



VAT Rate Change January 2010

If you are a VAT registered business, you will be aware by now that the standard rate of VAT will go back up to 17.5% on 1 January 2010.

If you use accounting software to generate your VAT Returns you should consult your software provider about what to do in January. If you use Sage, you can install the 17.5% rate by going to "Settings", then "Configuration", then "Tax Codes". You can then change the "T1" code to 17.5% and select "Apply".

For more detail on the impact of the change and how it will affect your business you should click on the link below to the HMRC website:

<http://www.hmrc.gov.uk/vat/forms-rates/rates/rate-changes.htm>

Set out below for your immediate attention is a summary of the important highlights taken from HMRC's website:

Businesses that issue VAT invoices

You must use the 17.5 per cent rate for all VAT invoices that you issue on or after 1 January 2010. To keep you on your toes there are a few refinements to this rule, which may affect you:

Sales that span the change in rate

- There are special rules for sales which span the change of rate. If you provide goods or services before 1 January 2010 and raise a VAT invoice after that date you can choose to account for VAT at 15 per cent. You don't need to tell HMRC if you do this.

Services you start before 1 January 2010 but finish afterwards

- If you start work on a job before 1 January 2010 but finish afterwards you may account for the work done up to 31 December 2009 at 15 per cent and the remainder at 17.5 per cent. If you choose to do this you will have to be able to demonstrate that the apportionment is fair.

Continuous supplies of services

- If you provide a continuous supply of services, such as leasing of photocopiers, you should account for the VAT due whenever you issue a VAT invoice or receive payment, whichever is the earlier. You must charge 17.5 per cent on invoices you issue and payments you receive on or after 1 January 2010. You may, if you wish, charge 15 per cent on the services you've provided in the period up to 31 December 2009 and 17.5 per cent on the remainder. If you choose to do this you will have to be able to demonstrate that the apportionment is fair.

Special VAT schemes for small businesses

Cash Accounting Scheme

If you use the Cash Accounting Scheme you will need to be able to identify payments received after 1 January 2010 that relate to supplies made before that date. VAT at a rate of 15 per cent will be due on these payments.

Flat Rate Scheme

On 1 January 2010, the flat rates will broadly return to their November 2008 levels. HM Revenue & Customs will be reviewing the rates to check that they accurately reflect the VAT paid by businesses in each sector. Some adjustments may therefore be necessary. The flat rates will be finalised and published towards the end of 2009.