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UK VAT STANDARD RATE CHANGE INCREASE FROM 15% TO 17.5%

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In accordance with the December 2009 Pre-Budget Report, the UK standard VAT rate shall increase from **15% to 17.5% with effect from 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 19 December 2009, and a VAT invoice issued or payment received on or after 1 January 2010 in relation to those goods/services, the supply is subject to VAT at 15%.

Transitional Rules

Where payment is received or VAT invoice issued prior to 1 January 2010 in relation to goods to be removed or services performed on or after 1 January 2010, a business may charge VAT at 15% (subject to anti-forestalling legislation, see below) or opt to charge VAT at 17.5%.

Anti-Forestalling Legislation

Anti-forestalling legislation shall affect businesses which receive payment or issue a VAT invoice prior to 1 January 2010 relating to goods or services to be provided on or after 1 January 2010. The legislation only affects supplies made to certain businesses which can not fully recover input VAT.

Supplies Spanning 1 January 2010

Where a single supply of services is made spanning the change of VAT rate on 1 January 2010, the entire supply should be charged at 17.5%. A business can, however, apportion the supply between work carried out up to 31 December 2009, charged at 15%, and work carried on or after 1 January 2010, charged at 17.5%.

Cash Accounting

Where cash is received on or after 1 January 2010 which relates to a supply made prior to 1 January 2010, VAT shall be accountable at 15% if that supply was, under normal rules, subject to VAT at 15%. Otherwise, VAT shall be chargeable at 17.5%.

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 17.5% for all takings received on or after 1 January 2010. However, the 15% rate can still be used for takings received up to the earlier of the end of trading on 31 December 2009 session and 6am on the morning of 1 January 2010. The 15% rate still applies where a customer collected the goods or they were delivered by the business before 1 January 2010, this remains a sale under the old rate of 15%.

Construction Services

Where construction services are completed prior to 1 January 2010 and payment is received or VAT invoice issued on or after 1 January 2010, the business may choose to charge VAT at either 15% or 17.5%.

Where construction services span the change in VAT rate and payment is received or VAT invoice issued on or after 1 January 2010, the business may charge VAT at 17.5%. Alternatively, the invoice/payment can be apportioned and VAT charged at 15% in relation to work performed prior to 1 January 2010.

Legal Profession

Barristers - An invoice issued by a Barrister does not normally become a VAT invoice until it is received. Thereby, such fees received on or after 1 January 2010 shall be subject to VAT at 17.5%. VAT can be declared at 15% in respect of fees received after 1 January 2010 for cases completed before that date.

Solicitors - The normal tax point rules and transitional rules apply to Solicitors as outlined above. Additionally, transitional rules apply where a Solicitor receives Standard Monthly Payments after 1 January 2010 in respect of legal aid work partly completed prior to 1 January 2010. Thereby, VAT can be charged at 15% in relation to the portion of work performed before 1 January 2010 and 17.5% for work performed thereafter.

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 after 1 January 2010, but relates to a period which spans 1 January 2010. Where this occurs the supplier can calculate VAT at 15% in respect of the period prior to 1 January 2010.

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

A Club shall not be required to recalculate VAT paid at 15% on subscriptions even where the membership year spans 1 January 2010. Subscriptions paid in arrears after 1 January 2010, can be apportioned and VAT charged at 15% in relation to the proportion of membership year prior to 1 January 2010.

Various

Flat Rate Scheme - New flat rate percentages shall apply from 1 January 2010.

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