

New Standard VAT rate of 15% - November 2008

Overview

In his Pre-Budget Report on 24 November 2008 the Chancellor announced that the standard rate of VAT would be reduced to 15% (from 17.5%) with effect from 1 December 2008. This will be for a period of 13 months only, until 31 December 2009, after which it is expected that the standard rate of VAT will return to 17.5%.

The other rates of VAT (i.e. zero rated, reduced rated and exempt) are not affected so there is no change for the sale of goods or services at those rates.

The following is an overview of the issues and implications this change in rate will bring.

SALES

Tax points

- The VAT rate of 15% must be charged on sales of standard goods and services **made** on or after 1 December 2008.
- Whether a good or service is **made** in a certain period is dependant on the tax point rules.
- Effectively for a good or service the **basic tax point** is when the good is shipped or when the service is completed. Therefore this point is then the basis for what rate of VAT is charged.
- If the tax point is pre December 2008 then you need to charge VAT of 17.5% on your invoice (even if it is raised after 1 December 2008).
- If the tax point is post 1 December 2008 then you need to charge VAT of 15% on your invoice.
- However there are certain **exemptions to these basic tax point rules**. For example if you raise an invoice for the supply of goods or services within 14 days of its basic tax point date then you can use the invoice date as the actual tax point date.
- Therefore if you raise an invoice on 1 December for a good that was shipped or a service that was completed on or after 18 November you can charge VAT at the 15% rate even though it was actually shipped or completed in late November.
- This could potentially benefit any of your clients that are not VAT registered and so cannot reclaim the VAT you charge them, as effectively your goods/services have reduced in cost by the drop in VAT from 17.5% to 15%.
- For further guidance on tax points and see Annex B on the [HMRC guidance booklet](#).

Credit notes

- If the wrong rate of VAT is charged in error on an invoice you need to provide your customer with a credit note to reduce the amount of VAT originally charged on the invoice from 17.5% to 15%.
- This credit note must be issued within 45 days after 1 December 2008

Goods/services performed after 1 December 2008

- If you issue a VAT invoice to your customer prior to 1 December 2008 (so including a 17.5% VAT rate) for goods or services that are not supplied until **after** 1 December 2008 you can change the original invoice to include VAT at the new rate of 15%.

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- A credit note can be issued to the customer to reduce the amount of VAT you originally charged on the invoice from 17.5% to 15%.
- This is in accordance with the **Tax point** rules above as the tax point is when the goods are shipped or service completed. As this was after 1 December 2008 then the VAT rate should be 15% no matter when it was invoiced.
- The old rate of 17.5% VAT will still need to be available in order to be able to raise invoices for goods shipped/ services completed prior to 1 December 2008 but not invoiced until post 1 December 2008.
- At the end of this note are [Appendices](#) detailing how to make these changes in Sage and QuickBooks. If you use any other systems you will need to obtain technical assistance.

Single supply of service

- If you make a single supply of services which is carried out over a period of time which spans the change in rate (i.e. over 1 December) then the whole supply can be charged at the new 15% rate.
- This is in accordance with the **Tax point** rules above as the tax point is when the service is completed. As this was after 1 December 2008 then the VAT rate should be 15%.

PURCHASES

- If following the change in rates you receive a purchase invoice with VAT charged at the old 17.5% rate when it should have been 15% (because the goods were shipped/services completed post 1 December) you should ask your supplier for a credit note for the over charged VAT. In this instance you should only account for the amount they **should** have charged (15%) as input tax.
- If prior to the 1 December you received an invoice from a supplier for goods to be shipped/services to be completed post 1 December then this should show the VAT rate as being 15%. If it does not and it is at the old rate of 17.5% then you have two options:
 - Ask the supplier to issue a credit note for the difference in VAT charged. The supplier does not have to do this, and if they do not then;
 - Account for the input tax at 17.5% and reclaim the higher amount paid.

ACCOUNTING SYSTEMS

- Accounting systems/tills etc will need to be amended to show the new standard rate of VAT at 15% from 1 December 2008.

SPECIAL VAT ACCOUNTING SCHEMES

The reduction in the standard rate of VAT will have effects on the various special VAT accounting schemes that are in operation. More detail on these effects and also analysis of the effect on all the VAT accounting schemes in operation is available in Section 8 of the [HMRC guidance booklet](#).

A brief overview of the effects on the main schemes is as follows:

- **Annual accounting scheme** - this may have an effect on the installments you make to HMRC. If you think your installments can be reduced as you will have decreased output VAT you need to contact HMRC.
- **Flat rate scheme** - the flat rates have changed to reflect the new rate of VAT. The new rates can be seen in Annex E of the [HMRC guidance booklet](#).
- **Cash accounting scheme** - this scheme allows you to account for VAT when you receive payment, it does not affect your tax point. This means VAT will be on supplies at 17.5% made before 1 December and 15% on supplies after the change.

REFERENCES

[HMRC guidance booklet](#)
<http://www.hmrc.gov.uk/pbr2008/vat-guide-det.pdf>

If you have any queries on any of the issues regarding this change in the standard rate of VAT then please get in touch with your relationship contact here at FW Stephens who will be pleased to assist you.



APPENDIX 1

How to amend the VAT rates on your Sage accounts software

1. Click on the **Settings** menu and then access the **Configuration** sub menu
2. Within Settings click on the **Tax Codes** tab
3. You should see that currently your T1 code (which is the standard default VAT code) is stated at a rate of 17.5%
4. Highlight the T1 row on the VAT code list
5. Click the **Edit** button
6. Change the figure in the Rate box from 17.5% to 15%
7. In the description box type make sure the text states **Standard rated transactions (15%)**
8. Click OK, you should now see the T1 row showing a 15% rate
9. Scroll down the code list until you get to the code T10 (which should show a 0% rate) and highlight this T10 code line
10. Click the **Edit** button
11. Change the figure in the Rate box from 0% to 17.5% and put a tick in the **Include in VAT return box**
12. In the description box type **Standard rated transactions (17.5%)**
13. Click OK, you should now see the T10 row showing a 17.5% rate
14. Click the **Apply** button on the main Tax Codes screen
15. Then click the **Close** button (if it then asks "Do you want to save changes?" click **No**)

This will have changed your default VAT code (T1) to a rate of 15%, so from from this point forward when you raise T1 invoices these will be with a VAT rate of 15%.

However you may still need to charge VAT on some invoices at 17.5% (see guidance regarding Tax points). In that instance you need to remember to change the VAT code when preparing the invoice from T1 to T10, which is the new 17.5% VAT code.

You should also remember that this 15% VAT rate is only expected to be in operation to 31 December 2009. Therefore on 1 January 2010 you will need to remember to change back your T1 code to 17.5% and change your T10 code to 15% by editing each of these Tax Codes as explained above.

APPENDIX 2

How to amend the VAT rates on your QuickBooks accounts software

1. Click on the **Lists** menu and then access the **VAT Codes List** sub menu
2. You will then get list of all VAT codes currently created on the system
3. In order to create a new VAT code click the **VAT Code** button then select **New**
4. In the particular fields enter the following

VAT Code - **NS**
Rate - **15%**
Description - **New Standard Rate VAT (15%)**

Then click **OK**
5. You should then be back at the VAT Codes List menu. Press **esc** on the keyboard or Click **x** on the top right to exit the screen
6. Click on the **Edit** menu and then access the **Preferences** sub menu
7. From the menu on the left select the **VAT** option
8. Select **Company Preferences** from the display on the right
9. Select the new 15% VAT code from the drop down list of the **Default VAT Code** option
10. Click **OK** to save the new settings

This will have changed your default VAT code to a rate of 15%, so from this point forward when you raise invoices these will be with a VAT rate of 15%.

However you may still need to charge VAT on some invoices at 17.5% (see guidance regarding Tax points). In that instance you need to remember to change the VAT code when preparing the invoice to the 17.5% VAT code as appropriate.

You should also remember that this 15% VAT rate is only expected to be in operation to 31 December 2009. Therefore on 1 January 2010 you will need to remember to change your **Default VAT Code** back to 17.5% by following steps 6 to 10 above.