

Take VAT!

The temporary reduction in the VAT rate finishes at the end of the year and the *ALMR* has been actively involved in working with HMRC to develop practical guidance for businesses to help them manage the transition smoothly.

Whilst we have managed to persuade the Government that midnight on New Year's Eve was not the best time for the change to take effect, we have only managed to postpone the reintroduction of 17.5% until 6am on New Year's Day. Make sure your business doesn't wake up with a financial hangover by reading our top tips below.

The new increased rate of VAT will apply to any sales made on or after 1 January 2010 and you should adjust your tills, EPOS systems and accounts packages to take account of this. HMRC has said that it will adopt a 'light touch' in terms of enforcement. Whilst the expectation will be that retailers providing receipts identifying VAT will produce correct ones as soon as possible, the requirement will simply be to make sure that VAT is properly accounted for in the first quarter following the change.

If you are unable to change your systems in time – perhaps because you are trading through the New Year period – it will be acceptable for you to make temporary or manual adjustments. For example, you could manually recalculate VAT inclusive prices (multiply the old price by $117.5/115$) or use the VAT fraction $7/47$ even if tills are not fully re-programmed.

HMRC has also stressed that it is a commercial decision on whether this increased rate should be passed on to customers. The law doesn't require companies to do so, and you would be free to keep your prices the same providing you were correctly accounting for VAT.

Although the general rule will be that the 17.5% VAT rate will be applied to any transaction taking place after 1 January 2010, there are some exceptions to this and some areas where the supplier has discretion which rate to apply. Given that the change straddles the party period, this may have implications for retailers and supplier invoices will need to be carefully scrutinised to manage cashflow.

Sales spanning the change in rate

If you issue an invoice after 1 January for goods supplied before that date, then you have discretion to opt to use the 15% rate. Equally, if you receive payment before 1 January for goods to be provided after that date, you can choose to apply the 17.5% rate to the transaction.

For example, a corporate client may pay a deposit for a New Year's Eve party in December but settle the balance on account either at the end of the party on 1 January or a later date. Technically, the 17.5% rate would apply, but you would be able to choose to apply the 15% rate to the full transaction. Conversely if the deposit is taken in December for a New Year's Day lunch, then you can choose to apply the 17.5% rate to the full transaction even though the deposit payment falls before the VAT change. The alternative is to apply two separate rates and account for them accordingly.

Supplier invoices

You should therefore check supplier invoices carefully to see which decision they have made. If they issue invoices for goods in advance which are actually delivered after 1 January you could find that bills which come in in December have attracted the higher rate. Equally, quarterly bills for utilities and lease equipment invoiced in arrears may carry the 15% over post 1 January. HMRC's advice, however, is that where the supply is to a VAT registered business, the higher rate should be applied where possible or a very strict application of two rates should apply. This may have an impact on cashflow.