

The following is a summary of the changes to VAT announced by the Chancellor in his Prebudget Report on 24 November 2008.

With effect from 1 December 2008 the standard rate of VAT is reduced to 15% and will apply until 1 January 2010.

Retail businesses making mainly cash sales to non business customers

The new VAT rate must be used for all sales made on or after 1 December 2008 (Unless the payment is for something delivered or taken by the customer prior to 1 December in which case the old rate applies)

- C To calculate the VAT in a VAT inclusive amount the fraction is now **3/23**
- C To reduce your prices to reflect the reduction in the VAT rate the old price should be multiplied by **46/47**.
- C There is no requirement for you to pass on the cuts to your customers.
- C Please ensure your till system is adjusted to reflect the new rate if necessary.
- C If the change in rate falls part way between the VAT quarter two calculations must be made.

Businesses issuing VAT invoices

Provided that you issue an invoice within 14 days of the sale of goods or services then the new rate of VAT must be used for all VAT invoices issued on or after 1 December 2008.

Special rules for sales that span the change in rate

Optional change of rate rules are available for prepayments and deposits received before a change of rate but relating to goods or services to be provided after a change of rate and for continuous supply of goods or services. If you require more details about these please contact us.

Credit Notes

If a credit note is issued after 1 December regarding goods invoiced prior to that date at 17½%. The credit note must show VAT at 17½%.

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Purchases

Generally, subject to the usual VAT rules, the amount that can be claimed back is the amount shown on the invoice. If however, an invoice is dated on or after 1 December for goods received on or after that date and shows VAT at 17½% only VAT at 15% should be claimed. A credit note must be requested from the supplier for the difference.

Fuel Scale Charge

There is no change to the fuel scale charges that have applied since 1 May 2008 but the VAT on these charges will have to take account of the new rate from 1 December 2008. Details will be included with your next VAT Return.

Cash Accounting Scheme

VAT will be due at 17½% on sales made before the rate change, even if payment is received after the change. You will need to keep detailed records of the two rates.

Flat Rate Scheme

The table of flat rates has been changed to reflect the new VAT rate. This should be used from 1 December 2008. Please contact us for a Fact Sheet No 31. showing the new rates.

Construction Services

Where supplies are made under a construction contract which involves customers making stage payments the tax point is normally the time the VAT invoice is issued or when a payment is received whichever is first and it is this date that determines the VAT rate.

If customers make only a single payment on completion then the tax point is usually the date all work is completed. This is subject to the special rules for sales that span the change in rate (see above)

Computer Software

Please ensure any software you use is updated to reflect the change in rate. If you require our help in this respect please contact us.

This is a brief summary of the changes announced. Should you require further details please contact us.