

VAT CHANGES FOR SERVICE PROVIDERS

The Chancellor's pre budget report announced a reduction on the rate of VAT from 17.5% to 15% with effect from 1 December 2008. The rate will return to 17.5% on 1 January 2010.

GENERAL VAT RULES FOR SUPPLY OF SERVICES

To work out when you can start to charge VAT at 15% you need to be sure when a supply takes place. This is based on what are known as the time of supply or tax point rules.

The following tables describe how **basic** and **actual** tax points work for most people.

Basic tax points

If you supply...

services

Then the basic tax point is...

the date when the service is performed (normally taken as the date when all the work except invoicing is completed).

But whether you supply goods or services, the basic tax point is overridden if an **actual** tax point is created

Actual tax points

If you...

(a) either issue a VAT invoice or receive a payment before the basic tax point

(b) issue a VAT invoice up to 14 days* after the basic tax point (*or a longer period where this has been allowed by HMRC)

Then the...

tax point for the amount you invoice or receive is the date you issue the invoice or receive the payment, whichever happens first.

Date when you issue the invoice becomes the tax point.

But remember that if you have already issued a VAT invoice (for a part payment) or received a payment before the basic tax point, this will have created a tax point under (a) for the amount invoiced or received.

Effectively, the general rule based on all of the above is that the tax point will be created when you issue an invoice or receive a payment whichever is earlier.

Other tax point rules

- As a solicitor most of your supplies are covered by the normal tax point rules including a tax point on completion of the work. Where, before 1 December, you have issued a VAT invoice or received a payment for work that will not be completed until on or after 1 December, you can recalculate VAT at 15%, but may need to issue a credit note to your client.
- If you receive Standard Monthly Payments (SMPs) from the Legal services Commission for legal aid work, the VAT treatment under the agreed procedures depends on the extent to which each payment relates to completed cases. The special change of rate rules can be applied to SMPs that created tax points before the 1 December (that is where they were attributed to uncompleted cases or work that had not commenced) provided the cases to which they are eventually allocated will be completed on or after 1 December. Where this applies you can recalculate any VAT at 15%.

- A credit note should contain the following details:
 - the identifying number and date of issue of the credit note;
 - your name, address and VAT registration number;
 - your customer's name and address;
 - the identifying number and date of issue of the VAT invoice;
 - a description which identifies the goods or services supplied; and
 - the amount of VAT being credited.
- Any credit note issued in accordance with the special rules for sales that span the change in rate must be issued within **45 days** after 1 December 2008.

Flat Rate Scheme

If you are using the flat rate scheme your percentage will reduce from 13% to 12% with effect from 1 December 2008. You may need to consider whether the flat rate scheme remains beneficial.

We would recommend that if you have any queries that you take professional advice. We are happy to assist you in this. Please contact either Lesley Tooley, one of our tax partners or your usual engagement partner.