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Are you ready for 20% VAT?

The standard rate of VAT goes up to 20% on 4 January 2011. If cash flow is tight or you cannot recover all the VAT you pay on costs, make sure your suppliers are helping you make the most of the 17.5% VAT rate while it's still available.

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Although it may not seem long since the last VAT rate rise, the next increase to 20% is only a few months away. Now is the time to start planning your purchases in order to beat the rate rise.

VAT rate rise – concessions by HMRC

The simplest way to manage the rate change is by applying the normal tax point rules – i.e. charging VAT at 17.5% on sales up to the end of 3 January 2011 and 20% thereafter. However, like last year, HMRC has published some concessions that allow the old rate to be used for some supplies that span the rate change.

Our flowchart overleaf can help you work out the VAT rate your suppliers should use. HMRC's concessions are optional, so your suppliers are likely to charge you VAT at 20% on all post 4 January invoices unless told otherwise. Be proactive by discussing the rate change with suppliers to make sure they invoice you at the old rate for as long as the concessions allow.

If it is not practical for your supplier to apportion an invoice between work carried out either side of the rate change, ask them to invoice you or accept a payment before 4 January for work done up to that date. This is normally sufficient to ensure the 17.5% VAT rate applies to the extent of the amount invoiced or paid.

Anti-avoidance rules

Inevitably, HMRC has one eye on the possibility of VAT avoidance, so you must consider the anti-

forestalling rules before using these concessions. If a transaction falls foul of these provisions, your supplier will have to pay a supplementary charge of 2.5% to HMRC on 4 January, which may be passed on to you - cancelling out the benefit of using the 17.5% rate.

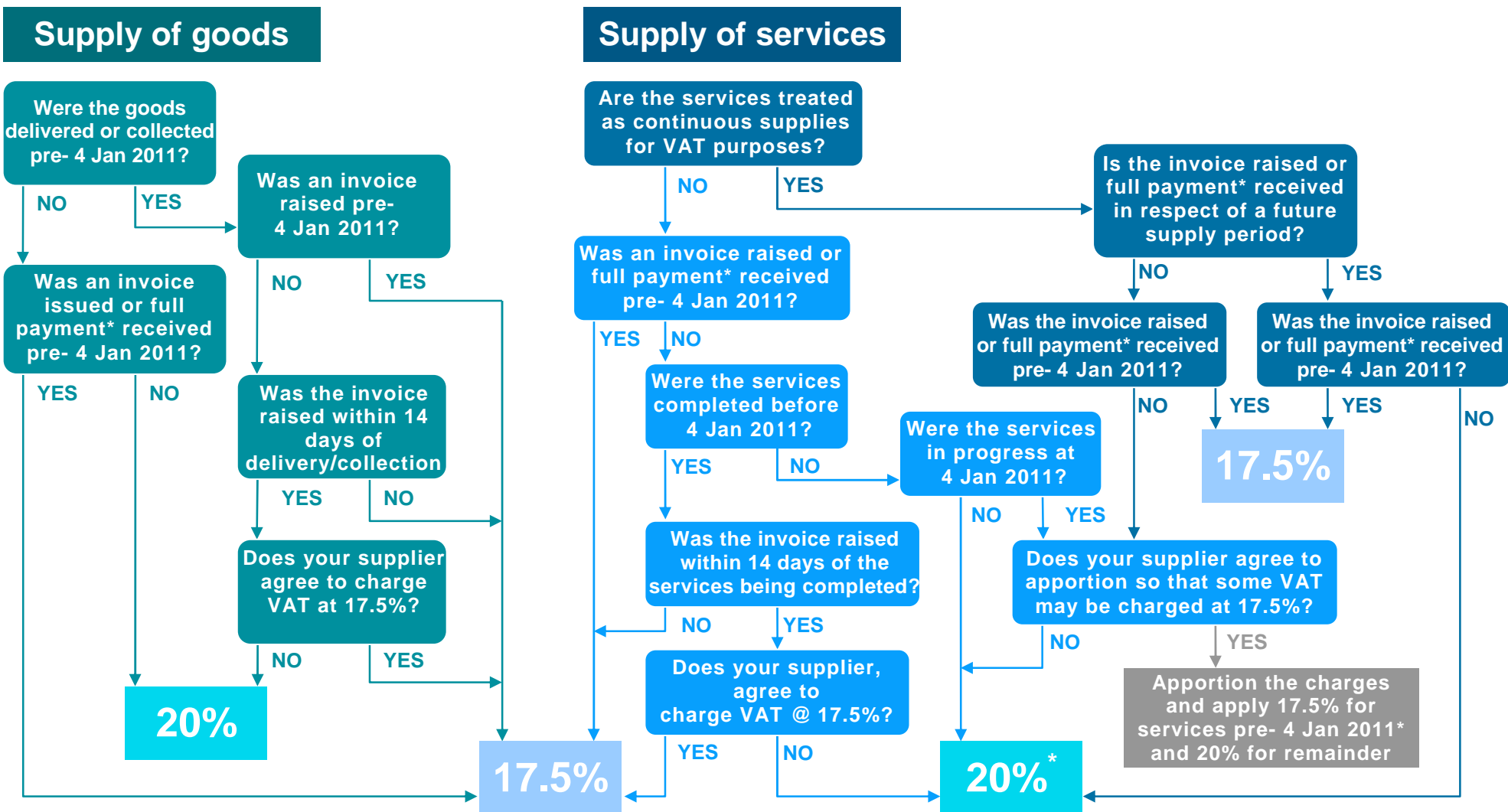
Organisations that are not able to recover all of the VAT they incur on costs may be caught out if they pay for or are invoiced before 4 January for goods or services that are delivered after that date. Consider taking early advice to see how this might affect you.

What can I do to ease the pain of the 20% rate?

- If you are planning a major asset purchase, such as equipment or a property, buy it before 4 January to beat the rate change. If you are planning a range of VATable and non VATable purchases under a fixed budget, buy the VATable items before 4 January.
- If you pay for a service that begins before the rate change and ends afterwards (e.g. repairs, property renovations, legal advice) consider the practicalities of getting the more expensive parts of the job done before 4 January.

Two rate rises in close succession will take VAT from 15% up to 20%, making it a much bigger drain on your finances than it was only a short time ago. Now may be the time to consider an overall review of your organisation's VAT strategy, accounting practices and structure to reduce the VAT burden in the long term.

VAT rate change on 4 January 2011 – which rate should you be charged?



* Where part or all of a supply takes place after 4 January 2011, any payments made pre- 4 January 2011 without an invoice will only crystallise a tax point at 17.5% VAT to the extent of the amount paid. If you are considering raising invoices or encouraging payment early, you must consider the anti-forestalling legislation.

If you would like to discuss the impact of the rate change in more detail, please contact your local PKF VAT adviser – www.pkf.co.uk/vatteam

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