



VAT Summary 2011

The following is a guide to the main issues likely to arise in the light of the increase in the VAT rate effective from 4th January 2011. It is based on general principles, and takes account of HMRC's position on the subject.

Invoices: any full VAT invoices issued up to and including 3rd January 2011 should bear VAT @ 17.5%, unless they fall under the rules for deposits below. Any invoices issued from 4th January 2011 onwards should bear VAT @ 20.0%, unless they are for goods supplied or services performed before the rate change. VAT is also due at 17.5% in respect of any payment received up to and including 31st December 2009, even if the invoice is issued later, unless it is a qualifying deposit. If a deposit is received before the change, the basic position is that VAT is due @ 17.5% on the deposit, but at 20.0% on any balance paid or invoiced after the change.

Deposits: if a deposit is received or invoiced prior to the rate change for an amount exceeding £100,000, for goods or services to be delivered on or after 4th January 2011, VAT is due at 20.0%, unless the transaction is commercially normal and would have arisen whether or not there had been a change in the rate of VAT in force.

Credit notes: a credit note issued against a 17.5% rated supply should bear VAT at 17.5%, even if issued after the rate change.

Cash based businesses: where no invoices are issued, VAT is due according to the date of receipt of payment, so 20.0% (1/6th of the gross sum) applies if that receipt is on or after 4th January 2011. VAT is due at 17.5% (7/47ths of the gross sum) on any payment received up to and including 3rd January 2011

Flat rate scheme: a new table of rates has been issued; please see the PBR sheet

Ongoing services: any service which is supplied on an ongoing basis, either indefinitely (e.g. accountancy services) or for a span of time with periodic payments (e.g. construction project), is subject to special tax point rules. VAT is due according to the earlier of issue of invoice or receipt of payment. *It does not usually matter when the actual work was done that is being invoiced.* Most such suppliers trigger a tax point when they issue an invoice (payment only infrequently being received in advance of this date), so the invoice date usually determines the rate of VAT chargeable. However, as a concession, HMRC have indicated that, where services under such a contract were performed before the rate change, but are invoiced after the rate change, it is permissible to charge VAT at 17.5%, provided the services performed up to 3rd January 2011 can be accurately quantified.