



CHANGES TO VAT

Significant changes to the Value Added Tax (VAT) regime start to take effect in early 2010. While the standard rate of VAT reverts to 17.5%, HM Revenue and Customs (HMRC) is also introducing the first in a series of changes to the rules on cross-border VAT. In addition, from April 2010 the Government will begin the process of phasing out paper VAT returns. Here we outline some of the key measures that could affect you and your business.

DEALING WITH THE VAT RATE CHANGE

On 31 December 2009, the temporary reduction in the standard rate of VAT is set to come to an end. The reduction from 17.5% to 15% was introduced on 1 December 2008, with the aim of boosting consumer spending during the economic downturn.

APPLYING THE NEW RATE

The rate of VAT that businesses charge depends on the date that goods or services are supplied. For VAT purposes this is the date that goods physically change hands (or a service is completed); or payment is received; or an invoice is issued – whichever is the earliest. The rules are modified in certain situations, including when there is a change in the standard rate of VAT.

For any sales of standard-rated goods or services that take place on or after 1 January 2010 businesses should charge VAT at the newly reinstated rate of 17.5%. This means that businesses currently calculating their VAT using the VAT fraction of 3/23 should use the new fraction of 7/47 from 1 January 2010.

IMPLICATIONS FOR RETAILERS

For businesses such as retailers and restaurants, which principally make cash sales to customers not registered for VAT, the new rate will apply to all takings received on or after 1 January 2010, although for certain businesses including pubs, restaurants, clubs and telephone

companies, the 15% rate will apply until 6am on 1 January.

The main exception to this rule will be where a customer pays for something they have taken away (or the supplier has delivered) before 1 January 2010. In this case, the sale took place before 1 January 2010 and VAT must be accounted for at the rate of 15%. Electronic tills, especially those set up to provide VAT information, will also need to be adjusted.

PLANNING OPPORTUNITY

Anti-forestalling legislation has been introduced to counter attempts to issue invoices or receive payments before 1 January 2010, even though delivery of goods or services is not due to take place until after 31 December 2009. This involves the imposition of a supplementary VAT charge of 2.5%. However, there are certain conditions under which the supplementary charge will not apply.

The planning opportunity arises where the supplier and customer are not connected with each other and the supplier is not funding the transaction. In these circumstances it is possible for the supplier

**EXAMPLE
& Co**

A C C O U N T A N T S

Any Building/Any house

Any Place, Anywhere

Any Town AB1 2CD

Tel: 0123 456 789

Fax: 0123 456 789

Email: anycountry@anysite.com

www.anycompany.com

to raise a VAT invoice up to 31 December 2009 of an amount up to £100,000 plus VAT at 15% and confirm a payment date falling within the following six months. This is really only relevant where the customer cannot reclaim all of the VAT. The supplier would have to account for the VAT on the return covering the invoice date, unless operating cash accounting.

OTHER SITUATIONS

There are many other situations where special rules apply. If appropriate, please contact us for further advice.

If you have any questions regarding the VAT increase or would like further information on any of the matters raised here, please contact us.

DID YOU KNOW?

VAT was introduced in 1973 as a replacement for Purchase Tax and Selective Employment Tax, as a condition of UK entry into the European Economic Community.

CROSS-BORDER SUPPLIES

A significant reform of the rules on cross-border supplies of services was announced in the 2009 Budget. The measures are intended to modernise and simplify the current system, improve the recovery of VAT on purchases made in other EU countries, and help to counter VAT fraud.

The first set of changes takes effect from 1 January 2010, and further changes will occur in a series of stages, up to and including 1 January 2015. The regulations affect businesses supplying or receiving cross-border services, those supplying goods to other EU countries, and those reclaiming VAT incurred in another EU country.

The key changes taking effect from 1 January 2010 are outlined below.

THE PLACE OF SUPPLY RULES

Under previous law, VAT has generally been due in the country where the supplier has established their business. A change in the basic rule means that the majority of services provided to business customers will from 1 January 2010 be treated as supplied in the country where the customer is established. In most cases UK business customers will be liable to account for UK VAT on services provided by their overseas supplier under the reverse charge mechanism. Some exceptions to the rule will still remain, although there will generally be fewer.

THE TIME OF SUPPLY RULES

The time of supply rules determine the point at which VAT is to be brought to account. Under previous law, the time of supply is normally when the supply is paid for, or for non-monetary transactions the end of the VAT accounting period during which the service is performed.

From 1 January 2010, the time of supply (or 'tax point') will be based on the point at which a service is performed, while a distinction will be made between single and continuous supplies.

For single supplies, the tax point will generally be the point at which the service is completed, or when it is paid for (if this is earlier). For continuous supplies, the tax point will be the end of each billing or payment period. Continuous supplies that are not subject to billing or payment periods will have a tax point of 31 December each year, unless a payment has been made beforehand, in which case the payment will create a tax point.

EC SALES LISTS

Businesses supplying goods to other EU countries are required to provide lists of their supplies, in the form of the EC Sales List (ESL).

From 1 January 2010, businesses may need to prepare monthly ESLs, rather than the previous quarterly requirement, where the value exceeds certain thresholds. A new requirement for quarterly ESLs (monthly if required or preferred), for supplies of services to which a reverse charge applies in the customer's Member State, will also be introduced. The ESL must include the following:

- The customer's country code
- The customer's VAT registration number
- The total value of supplies in sterling
- Code 3 on the Indicator Code Box if it is a supply of services (an indicator code is only required for supplies of goods if it is a triangular supply of goods).

New timeframes for submitting ESLs will also apply, with businesses having up to

14 days to submit paper returns, and 21 days for electronic returns, rather than the previous 42 days.

ESLs will not be required in some circumstances — please contact us for more details.

REFUND PROCEDURE

The introduction of a new electronic-based refund system means that all claims for cross-border refunds submitted on or after 1 January 2010 will be dealt with via an online Government portal, within specified timescales and with interest payable if those timescales are not met. The intention is to simplify the claims process, and to make it more user-friendly.

From 1 January 2010, claimants will have nine months rather than six months to submit a claim for VAT incurred in the previous calendar year. The claim must normally be processed within four months, and repaid within ten working days unless further information is required.

COMPULSORY ONLINE FILING

From 1 April 2010, HMRC will begin the process of phasing out paper VAT returns. For businesses with an annual turnover of more than £100,000 (excluding VAT), returns will need to be filed online and payments made electronically, for accounting periods beginning on or after 1 April 2010.

For businesses with an effective VAT registration date on or after 1 April 2010, filing must be completed online, regardless of turnover. The remaining VAT registered businesses may continue to file paper returns for the time being, but it is anticipated that all VAT returns will be filed online by 2012.



If you have any queries or concerns regarding the changes to the VAT regime, or would like more information on any of the matters raised here, please contact us.

We have expertise in all areas of running a business, and would be delighted to assist you.

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