Change to the standard rate of VAT

Rate change
The standard rate of VAT will change to 20% with effect from 1st January 2011. The lower and zero rates of VAT are unaffected. The Symmetry/BluQube finance system will be updated on 1 January 2011 and all automated processes (sales/purchase invoice and purchase order input) will use the new 20% rate.

Tax point
The tax point is the date at which a supply of goods and services is deemed to have taken place in VAT law. The rate of VAT that should be applied to a taxable transaction is that which prevails at the tax point.

The basic rule; the tax point is the date on which supplies of goods are sent to customers or the date on which services are supplied to customers.

However, exceptions are as follows:

- in cases when an invoice is raised and sent to a customer, either before the supply of goods and services or within 14 days after the supply of goods and services, the tax point is the invoice date.
- In cases when a payment for goods and services is made prior to or within 14 days after the supply of goods or services then the payment date is the tax point.

Where a payment is received and an invoice is also sent the tax point is on the date of the earlier of the two. Once 14 days from the supply has expired the tax point reverts to the date of supply.

Special rules
HMRC have published special rules which can be applied to the change in the rate of VAT on 1 January 2011.

If goods and services have been supplied on or before 31 December 2010 the 17.5% rate can be applied irrespective of when the invoice is raised.

Services which are supplied during a period which begins before 31 December 2010 and ends after 1 January 2011 may be apportioned on the invoice and the appropriate rate of VAT applied to the respective periods irrespective of when the invoice is raised.

IMPORTANT NOTE: The application of these special rules is at the option of the supplier.

The supplier may choose to apply the normal rules so in the case where the services straddle the date of change they may apply the 17.5% rate to the whole supply if it is invoiced/paid for in advance OR apply 20% if it is invoiced/paid for in January. (but see anti avoidance)

Similarly, supplies of services or goods which are made after the rate change may under the normal rules have the 17.5% rate applied by the supplier if the invoice was raised or payment made prior to 31 December 2010.

Anti Avoidance measures
HMRC have published rules to limit potential abuse of the normal and special rules, the most relevant of which are:

Invoices raised and payments made in advance of 1 January 2011 and which relate to goods and services to be supplied on or after 1 January 2011 should have the 20% rate applied to them where;

1. An invoice or payment is for a sum in excess of £100,000 and this is not normal commercial practice or,
2. An invoice for goods and services does not have to be paid for at least 6 months
Processing

A note on transaction processing will be circulated to all relevant staff and a copy of this along with help and advice on processing can be obtained from Keren Flack (ext 2533).

Practical things to consider

1. **Sales invoices** should be raised in accordance with the “normal rules”. Should a customer make a request for the special rules to be applied a credit note can be issued.

2. You could acquire goods and services early to secure the 17.5% VAT rate.

3. You could secure supplier invoices or pay for goods and services in advance subject to anti avoidance measures.

4. During January you should review recent acquisitions/orders/purchase invoices to ensure that the 17.5% rate is charged where appropriate by suppliers. In particular purchase invoices received in January 2011 should carry the 17.5% VAT rate where the goods and services were received on or before 31 December 2010. **REMEMBER**, the special rules are optional so you are likely to have to ask your supplier to apply them.

5. **Deposits** received and paid in advance of a supply of goods and services should be subject to the rate of VAT prevailing at the time the money is received/paid.

6. **Continuous supplies** are subject to the rate of VAT applicable at the time the invoice is raised under the normal rules **BUT under the special rules the rate prevailing at the time of supply can be used and where the supply is partly before 1 January 2011 and partly afterwards it may be apportioned**.

   **You can therefore:**

   
   Arrange for annual subscriptions, maintenance contracts etc to be invoiced in December (subject to anti avoidance) OR

   
   Arrange for your supplier to apportion the services between the periods.

   
   Examples of continuous supplies: fuel and power, maintenance, cleaning, equipment hire, subscriptions, telephone charges, service contracts

   **Construction contracts and associated services** are forms of continuous supply and you should ensure that a reasonable proportion of work performed is apportioned to the period prior to the rate change and is subject to the 17.5% rate where the work certified straddles the date of the rate change.