

## CHANGE IN VAT RATE – ADVICE FOR VAT-REGISTERED BUSINESS

The Chancellor has announced a reduction in the standard rate of VAT from 17.5% to 15%, with effect from 1 December 2008. The rate will revert to 17.5% on 1 January 2010. There are no changes to the other rates of VAT. If you are VAT registered you will need to make changes to the way you charge and account for VAT.

HMRC is writing to all VAT-registered businesses with a summary covering all the basic questions. For those who have more complex VAT affairs, there will be comprehensive technical guidance available on the HMRC website, at [www.hmrc.gov.uk](http://www.hmrc.gov.uk).

### The changeover

For any sales of standard-rated goods or services that take place on or after 1 December 2008 you should charge VAT at the new rate of 15%.

This means that cash businesses which currently calculate their VAT using the VAT fraction of 7/47 should, from 1 December, use the new VAT fraction of 3/23.

- If you are a retail business making mainly cash sales to customers not registered for VAT, the new rate applies to all takings that you receive on or after 1 December 2008. Take care if you have customers paying on account for goods sold before 1 December; these are still taxable at the old rate.
- If you are a business that sells mainly to other VAT-registered businesses and have to issue VAT invoices the new rate applies for all VAT invoices that you issue on or after 1 December 2008. There are exceptions where you were paid in advance or where the goods or services were provided more than 14 days before you issue the VAT invoice.

If you have a leasing business or where you have sales which span the changeover day there are special rules.

### Software

If you have a software package that automatically calculates the VAT, you will need to change from 17.5% to 15% from 1 December 2008. You may be able to do this yourself or you may need to contact your software provider or supplier for assistance.

### Tills

Similarly, if you use a till you will have to make adjustments; you may be able to do this yourself or contact your till supplier for assistance. If this has not been done by 1 December you can still calculate the VAT manually by taking the standard-rated gross takings calculated by your till and multiply that sum by the new VAT fraction of 3/23 – this will give you the amount of 15% VAT.

### VAT Returns

There are no changes to the filing of VAT returns. VAT returns which straddle the 1 December changeover will be slightly more complicated as there will be dual rates of VAT to consider.

### Claiming back input VAT

The general rule is that you claim back the VAT you have been charged by your supplier in the normal way. You may well receive some invoices after 1 December 2008 showing 17.5% VAT. If these relate to purchases you have made before the rate change you can claim back the 17.5% VAT. If they relate to purchases you have made after the rate change you should be entitled to claim a refund from your supplier, and so you should only claim back 15% VAT from HMRC. Care should be taken here and if you are in doubt seek advice as wrongly claimed VAT could be clawed back in the future.

### Errors and Mistakes

Any errors and mistakes arising from the change should be corrected in the normal way. HMRC have indicated they will adopt a "light touch" in relation to errors or mistakes made in the first VAT return after the change.

### Cash Accounting and Annual Accounting Schemes

These rules remain unchanged

**Flat Rate Scheme**

The percentages are changing to reflect the new rate of VAT. If you are on the Flat Rate Scheme please refer to the appendix below. You will need to use the new rates for your sector from 1 December 2008.

**Fuel Scale Charges**

Fuel scale charges will be amended to reflect the reduced VAT rate although the underlying charge on which the VAT is based remains the same. Please refer to the appendix below.

We are happy to assist you with the changeover, or any queries you may have. Please speak to Lesley Tooley or your usual engagement partner.

**Appendix**

**VAT fuel scale charges for 3 month period**

CO2 band	VAT fuel scale charge 3 month period, £	VAT on 3 month charge, £	VAT exclusive 3 month charge, £
120 or less	138.00	18.00	120.00
125	207.00	27.00	180.00
130	207.00	27.00	180.00
135	207.00	27.00	180.00
140	221.00	28.83	192.17
145	234.00	30.52	203.48
150	248.00	32.35	215.65
155	262.00	34.17	227.83
160	276.00	36.00	240.00
165	290.00	37.83	252.17
170	303.00	39.52	263.48
175	317.00	41.35	275.65
180	331.00	43.17	287.83
185	345.00	45.00	300.00
190	359.00	46.83	312.17
195	373.00	48.65	324.35
200	386.00	50.35	335.65
205	400.00	52.17	347.83
210	414.00	54.00	360.00
215	428.00	55.83	372.17
220	442.00	57.65	384.35
225	455.00	59.35	395.65
230	469.00	61.17	407.83
235 or more	483.00	63.00	420.00

**Flat Rate Scheme – New Percentage Rates**

Category of Business	%
Accountancy or book-keeping	11.5
Advertising	8.5
Agricultural services	7
Any other activity not listed elsewhere	9
Architect, civil and structural engineer or surveyor	11
Boarding or care of animals	9.5
Business services that are not listed elsewhere	9.5
Catering services including restaurants and takeaways	10.5
Computer and IT consultancy or data processing	11.5
Computer repair services	10
Dealing in waste or scrap	8.5

Category of Business	%
Entertainment or journalism	9.5
Estate agency or property management services	9.5
Farming or agriculture that is not listed elsewhere	5.5
Film, radio, television or video production	9.5
Financial services	10.5
Forestry or fishing	8
General building or construction services*	7.5
Hairdressing or other beauty treatment services	10.5
Hiring or renting goods	7.5
Hotel or accommodation	8.5
Investigation or security	9
Labour-only building or construction services	11.5
Laundry or dry-cleaning services	9.5
Lawyer or legal services	12
Library, archive, museum or other cultural activity	7.5
Management consultancy	11
Manufacturing that is not listed elsewhere	7.5
Manufacturing fabricated metal products	8.5
Manufacturing food	7
Manufacturing yarn, textiles or clothing	7.5
Membership organisation	5.5
Mining or quarrying	8
Packaging	7.5
Photography	8.5
Post offices	2
Printing	6.5
Publishing	8.5
Pubs	5.5
Real estate activity not listed elsewhere	11
Repairing personal or household goods	7.5
Repairing vehicles	6.5
Retailing food, confectionary, tobacco, newspapers or children's clothing	2
Retailing pharmaceuticals, medical goods, cosmetics or toiletries	6
Retailing that is not listed elsewhere	5.5
Retailing vehicles or fuel	5.5
Secretarial services	9.5
Social work	8
Sport or recreation	6
Transport or storage, including couriers, freight, removals and taxis	8
Travel agency	8
Veterinary medicine	8
Wholesaling agricultural products	5.5
Wholesaling food	5
Wholesaling that is not listed elsewhere	6