

FREQUENTLY ASKED QUESTIONS RELATING TO THE PROPOSED CHANGE IN THE STANDARD RATE OF VAT FROM 17.5% TO 15% WITH EFFECT FROM 1 DECEMBER 2008

- Q.** As the tax charged on the VAT exclusive price is reducing by 2.5%, what percentage do I need to reduce my selling prices by on a VAT inclusive basis? Also, what is the fraction to be used to calculate the VAT from a VAT inclusive figure where this used to be 7/47?
- A.** *The actual amount to reduce your prices by is 2.12%, but all of the publicity seems to be leading the public to the opinion that prices are going to fall by 2.5% and you may well find therefore that the public will consider that you are not being fair unless you reduce your prices by the full 2.5%. The new fraction to calculate the VAT element on a VAT inclusive price is 3/23.*
- Q.** Do I have to pass on the VAT reduction to my customers by reducing my prices?
- A.** *Customs own detailed guide for VAT registered businesses, which can be downloaded from H M Revenue and Customs website as part of a longer response, includes the following words “passing on the tax reduction through reduced prices will stimulate consumer spending and mean that both businesses and customers benefit from this change. But ultimately decisions on prices charged by business and paid by customers are for them rather than the Government.”*
- Q.** I am a retailer, how do I decide which of my sales are affected by the new rate?
- A.** *If you normally make cash sales to non business customers and do not raise VAT invoices, the new rate will apply for all takings you receive on or after 1 December except when your customer pays for something they took away or you delivered before 1 December. In that case your sale takes place before 1 December and you must use the old VAT rate. This will therefore mean that you will need to record those takings separately from your normal takings to be able to carry out your output VAT calculations.*

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Q. I am a business that normally sells to VAT registered businesses and I issue VAT invoices for my sales, which of my sales are affected?

A. *The new rate will be applicable for all sales invoices which you issue on or after 1 December, although if the goods or services (other than continuous services) were provided more than 14 days before the date of that invoice the tax point will be the date of the supply of the goods or services. Thus an invoice issued on 1 December for goods or services which were provided on 10 November would attract the 17.5% rate. Similarly, if payment was made for the goods before 1 December and they were supplied before that date also then again the 17.5% rate applies, even if the invoice is dated 1 December or later.*

Q. How do I deal with deposits?

A. *If you received a deposit before 1 December for goods or services that will be provided on or after 1 December you have the option of applying the 15% rate to the deposit. If you have already issued an invoice you will need to issue a credit note to reflect the reduction in the VAT rate. If your customer is registered for VAT and fully able to reclaim all of the VAT then there will be no point in going to the administrative hassle of reducing the VAT charge.*

Q. I issued a VAT invoice to my customer before 1 December for a supply of goods that I will deliver during December. I have already charged VAT at the 17.5% rate, can I now charge VAT on this supply at the 15% rate instead?

A. *Yes, you can if you wish issue a credit note to adjust for the extra 2.5% VAT charged. Similar rules apply to services as well as goods.*

Q. I am a builder carrying out work for my customer over three months, which began in early November, and I will be invoicing my customer for stage payments. How do I decide what rate of VAT to charge?

A. *The normal tax point rules for continuous supplies of services are that the rate of VAT is that applicable at the earlier of the date of payment or the date of rendering an invoice. Thus if the invoice for the work done in November is sent to the customer on 4 December and payment is received after that date then the 15% VAT rate would be applicable.*

Even if you are making a single supply of a service which is carried out over a period of time which spans the change in the rate, for example a solicitor preparing a Will, the whole supply can be charged at the new 15% rate if the invoice is rendered on or after 1 December. Any VAT already accounted for at the 17.5% rate, for example in respect of a payment on account, may be adjusted by using the credit note procedure.

Q. I use the Cash Accounting Scheme, how will I have to account for VAT on my sales?

A. *All monies received on or after 1 December will have to be analysed carefully between those for which the tax point fell on or before 30 November when the 17.5% rate will have to be accounted for, even though the monies are received subsequently, and those where the tax point is on or after 1 December when the 15% rate will be the one which has to be accounted for.*

The tax point is the earlier of the date of payment, the date of invoice, or the date of delivery of the goods or completion of the service unless a VAT invoice is issued within 14 days when it is the earlier of the invoice date or payment.

Q. I use one of the VAT Flat Rate Schemes, will my percentage have changed?

A. *Customs have published a new schedule of appropriate percentages for those using the various Flat Rate Schemes. This can be located on Customs website. Not all of the percentages have changed. Also on their website are details of the VAT calculations for fuel scale charges after 1 December.*

Q. How do I deal with goods which are returned to me where I made the sale before 1 December, but the goods are returned afterwards?

A. *The rate of VAT to be used for credit notes is the one that was in force at the time of the original supply and thus in the circumstances outlined in the question the supply would have been in November 2008 and therefore the credit note must show 17.5% VAT.*

One major issue is going to be, of course, how the different software packages deal with these issues. You may need to visit the appropriate website, contact their support line or speak to us, if you are unsure how to process transactions.