on or after 1 January 2010, you will need to account to HMRC for the correct amount, that is, 17.5%. But if you discover that you have charged the wrong rate you can issue your customer with a credit note (see paragraph 2.5) to cancel the original invoice and issue a new invoice showing the correct rate of VAT.

6.2.3 How do I deal with returned goods – sold before rate change, returned afterwards?

I supply goods and invoice a customer in November 2009, charging 15% VAT. In early January 2010 I agree with the customer that some of the goods may be returned and issue a credit note to my customer for the returned goods. Should I show VAT at 15% or 17.5% on the credit note?

The rate of VAT to be used for credit notes or debit notes is the one which was in force at the time of the original supply. Your supply was in November 2009 and you charged 15%, so the credit note must show VAT at 15%.

7 HOW DO I COMPLETE MY VAT ACCOUNT / VAT RETURN?

If your VAT return period spans 1 January 2010 you will need to be able to account for standard rated sales and purchases at both the 17.5% rate and the previous rate of 15%. This section takes you through some of the most common situations.

I am on quarterly VAT returns and my VAT return includes days before and days after the rate change. How can I be sure that the VAT amounts I include in my VAT account and my VAT return are correct?

The change to the VAT rate should not change the way that you prepare the VAT account and complete your VAT return. If you calculate your VAT from sales invoices, then the key is to get the new rate on those invoices for supplies made on or after 1 January 2010. If you use a retail scheme (see section 4) or one of the other accounting schemes (see section 8), there may be additional steps you need to take.

I issue a VAT invoice on 16 January 2010 for goods supplied on 3 January and charge my customer VAT at 15%. The customer pays the invoice in full. Do I record the VAT amount in my records at 15%?

If the amount of VAT shown on a VAT invoice you have issued is lower than the amount properly due, then you must account for the higher amount in your records. You can correct the error by issuing your customer with a credit note (see paragraph 2.5) and issuing a new invoice showing VAT at the correct rate.

7.1 Fuel Scale Charges

VAT registered businesses that reclaim VAT on road fuel are required to account for VAT to reflect the private use of business vehicles. The fuel scale charges were amended with effect from 1 May 2009. The VAT on these charges will have to take account of the 17.5% rate from 1 January 2010. The new amounts applicable from 1 January 2010 are shown in the tables at Annex D. If your VAT return period spans 1 January 2010, you will need to apportion VAT payable on the scale charges accordingly.

7.2 Partial exemption – de minimis

If you are partly exempt you will need to carry out your partial exemption calculations in your VAT account as normal (see VAT Notice 706) unaffected by changes to the VAT rate. Where the partial exemption rules include monetary limits they must be applied based on the tax totals without regard to the VAT rate in force when that tax was incurred. So, for example, the £625 per month de minimis limit applies whether VAT incurred at the standard rate is at 15% or 17.5%.

8 SPECIAL VAT ACCOUNTING SCHEMES

This section looks at how businesses operating the following VAT accounting schemes should deal with the return of the standard rate 17.5%.

- **Agricultural flat rate scheme**
- **Annual Accounting Scheme**
- **Cash Accounting Scheme**
- **Flat Rate Scheme**
- **Payment on Account Regime**
- **Second-hand sales - Margin scheme for second-hand goods antiques, works of art and collectors items**
- **Tour Operators' Margin Scheme**

8.1 Agricultural flat rate scheme

I am on the Agricultural Flat Rate Scheme. Will the change affect me?

No. the Agricultural Flat Rate Scheme rate was not adjusted to take account of the temporary reduction to 15% so no changes are required when the rate reverts to 17.5%. You will continue to be able to charge a 4% Flat Rate Scheme addition on your sales of relevant goods to VAT registered businesses.
(VAT Notice 700/46)

8.2 Annual accounting scheme

Will HMRC change my instalments?

No. The precise effect of the rate change will vary from business to business and HMRC will not be changing the instalments already notified.

What if I disagree with my instalments?

If you disagree with the amount of your interim payments, or you expect your VAT liability to increase or decrease significantly over the course of the year you should contact the Annual Accounting Registration Unit and explain how you have calculated your interim instalments. If we agree with your calculations we will write and inform you of the revised instalments. The address to contact is:

HM Revenue & Customs
Annual Accounting Registration Unit
Imperial House
77 Victoria Street
Grimsby
Lincolnshire
DN31 1DB

0845 039 0279

(VAT Notice 732)

8.3 Cash accounting scheme

How does the change of rate affect my cash accounting?

While the cash accounting scheme allows you to account for your VAT liability when you receive payment it does not affect the tax point. The tax point is the time that the sale is made under the law and it determines the rate of tax applicable. Annex B tells you more about tax points.

This means that VAT will be due at 15% on supplies you made before 1 January 2010, even if you receive payment on or after that date. When you receive payments in the months after the rate change, you will need to identify those payments which relate to supplies made before 1 January 2010 on which VAT is still due at the previous 15% rate.

The same applies to purchases that you make before 1 January 2010. You may only reclaim VAT of 15% on these, even if you pay for them on or after 1 January 2010.

How do I separate payments for supplies at the old and new rate?

This process is similar to when you first joined the scheme and requires you to be able to trace the invoice (or at least the rate charged) for any receipt. The purpose of this is to make sure you don't pay too much or too little VAT and it may be helpful to refer to section 3.1 of Public Notice 731 *Cash accounting,* which covers the situation where a business begins using the scheme.
(VAT Notice 731)

8.4 Flat rate scheme

Will the return to 17.5% affect my flat rate percentage?

When the standard rate returns to 17.5%, flat rates will broadly return to their November 2008 levels. However, in accordance with HMRC's responsibility to review the rates to ensure that they accurately reflect the VAT paid by businesses in each sector, further adjustments may be necessary. The new flat rates will be finalised and published later in 2009.

I want to leave the scheme because of these changes. What should I do?

Usually, we would expect you to leave the scheme at the end of an accounting period. You can leave the scheme at any time, but this might mean you having to perform different calculations to determine your VAT liability. If you do wish to leave the scheme, you will need to write and tell us. We will confirm the date you left the scheme in writing.

I use the cash based turnover method. Which flat rate should I use when I make a supply before 1 January 2010 but receive payment on or after that date?

The cash based turnover method allows you to account for your VAT liability when you receive payment. It does not affect the tax point. Supplies made before 1 January 2010 remain taxable at 15%, even where payment is received after the change.

To determine your VAT liability for a particular transaction, you will first need to identify and separate all payments made and received so that you can identify the appropriate rate of VAT. You must then apply the flat rate percentage that was in place at the time of supply and not the rate that is in place when payment is received. You will probably need to refer back to the original invoices.

If you need to contact us about the Flat rate scheme the address to write to is:-

HM Revenue & Customs
National Registration Service
Imperial House
77 Victoria Street
Grimsby
Lincolnshire
DN31 1DB

(VAT Notice 733)

8.5 Payment on Account regime

Will the change affect my payments on account?

No. However, if in the next 12 months you expect your future VAT liability to decrease by 20% or more, then you can write to the POA team (address below) and request to have your payments on account reduced. You must not adjust your payments until you have received written notification from us.

HM Revenue & Customs
Payments On Account Banking
3rd Floor SE
Queens Dock
Liverpool
L74 4AA

0151 703 8228

Remember that if your annual VAT liability over a 12 month period is less than £1.6 million you may leave the regime by writing to us at the address above. You can only leave the scheme on the basis of past VAT payments, not on the basis of anticipated future payments.
(VAT Notice 700/60)

8.6 Second-hand sales - Margin scheme for second-hand goods antiques, works of art and collectors items

How does the change of VAT rate affect my margin scheme sales?

The same rules apply as for normal sales. Sales taking place on or after 1 January 2010 are liable to VAT at 17.5%. Because you won't be showing VAT on margin scheme invoices, you don't have to make any changes to the invoices you issue to customers. However, you will need to make sure that when you apply the VAT fraction to your margin schemes sales, you apply the VAT fraction of 7/47 for sales on or after 1 January 2010 when you come to calculate the VAT due on your VAT return.
(VAT Notice 718)

8.7 Tour Operators' Margin Scheme

This section deals with the changes to be made to the method used to calculate the output tax due under the Tour Operators' Margin Scheme as a result of the change to the standard rate of VAT.

From 1 January 2010 the standard rate of VAT reverts to 17.5%

Tour operators must account for VAT on supplies with a tax point up to 31 December 2009 at 15% and on supplies with a tax point on or after 1 January 2010 at 17.5%.

You must therefore record separately the selling price of supplies:

(i) with a tax point up to 31 December 2009 and
(ii) with a tax point on or after 1 January 2010

ANNUAL CALCULATION

Where your financial year starts before and ends after 1 January 2010, the calculation must be modified:

1A Add up selling prices as at Step 1 for supplies with tax points up to 31 December 2009
1B Add up selling prices as at Step 1 for supplies with tax points from 1 January 2010

To calculate the total margin for all supplies:

Step 11: add the totals at 1A and 1B then deduct the total at step 10.

Then take the following steps-

(i)

11A $\dfrac{\text{Total at 1A}}{\text{Total at 1A + 1B}}$ x Total at step 11

This is the total margin in margin scheme supplies and the mark up on in house supplies with a tax point up to 31 December 2009.

11B $\dfrac{\text{Total at 1B}}{\text{Total at 1A + 1B}}$ x Total at step 11

This is the total margin in margin scheme supplies and the mark up on in house supplies with a tax point from 1 January 2010.

(ii)

To work out the VAT due on the supplies included in 1A with a tax point up to 31 December 2009 take the total at 11A and follow steps 12 – 27 in respect of that sum.

To work out the VAT due on the supplies included in 1B with a tax point from 1 January 2010 take the total at 11B and follow steps 12 – 27 in respect of that sum.

(iii)

Step 28 To work out the total VAT on the supplies included in 1A and 1B add the totals at steps 20 to 22 inclusive for both periods.

Follow steps 29 to 30.

PROVISIONAL CALCULATIONS: Section 9 of the Notice

The percentage worked out at step 2 Section 9 (from the previous year's calculation) is to remain unchanged for supplies with a tax point on or after 1 January 2010.

For transitional tax periods spanning 1 January 2010

Complete separate calculations at steps 3 to 5 for the periods before and after 1 January, using the appropriate VAT fraction, and add together the amounts of output tax due.

For periods starting on or after 1 January 2010, complete the calculation using 17.5% as standard rate.

I am a travel agent and account for the VAT on my commission, taking as the tax point, the date 56 days before the date of departure. The tour operator subsequently issues self-billed invoices. What is the tax rate which applies to commission relating to travel supplies departing before 1 January 2010, but invoiced/self- billed after that date?

The VAT rate of 15% is chargeable on supplies with a tax point prior to 1 January 2010. Both the tax point and the applicable VAT rate should be reflected on invoices relating to the supply, regardless of when the invoice is issued. See section 10.8 for more detail on self-billed invoices.

9 PARTICULAR TYPES OF BUSINESS

This section takes you through some of the VAT accounting rules that apply to certain types of business.

Auctioneers
Barristers and Advocates
Clubs and Associations
Construction services
Solicitors

9.1 Auctioneers

Auctioneers normally act as agents for the vendor of the goods but they are treated for VAT purposes as both buying the goods from the vendor and selling them on to the successful bidder. Although this produces two supplies, there is a common tax point which is created by applying the normal tax point rules to the supply by the vendor to the auctioneer. Consequently, at the time of a change in VAT rate, the same rate of VAT will apply to both supplies.

9.2 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 January 2010 will be liable to VAT at 17.5%. If you receive fees after 1 January for cases completed before that, date you can declare VAT at 15% (see section 3.2). Similarly, if a fee received after 1 January 2010 includes services partly performed while the 15% VAT rate applied, you can apportion your fees as described in section 3.4.

9.3 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. You are not required to make any adjustment where VAT has previously been accounted for at 15% on subscriptions renewed before 1 January 2010, even if the membership year extends into 2010. However, if membership fees are invoiced or paid in arrears by instalments and a tax point occurs after 1 January 2010 covering an instalment period that spans that date, then you can apportion that element of the membership fee as described in section 3.4.

9.4 Construction services

9.4.1 Stage payment contracts

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.

Work completed before 1 January 2010

Under the normal rules, VAT invoices issued and payments received on or after 1 January 2010 will be liable at 17.5%. This includes retention or final account payments. However, if they relate to work completed before 1 January the special change of rate rules (see section 3) can be used to apply the 15% rate.

Work in progress on 1 January 2010

If you are continuing to carry out work under a stage payment contract on 1 January 2010, any VAT invoices you issue or payments you receive on, or after, that date will be liable to VAT at 17.5%. However, the special change of rate rules (see section 3) can be applied if you issue a VAT invoice or receive a payment (including retention or final account payments) which cover work actually performed up to 31 December 2009. Where necessary you should apportion the amount involved (based on measurable work or normal costing or pricing structures) and recalculate the VAT at 15% on the element of the work performed before 1 January. You must be able to demonstrate that the calculation is fair and reasonable

9.4.2 Other (single payment) construction contracts

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 described in Annex B – including a final (basic) tax point when the work is completed.

Work completed before 1 January 2010

Under the normal rules a VAT invoice issued on or after 1 January 2010, that creates a tax point for work that was completed beforehand, will be liable at 17.5%. The same applies to any retention payment received on or after 1 January 2010. However, the special change of rate rules (see section 3) can be used to apply the 15% rate.

Work in progress on 1 January 2010

Tax points that occur on or after 1 January 2010 for work in progress on that date will be liable at 17.5%. However, the special change of rate rules (see section 3) can be used to apply the 15% rate to work actually performed before 1 January 2010.

So, if you raise a VAT invoice or receive payment on or after 1 January 2010 for work that was in progress while the 15% rate applied, you may apportion the amount involved (based on measurable work or normal costing or pricing structures) and recalculate the VAT at 15% on the element of the work performed before 1 January. You will have to be able to demonstrate that the calculation is fair and reasonable.

9.4.3 Anti-avoidance legislation

You may also need to consider the anti-avoidance legislation, particularly if you make supplies to connected persons or receive advance payments exceeding £100,000. See section 11.

9.5 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 you issue a VAT invoice or receive a payment on or after 1 January 2010 for work that was completed before 1 January 2010 you may use the special rules and account for VAT at 15% (see section 3.3). Where work commenced before 1 January 2010 but will not be completed until on or after 1 January you can apportion the supply between that liable to 15% and that liable to 17.5% (see section 3.4).

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 cases in progress at 1 January 2010 which have not already been partly paid for through an earlier SMP. In other words, an SMP received after 1 January that relates to work on a case partly performed up to the date of the change, can be apportioned in accordance with section 3.4. Where this applies you can declare VAT at 15% on that element of the work.

10 PARTICULAR TYPES OF TRANSACTIONS

Coin operated machines
Continuous supplies
Hire purchase, conditional sales and credit sales
Investment gold
Property
Royalties and similar payments
Sales of tickets to events (theatre, concert, football season tickets etc)
Self billing
Goods in warehouse regimes (excise, customs or fiscal warehouses)
International trade

- **Imports**
- **Exports**
- **Acquisitions**
- **Dispatches**
- **Importation of works of art, antiques and collectors' items eligible for reduced valuation**

10.1 Coin operated machines

Special arrangements apply to supplies made through coin operated machines, such as vending, amusement and gaming machines. This means that normally you can delay accounting for VAT until the takings are removed from the machine.

However, at the time of a change in VAT rate you are required to revert to the normal rules and account for VAT based on the date the machine is used. If the machine does not record this information you will need to apportion any takings spanning 1 January 2010 based on typical usage. You can then apply the 15% VAT rate to the sales up to 31 December 2009 and 17.5% to sales on or after 1 January 2010.

10.2 Continuous supplies

If you supply services on a continuous basis and receive payments regularly or from time to time, there is a tax point every time you:

- issue a VAT invoice; or
- receive a payment, **whichever happens first.**

If payments are due to be made at regular intervals (for example, by banker's order or direct debit), you can issue a VAT invoice at the start of any period of **up to one year** (provided that more than one payment is due in the period) to cover all the payments due in that period.

For each payment you should set out the:

- VAT-exclusive amount;
- date on which the payment is due;
- rate of VAT; and
- VAT payable.

If you decide to do this, you do not have to account for tax on any payment until:

- the date on which it is due; or
- the date you receive it, **whichever happens first.**

Note: your customer must not reclaim, as input tax, any VAT shown on the VAT invoice until:

- the date on which the payment is due; or
- you have received the payment, whichever happens first.

If you issue VAT invoices covering periods up to one year ahead, giving the amounts and dates when payments are due, they are no longer valid for any payments due after the rate change on 1 January 2010. Your customers cannot use these invoices to support claims for input tax.

You **must** issue replacement VAT invoices for the payments due on or after 1 January 2010, showing tax chargeable at the 17.5% rate. Replacement VAT invoices issued in these circumstances must refer to and cancel that part of the original VAT invoice which has been superseded.

The same procedures apply to continuous supplies of goods. These are largely restricted to supplies of water, gas and electricity subject to the standard rate of VAT.

10.2.1 Using the special provisions

You may, if you wish, account for tax at the 15% rate on that part of the supply undertaken before 1 January 2010, even though the normal tax point occurs after (for example, where a payment is received in arrears of the supply).

In each case, you should account for tax on the basis of the value of the services actually provided or services actually performed, before or after, the change as appropriate (see section 3.4).

10.3 Hire-purchase, conditional sales and credit sales

If you supply goods covered by one of these types of agreement there is a single supply of goods and so the tax point is normally the date when the:

- goods are handed over, or

- a VAT invoice (which might form part of the agreement) is issued either beforehand or within 14 days of the goods being handed over.

If you issue a VAT invoice before 1 January 2010 (when the VAT rate was 15%) for goods to be handed over after that date, you can account for VAT at 15%, subject to the anti-forestalling legislation – see section 11.

10.4 Investment Gold

The tax point for supplies covered by the special accounting scheme for gold is the date the gold is provided to the customer. Because no other tax points arise, the special change of rate rules do not apply.

10.5 Property

10.5.1 Leasehold

The tax point for standard rated property rentals is the date you issue a VAT invoice or receive payment, whichever happens first. You may choose to apply the special change of rate rules in section 3.4 where rentals are invoiced or paid in arrears. So if you issue a VAT invoice or receive payments after 1 January 2010 for rental periods that span 1 January, you can apportion the rent involved and declare VAT at 15% on the part that applies to the period to 31 December 2009. These same rules can be applied to a VAT invoice issued after 1 January 2010 for a premium in respect of a lease granted on or before 31 December 2009.

10.5.2 Freehold

The basic tax point for a freehold sale is the date of the completion of the conveyance. An earlier tax point is created where (for a standard rated supply) a VAT invoice is issued beforehand or you receive all, or part of, the purchase price before completion. The special change of rate rules will only be appropriate in cases where you issue a VAT invoice on, or after, 1 January 2010 which creates a tax point for a property on which completion took place before that date.

10.6 Royalties and similar payments

If at the time when you supply services, you cannot work out the royalties etc. that you will subsequently receive, and which are in addition to any amount already payable for the supply, there will be a further tax point each time you receive a payment; or issue a VAT invoice, **whichever happens first.**

10.7 Sales of tickets to events (theatre, concert, football season tickets etc)

In the case of tickets to a concert (or theatrical performance etc) what you are selling is the right to attend a particular event. If the ticket is sold before 1 January

2010 VAT of 15% is due even if the event does not take place until on or after that date.

The same principle applies to football season tickets. If these are bought and paid for prior to 1 January 2010 they are subject to 15% VAT even though the majority of matches may take place after the rate reverts to 17.5%.

I am a concert promoter. I do not issue VAT invoices but receive a payment on 10 October 2009 for a concert that will take place on 15 April 2010. What rate of VAT do I charge?

As the ticket was sold before 1 January 2010 VAT is due at 15%.

10.8 Self billing

I receive self billed invoices from my customers. How will the change in the standard rate of VAT from 1 January 2010 affect this self billing arrangement and is there anything I need to do?

The change in the standard rate does not change the rules of self billing. From 1 January 2010 most self billed invoices you receive from your customers will show VAT at 17.5%. However, you will need to check that the correct VAT rate has been shown and used to calculate the VAT on the self billed invoice, as this amount is the output tax that is due from you on the supply.

What if the self biller has charged the wrong rate?

You must still account for VAT at the correct rate. If the incorrect rate of 15% has been used you will need to notify the customer who issued the self billed invoice to you, as they will need to issue a debit note for the self billed invoice and issue an amended self billed invoice to you showing the correct VAT rate and calculation.

10.9 Goods in warehouse regimes (excise, customs or fiscal warehouses)

VAT becomes due when goods are removed from a warehouse to free circulation. Depending on the circumstances, the VAT may arise from an importation, an acquisition or the last supply of the goods in warehouse. The rate of VAT chargeable is that in force at the time the goods are removed from warehouse.

10.10 International trade

10.10.1 Imports

How does the change of rate affect my imports from third countries?

For import VAT purposes goods are generally treated as imported when they arrive in the UK and are entered to free circulation. This can be either by direct import (from a place outside the customs territory of the EC) or indirect import (removal to the UK via another Member State within the EC).

10.10.2 Exports

How does the change of rate affect my exports to third countries?

There should be little effect because your sales are zero rated, provided you meet the conditions for export. If you fail to obtain the evidence for export and have to bring VAT to account on your sale, you should do so at the rate in force when the export took place. The detailed rules on time of export are in paragraph 2.13 of Notice 703, Export of Goods from the United Kingdom.

10.10.3 Acquisitions

I acquire goods for my business from other member states of the EU. How should I account for the new rate of VAT?

If you are required to account for acquisition VAT where you acquire goods from other EC Member States, the tax point is the earlier of the 15th day of the month following the one in which the goods were sent to you, or the date your supplier issued their invoice to you. Acquisitions taking place on this basis on or after 1 January 2010 will therefore be subject to VAT at 17.5%.

10.10.4 Dispatches

How does the change of rate affect my dispatches to other EU Member States?

There should be little effect from the rate change because, provided you meet the conditions, your sales will be zero rated. If you fail to meet the conditions and have to bring VAT to account on your sale, you should do so at the rate in force when the dispatch took place. The detailed rules on time of dispatch are in Notice 725 The Single Market, paragraph 3.4.

10.10.5 Importation of works of art, antiques and collectors' items eligible for reduced valuation.

If I import eligible goods on or after I January 2010 how do I calculate the reduced value?

From 1 January 2010, to calculate the reduced value for import VAT purposes, you need to calculate a value for duty using the appropriate duty method, add any additional costs (see paragraph 3.1 of Notice 702 - Imports) and multiply the total by 28.28%.

To find out which goods are eligible for the reduced valuation, see paragraphs 3.4 and 3.5 of Notice 702 – Imports.

11 Anti-forestalling legislation

Legislation has been introduced to prevent avoidance (forestalling) where arrangements are made to account for VAT at 15% in advance of 1 January 2010 in respect of goods or services to be provided afterwards. The legislation will only apply to certain transactions and is unlikely to affect you unless:

- **you receive prepayments from persons connected to you for future supplies; or**
- **you issue advance VAT invoices to persons connected to you for future supplies; or**
- **you provide or arrange funding for your customers to enable them to pay in advance for goods or services to be supplied by you; or**
- **you issue VAT invoices that do not have to be paid for at least six months; or**
- **you receive pre-payments or issue advance VAT invoices in excess of £100,000, and this is not normal commercial practice; or**
- **you supply rights or options to receive goods and services from you free of charge or at a discount.**

Detailed guidance on the operation of this anti-forestalling legislation is available on line at www.hmrc.gov.uk/vat/forms-rates/rates/rate-changes.htm

12 Who can I contact for further information?

If you have a query for which you have been unable to find the answer within this guidance please contact our National Advice Service on Tel 0845 010 9000 (Tel 0044 2920 501 261 for International Enquiries).

The National Advice Service is available from 8.00 am to 8.00 pm, Monday to Friday (GMT).

If you have hearing difficulties, please ring the Textphone service on Tel 0845 000 0200.

13 Annex A The Light Touch – Guidance for HMRC Staff

<u>What if businesses make mistakes implementing the change of rate (light touch)?</u>

- HMRC wants to encourage and assist businesses as they make the changes necessary to deal with the change in the standard rate.

If a business discovers that it has made material mistakes, it should correct them through the normal error correction process.

- HMRC will however be operating a 'light touch' in terms of errors made in the first VAT return after the change (where the error relates to a change of rate issue). This means that in our audit plans we will not target change of rate errors that are unlikely to lead to any material net revenue loss. And if we find errors which relate to a change of rate issue we will not seek an adjustment unless we have reason to suppose that there is an overall revenue loss.

- For example, consider a fully taxable business which supplies standard-rated goods to a fully taxable customer and incorrectly charges 15% rather than 17.5%. As the detailed guidance makes clear, the customer should treat only 15% of the tax exclusive (net) price as input tax. If the customer does this there will be no overall loss of tax. When auditing the supplier, HMRC will assume that the purchaser has followed the accounting documents unless there is good reason to suppose otherwise.

- However, if the supply is or may be to a customer who is not able to recover VAT in full, then there is likely to be an overall loss of tax and HMRC will seek to adjust (issue an assessment) in the normal way.

- In situations where HMRC do need to adjust (and issue an assessment) we will take into account the difficulties the business has faced in adjusting to the change in considering whether penalties apply.

14 Annex B - Further Guidance on time of supply

14.1 How do I decide when a supply takes place?

To work out when a supply takes place you need to use what are known as the time of supply or tax point rules. They are what you use to decide when to account for the supply on your VAT return. So they are even more important on occasions such as this when the VAT rate changes.

14.2 The tax point normal rules

The following tables describe how **basic** and **actual** tax points work for many people.

14.2.1 Basic tax points

If you supply…	**Then the basic tax point is…**
goods	usually the date when you send them to your customer or the customer takes them away. This includes supplies under hire-purchase, credit sale or conditional sale agreements.
goods **but** they are not to be sent or taken away (for example because you put them together on your customer's premises)	the date you make them available for your customer to use.
services	The date when the service is performed (normally taken as the date when all the work except invoicing is completed).

But whether you supply goods or services, the basic tax point is overridden if an **actual** tax point is created

14.2.2 Actual tax points

If you…	Then the…
(a) either issue a VAT invoice or receive a payment before the basic tax point	tax point for the amount you invoice or receive is the date you issue the invoice or receive the payment, whichever happens first.
(b) issue a VAT invoice up to 14 days* after the basic tax point (*or a longer period where this has been allowed by HMRC)	date when you issue the invoice becomes the tax point. But remember that if you have already issued a VAT invoice (for a part payment) or received a payment before the basic tax point, this will have created a tax point under (a) for the amount invoiced or received.

14.2.3 Other tax point rules

Some categories of supply or supplier have different tax point rules. In most cases this means that a tax point is only created when you issue a VAT invoice or receive a payment, whichever is the earlier. This most commonly applies to:

- continuous supplies of services;
- supplies of water (but not bottled water) and mains supplies of gas and electricity;
- construction services where you receive stage payments;
- royalties;
- the letting of property on short or long term leases, and
- services provided by barristers and advocates.

14.3 Applying these tax point rules on 1 January 2010

Where a tax point occurs before 1 January 2010 the supply (or the part of it covered by the tax point) will remain liable to VAT at 15%. Tax points occurring on or after 1 January 2010 will be liable to VAT at 17.5%.

In many cases a supply will have a single tax point – for example, if you are a retailer, and a customer enters your shop and pays cash for an item which they take away with them. The tax point occurs when the goods are handed over/paid for. So where this happens before 1 January 2010 the supply is liable to VAT at 15%. On or after 1 January 2010 the supply will be liable at 17.5%.

In other situations there can be two or more tax points. For example, you may receive a deposit for goods to be delivered later. This makes the position less straightforward. Here, a deposit received before 1 January 2010 will be liable to VAT at 15% (but see below). However, if the goods are not delivered (and the balance of the price is not invoiced or paid for) until on or after 1 January 2010, the 17.5% rate will apply when it comes to accounting for the remaining VAT that is due.

Note that the VAT due on the deposit can be increased to 17.5% if you choose to apply the special change of rate rule (see section 3.3), or if the anti-forestalling legislation applies (see section 11).

Another example is where you are making continuous supplies of services. In that case the tax point occurs whenever you issue a VAT invoice or receive a payment, whichever is the earlier. For example, you are leasing some equipment for which you issue VAT invoices at the end of each quarterly rental period.

Assuming your quarters do not coincide with 1 January, it means that one will include rental for the period up to 31 December 2009 (when the VAT rate is 15%) and for the remainder of the quarter (when the VAT rate will have reverted to 17.5%). However, because you issue a VAT invoice after 1 January 2010 and, as a result, create a tax point, it means that, under the normal tax point rules, VAT is due at 17.5% for the whole quarter. However, you will need to consider the special change of rate rules described section 3.

15 Annex C - Fuel Scale Charges

15.1 VAT fuel scale charges for 12 month period – VAT at 17.5%

CO2 band	VAT fuel scale charge, 12 month period, £	VAT on 12 month charge, £	VAT exclusive 12 month charge, £
120 or less	505.00	75.21	429.79
125	755.00	112.45	642.55
130	755.00	112.45	642.55
135	755.00	112.45	642.55
140	805.00	119.89	685.11
145	855.00	127.34	727.66
150	905.00	134.79	770.21
155	960.00	142.98	817.02
160	1,010.00	150.43	859.57
165	1,060.00	157.87	902.13
170	1,110.00	165.32	944.68
175	1,160.00	172.77	987.23
180	1,210.00	180.21	1,029.79
185	1,260.00	187.66	1,072.34
190	1,310.00	195.11	1,114.89
195	1,360.00	202.55	1,157.45
200	1,410.00	210.00	1,200.00
205	1,465.00	218.19	1,246.81
210	1,515.00	225.64	1,289.36
215	1,565.00	233.09	1,331.91
220	1,615.00	240.53	1,374.47
225	1,665.00	247.98	1,417.02
230	1,715.00	255.43	1,459.57
235 or more	1,765.00	262.87	1,502.13

15.2 VAT fuel scale charges for 3 month period – VAT at 17.5%

CO2 band	VAT fuel scale charge, 3 month period, £	VAT on 3 month charge, £	VAT exclusive 3 month charge, £
120 or less	126.00	18.77	107.23
125	189.00	28.15	160.85
130	189.00	28.15	160.85
135	189.00	28.15	160.85
140	201.00	29.94	171.06
145	214.00	31.87	182.13
150	226.00	33.66	192.34
155	239.00	35.60	203.40
160	251.00	37.38	213.62
165	264.00	39.32	224.68
170	276.00	41.11	234.89
175	289.00	43.04	245.96
180	302.00	44.98	257.02
185	314.00	46.77	267.23
190	327.00	48.70	278.30
195	339.00	50.49	288.51
200	352.00	52.43	299.57
205	365.00	54.36	310.64
210	378.00	56.30	321.70
215	390.00	58.09	331.91
220	403.00	60.02	342.98
225	416.00	61.96	354.04
230	428.00	63.74	364.26
235 or more	441.00	65.68	375.32

15.3 VAT fuel scale charges for 1 month period – VAT at 17.5%

CO2 band	VAT fuel scale charge, 1 month period, £	VAT on 1 month charge, £	VAT exclusive 1 month charge, £
120 or less	42.00	6.26	35.74
125	63.00	9.38	53.62
130	63.00	9.38	53.62
135	63.00	9.38	53.62
140	67.00	9.98	57.02
145	71.00	10.57	60.43
150	75.00	11.17	63.83
155	79.00	11.77	67.23
160	83.00	12.36	70.64
165	88.00	13.11	74.89
170	92.00	13.70	78.30
175	96.00	14.30	81.70
180	100.00	14.89	85.11
185	104.00	15.49	88.51
190	109.00	16.23	92.77
195	113.00	16.83	96.17
200	117.00	17.43	99.57
205	121.00	18.02	102.98
210	126.00	18.77	107.23
215	130.00	19.36	110.64
220	134.00	19.96	114.04
225	138.00	20.55	117.45
230	142.00	21.15	120.85
235 or more	147.00	21.89	125.11