



# VAT | VAT's Up?

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With VAT set to increase again to 20% on 4 January it is worth reviewing the position regarding a change of rate to see if the impact can be mitigated, particularly for those charities which are unable to recover VAT.

1. Where goods have been supplied or services performed prior to the change of rate on 4 January 2011 then VAT should be charged at 17.5%. This rate is mandatory for any VAT invoices issued prior to 4 January and also for invoices issued after that date, but within 14 days of the goods having been supplied or services performed.
2. For invoices issued at a later date, but which still relate to goods supplied or services performed prior to 4 January, the 17.5% rate can still apply, but this is at the discretion of the supplier, so it would make sense to contact suppliers to ensure firstly that they are aware of this, and secondly that they will favourably exercise their discretion.
3. Where work is in progress at 4 January and will continue beyond that date, you should ask them to invoice separately for the work carried out up until midnight on 3 January and work to be carried out after that date at the 17.5% and 20% rates respectively.
4. It is also possible, to a limited extent, to obtain the benefit of the old 17.5% rate for work that will be done after 4 January. In order to do this you would either have to make a pre-payment to the supplier prior to the rate change. But, the total value of the supply you are pre-paying for could not exceed £100,000 and you could not circumvent this by splitting your pre-payment into two or more amounts below the limit. In other words you could make 11 separate pre-payments each of £10,000 to 11 different suppliers and that would be fine, but you could not make two separate pre-payments, one of £60,000 and one of £50,000 to the same supplier.
5. You could also fix the VAT rate at 17.5% if your supplier was to issue you with a full VAT invoice prior to the date of the change for work to be done after it. But, for this to work, then again the amount cannot be for more than £100,000 and again the artificial splitting of the amounts is not permissible. In addition, if you go down this route full payment of the amount shown on the invoice must be due within six months from the date on which the invoice is issued.

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A clear disadvantage of this latter route is that the supplier will become liable for the VAT shown on his invoice in the period in which it is issued, so they may be unwilling to assist. It may be possible to agree to pay them only the VAT element of their supply. A downside of making a pre-payment aside from cash flow is that the supplier then has no incentive to complete his work accurately and promptly.

6. Obviously the same provisions apply to your own standard-rated sales (the zero and reduced-rates are unaffected), so if you are agreeing contracts for such services which will span the rate-change, you should ensure that they cater for the fact that later stage payments would be subject to the new standard-rate, or that if the agreed amounts are VAT inclusive you factor in the higher rate to your pricing structure.

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The haysmacintyre corporate finance team has much experience in advising small and medium sized companies on the full range of corporate finance issues such as: acquisitions, disposals, flotations, management buy-outs and buy-ins, mergers, private equity, public offers, raising finance and taxation.

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