

The Chancellor, Alastair Darling, confirmed last week that the main VAT rate is to go back up to 17.5% (from 15%) on 1 January 2010. 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. This is not what most people wanted but as it has now been settled, what do businesses have to do to ensure they comply with the VAT rules? Here is a summary of some guidance issued by HM Revenue & Customs.

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.

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 there are 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.

Supplies that are in progress on 1 January 2010

A service might start 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 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.

There are further rules to deal with deposits, prepayments, continuous and single supplies and for retail and other special schemes. If you have any questions or require any assistance please contact us.

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