

## 2008 PRE-BUDGET REPORT VAT STANDARD RATE CHANGE



In accordance with the Pre-Budget Report on 24 November 2008, the UK standard VAT rate shall decrease from 17.5% to 15% with effect from 1 December 2008 (until 1 January 2010). Various key matters in respect of this change are summarised below.

### **Time of Supply – General Rule**

The time of supply rules determine when a supply is made for VAT purposes and thereby what VAT rate shall be applicable to a supply. The basic tax point for the supply of **goods** is the date they are removed from the supplier to the customer. The basic tax point for **services** is the date the service is performed (i.e. date all work is completed except for invoicing).

This basic tax point can be extended to the date of the VAT invoice, where the VAT invoice is issued within 14 days (or longer as HMRC may agree) of the removal of the goods or the completion of the work. However, where payment is received or a VAT invoice issued prior to the basic tax point, this earlier date becomes the relevant date for VAT accounting purposes.

If goods are removed or services completed before 18 November 2008, and a VAT invoice issued or payment received on or after 1 December 2008 in relation to those goods/services, the supply is subject to VAT at 17.5%.

### **Transitional Rules**

Where payment is received or VAT invoice issued prior to 1 December 2008 in relation to goods to be removed or services performed on or after 1 December 2008, a business has the option to charge VAT at 15%. A credit note may be required.

### **Supplies Spanning 1 December 2008**

Where a single supply of services is made spanning the change of VAT rate on 1 December 2008, the entire supply can be charged at 15%. Special rules apply and any related credit notes must be issued within 45 days after 1 December 2008.

### **Cash Accounting**

Where cash is received on or after 1 December 2008 which relates to a supply made prior to 1 December 2008, VAT shall be accountable at 17.5% if that supply was under normal rules subject to the 17.5% rate.

### **Retail Businesses**

Retail businesses making mainly cash sales to non business customers and which do not have to raise VAT invoices must use the new rate of 15% for all takings received on or after 1 December 2008. However, the 17.5% rate still applies where a customer took the goods or they were delivered by the business before 1 December 2008; this remains a sale under the old rate of 17.5%.

### **Construction Services**

*Stage payment contracts* – where an invoice is issued or payment received prior to 1 December 2008 in relation to work carried out on or after 1 December 2008, the invoice/payment can be apportioned and VAT can be recalculated at 15% in relation to work performed on or after 1 December 2008. A credit note may be required.

*Single payment contracts* – where work is completed on or after 1 December 2008, but a VAT invoice has not been issued nor payment received prior to 1 December 2008, VAT can be recalculated to 15% on the entire contract price. A credit note may be required.

## **Legal Profession**

*Barristers* - An invoice issued by a Barrister does not normally become a VAT invoice until it is receipted. Thereby, such fees received on or after 1 December 2008 shall be subject to VAT at 15%. Fees received before 1 December 2008 for cases that will not be completed until after that date can be recalculated at 15%. A credit note may be required.

*Solicitors* - The normal tax point rules and transitional rules apply to Solicitors as outlined above. Additionally, where a Solicitor receives Standard Monthly Payments in respect of legal aid work, the transitional rules can be applied to payments received prior to 1 December 2008. Where payments received prior to 1 December 2008 relate to uncompleted cases or work that has not yet commenced, VAT can be recalculated at 15%.

## **Property**

*Leasing* – the time of supply shall be when payment is received or VAT invoice issued in relation to rent, whichever is earlier. The transitional rules also apply where rent is invoiced or paid in advance of 1 December 2008, but relates to a period which spans 1 December 2008. Where this occurs the supplier can recalculate the VAT to 15% in respect of the period following 1 December 2008. A credit note would be required to correct the VAT.

*Sale* – the time of supply for the sale of a property shall be the date of completion unless a VAT invoice or payment is received prior to this date. The transitional rules also apply.

## **Clubs & Associations**

If 1 December 2008 falls part way through a subscription year, a Club can recalculate VAT at 15% on the portion of the subscription relating to the period from 1 December 2008 to the end of the subscription year. Credit notes may be required to be issued to members.

## **Various**

*Flat Rate Scheme* - New flat rate percentages shall apply from 1 December 2008.

*VAT Inclusive Prices* - The VAT fraction of 7/47 applicable to the 17.5% rate changes to 3/23 applicable to the 15% rate.

*Credit Notes* - The rate of VAT to be used for credit notes is the rate which was in force at the original time of supply.

*Errors* - Any errors should be corrected in the normal way, by either amending the next VAT return or making a voluntary disclosure with the relevant method dependent upon the normal limits. HMRC have stated that they shall take a 'light touch' approach in relation to the first VAT return after the change and only assess where there has been an overall revenue loss to HMRC.

*Other types of Supply* - Specific guidance is also available in relation to deposits, refunds, retail schemes, imported goods or services, returned goods, annual accounting schemes, payment on account regime, Tour Operators' Margin Scheme, coin operated machines, hire purchase, conditional sales and credit sales, royalty and similar payments, second-hand margin scheme; and VAT fuel scale charges.

**For further details or to discuss your individual circumstances in detail, please contact:**

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