

## **GARBETTS PSC CLIENTS VAT CHANGES ANNOUNCED IN BUDGET 24 NOVEMBER 2008**

If your company is not registered for VAT, kindly disregard this letter.

The change in the VAT rate, from 17.5% to 15% will affect all our VAT registered clients, and clients on Flat Rate

HM Revenue and Customs have issued some guidance to this change at:

<http://www.hmrc.gov.uk/pbr2008/vat-guide-det.pdf>

We have only just got hold of these notes ourselves so please bear with us while we consider the detail.

### **CHARGING VAT TO YOUR CLIENTS**

The date for implementation of the change of vat rate depends on “tax points” – as with many things in life, the rules around these are complicated but in most instances the tax point is the date of invoice.

So, any invoices dated 30 November 2008 or before need to be charged at old rates even if paid after 1 December. Likewise any invoices dated after 1 December need to be at the new rate, even if for work done beforehand.

### **RECOVERING VAT FROM YOUR SUPPLIERS**

Generally the same principles apply with respect to dates.

For any invoice or receipt dated after 1 December use the new rates, dated before 30 November use the old rates.

If you have a invoice from a supplier dated after 1 December but using the old rates, you can claim the vat back at the amount shown even though technically incorrect.

### **SPREADSHEET CHANGES – STANDARD VAT**

If you are on standard VAT and use our spreadsheet template , the following advice applies:

1. We suggest you leave the vat rates unchanged for Q3 (Oct-Dec), but for Q4 change the VAT to 15%. To do this you will need to go into Q4 (and Q5 if used), and use search and replace to replace the string:

“0.148936170212766” with “0.130434782608696”

NB these figures are the cancelled down fraction 7/47 and 3/23 respectively, which in turn are the cancelled down fractions of 17.5/117.5 and 15/115 respectively. You often see 7/47ths, now 3/23rds, referred to as the “vat fraction)

2. On the Q3 sheet (Oct-Dec), for any sales income received, or expenses paid, where the new vat rate applies (i.e. invoices in or out dated after 1 December) then you will need to manually overwrite the VAT.

To do this enter a formula in column I which is figure in column H times 3/23.

Eg if you were working on row 21, the formula in I21 becomes +h21\*3/23

Please only alter the column I formula for the relevant rows, nothing else. If you think you need to alter something else, seek our advice.

3. On the Q4 sheet (Jan-March), assuming you’ve followed our advice in (1) and amended the rate to 15%, if you receive or pay something where the invoice is dated 30 November the you need to do the reverse of (2) to apply the old vat rate:

To do this enter a formula in column I which is figure in column H times 7/47.

Eg if you were working on row 21, the formula in I21 becomes +h21\*7/47

Please only alter the column I formula for the relevant rows, nothing else. If you think you need to alter something else, seek our advice.

4. If you invoice monthly to your client, you’ll probably find it easier to make sure that the invoice for November is dated 30 November and has vat at 17.5% on it. That way when it comes through in December the main Q3 vat rate won’t need to change. It is perfectly acceptable to date the invoice for 30 November even if it is issued a few days later.
5. If you follow our advice at (1) then from 1 January onwards the vat recovery rates on mileage are automatically corrected. The vat recovery on mileage claims for October to December will be at the old rate which means a small over claim of VAT for December. This is not likely to be a material amount, and as HMRC have said there will be a light touch applied to the practicalities of implementing the new vat rate, our view is that the over claim can be ignored.

Assuming you follow the above, all should be OK, but if you need our assistance please ask.

## **SPREADSHEET CHANGES – FLAT RATE VAT**

If you are on standard VAT and use our spreadsheet template , the following advice applies:

1. The main flat rates for our PSC clients are:

	Old	New
Any other activity not listed elsewhere	10.00%	9.00%
Business services not listed elsewhere	11.00%	9.50%
Computer repair services	11.00%	10.00%
Financial services	11.50%	10.50%
Management consultancy	12.50%	11.00%
Computer and IT consultancy or data processing	13.00%	11.50%

2. Invoices for work done dated before 30 November should carry vat at 17.5%. Invoices dated on or after 1 December, 15%. Remember it's the invoice date that's important. Backdating a invoice by a few days is perfectly acceptable.

3. We suggest you leave the vat rates unchanged for Q3 (Oct-Dec), but for Q4 change the Flat Rate VAT percentage in the VAT rates tab on the spreadsheet. This then populates the Q4 sheet with the correct percentage.

4. On the Q3 sheet (Oct-Dec), for any sales income received where the new vat rate applies (i.e. payment received for invoices dated after 1 December) then you will need to manually overwrite the VAT.

To do this enter a formula in column I which is figure in column H times new flat rate %.

Eg if you were working on row 21 and your new flat rate percentage is 9%, the formula in I21 becomes  $+h21*9\%$

Please only alter the column I formula for the relevant rows, nothing else. If you think you need to alter something else, seek our advice.

5. On the Q4 sheet (Jan-March), assuming you've followed our advice in (3) and amended the rate to 15%, if you receive or pay something where the invoice is dated 30 November the you need to do the reverse of (4):

To do this enter a formula in column I which is figure in column H times old flat rate %.

Eg if you were working on row 21, and your old flat rate percentage is 10%, the formula in I21 becomes  $+h21*10\%$

Please only alter the column I formula for the relevant rows, nothing else. If you think you need to alter something else, seek our advice.

6. If you invoice monthly to your client, you'll probably find it easier to make sure that the invoice for November is dated 30 November and has vat at 17.5% on it. That way when it comes through in December the main Q3 vat rate won't need to change. It is perfectly acceptable to date the invoice for 30 November even if it is issued a few days later.

Assuming you follow the above, all should be OK, but if you need our assistance please ask.

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