

VAT: INCREASED TURNOVER THRESHOLDS FOR
REGISTRATION AND DEREGISTRATION

Who is likely to be affected?

- 1. All businesses whose taxable turnover is close to the current VAT thresholds for registration and deregistration.**

General description of the measure

- 2. The measure increases the taxable turnover threshold, which determines whether a person must be registered for VAT, from £61,000 to £64,000.**
- 3. The taxable turnover threshold which determines whether a person may apply for deregistration will be increased from £59,000 to £62,000. The existing conditions for determining entitlement or liability to cancellation remain unchanged.**
- 4. The registration and deregistration limits for relevant acquisitions from other European Union Member States will also be increased from £61,000 to £64,000.**

Operative date

- 5. The new thresholds and limits will have effect for registrations and deregistrations on or after 1 April 2007.**

Current law and proposed revisions

- 6. The increase in the taxable turnover threshold means that a person will have to apply for registration if:**
 - a. at the end of any month, the value of the taxable supplies made in the past 12 months or less has exceeded £64,000; or**
 - b. at any time there are reasonable grounds for believing that the value of the taxable supplies to be made in the next 30 days alone will exceed £64,000.**
- 7. If at the end of any month, a person's taxable turnover in the past 12 months or less exceeds £64,000 but HMRC is satisfied that it will not exceed £62,000 in the next 12 months, that person will not have to be registered.**
- 8. A Treasury Order amending Schedules 1 and 3 to the Value Added Tax Act 1994 will be laid before Parliament on 21 March 2007.**

Further advice

- 9. If you have any questions about this change, please contact the National Advice Service on 0845 010 9000. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk**

VAT: REFORM OF VAT FUEL SCALE CHARGES

Who is likely to be affected?

- 1. Any businesses which recover input tax on fuel used for private motoring.**

General description of the measure

- 2. This measure changes the basis of the existing Value Added Tax (VAT) private use charge from engine size to carbon dioxide (CO₂) emissions. This change aligns the basis of the VAT private use charge with that for direct taxation, although in line with underlying VAT principles the charge still reflects expenditure on fuel used for private motoring.**

Operative date

- 3. Businesses must use the new scales from the start of their next prescribed accounting period beginning on or after 1 May 2007.**

Current law and proposed revisions

- 4. Section 2 of the Finance (No. 2) Act 2005, provided for amendments to Section 57 of the VAT Act 1994 to allow fuel scale charges to be calculated on the basis of carbon dioxide emissions. Under Section 2(7), that legislation comes into force only when activated by a Treasury Order.**
- 5. This measure introduces a new table with detailed provisions which set out how private use charges should be calculated. The revised rates are:**

VAT fuel scale charges for 12 month periods.

| CO ₂ band | VAT fuel scale charge, 12 month period, £ | VAT on 12 month charge, £ | VAT exclusive 12 month charge, £ |
|----------------------|-------------------------------------------|---------------------------|----------------------------------|
| 140 or below | 730.00 | 108.72 | 621.28 |
| 145 | 780.00 | 116.17 | 663.83 |
| 150 | 830.00 | 123.62 | 706.38 |
| 155 | 880.00 | 131.06 | 748.94 |
| 160 | 925.00 | 137.77 | 787.23 |
| 165 | 975.00 | 145.21 | 829.79 |
| 170 | 1,025.00 | 152.66 | 872.34 |
| 175 | 1,075.00 | 160.11 | 914.89 |
| 180 | 1,120.00 | 166.81 | 953.19 |
| 185 | 1,170.00 | 174.26 | 995.74 |
| 190 | 1,220.00 | 181.70 | 1,038.30 |
| 195 | 1,270.00 | 189.15 | 1,080.85 |
| 200 | 1,315.00 | 195.85 | 1,119.15 |
| 205 | 1,365.00 | 203.30 | 1,161.70 |
| 210 | 1,415.00 | 210.74 | 1,204.26 |
| 215 | 1,465.00 | 218.19 | 1,246.81 |
| 220 | 1,510.00 | 224.89 | 1,285.11 |
| 225 | 1,560.00 | 232.34 | 1,327.66 |
| 230 | 1,610.00 | 239.79 | 1,370.21 |
| 235 | 1,660.00 | 247.23 | 1,412.77 |
| 240 or above | 1,705.00 | 253.94 | 1,451.06 |

VAT fuel scale charges for 3 month periods

| CO ₂ band | VAT fuel scale charge, 3 month period, £ | VAT on 3 month charge, £ | VAT exclusive 3 month charge, £ |
|----------------------|------------------------------------------|--------------------------|---------------------------------|
| 140 or below | 182.00 | 27.11 | 154.89 |
| 145 | 195.00 | 29.04 | 165.96 |
| 150 | 207.00 | 30.83 | 176.17 |
| 155 | 219.00 | 32.62 | 186.38 |
| 160 | 231.00 | 34.40 | 196.60 |
| 165 | 243.00 | 36.19 | 206.81 |
| 170 | 256.00 | 38.13 | 217.87 |
| 175 | 268.00 | 39.91 | 228.09 |
| 180 | 280.00 | 41.70 | 238.30 |
| 185 | 292.00 | 43.49 | 248.51 |
| 190 | 304.00 | 45.28 | 258.72 |
| 195 | 317.00 | 47.21 | 269.79 |
| 200 | 329.00 | 49.00 | 280.00 |
| 205 | 341.00 | 50.79 | 290.21 |
| 210 | 353.00 | 52.57 | 300.43 |
| 215 | 365.00 | 54.36 | 310.64 |
| 220 | 378.00 | 56.30 | 321.70 |
| 225 | 390.00 | 58.09 | 331.91 |
| 230 | 402.00 | 59.87 | 342.13 |
| 235 | 414.00 | 61.66 | 352.34 |
| 240 or above | 426.00 | 63.45 | 362.55 |

VAT fuel scale charges for 1 month periods

| CO ₂ band | VAT fuel scale charge, 1 month period, £ | VAT on 1 month charge, £ | VAT exclusive 1 month charge, £ |
|----------------------|------------------------------------------|--------------------------|---------------------------------|
| 140 or below | 60.00 | 8.94 | 51.06 |
| 145 | 65.00 | 9.68 | 55.32 |
| 150 | 69.00 | 10.28 | 58.72 |
| 155 | 73.00 | 10.87 | 62.13 |
| 160 | 77.00 | 11.47 | 65.53 |
| 165 | 81.00 | 12.06 | 68.94 |
| 170 | 85.00 | 12.66 | 72.34 |
| 175 | 89.00 | 13.26 | 75.74 |
| 180 | 93.00 | 13.85 | 79.15 |
| 185 | 97.00 | 14.45 | 82.55 |
| 190 | 101.00 | 15.04 | 85.96 |
| 195 | 105.00 | 15.64 | 89.36 |
| 200 | 109.00 | 16.23 | 92.77 |
| 205 | 113.00 | 16.83 | 96.17 |
| 210 | 117.00 | 17.43 | 99.57 |
| 215 | 121.00 | 18.02 | 102.98 |
| 220 | 126.00 | 18.77 | 107.23 |
| 225 | 130.00 | 19.36 | 110.64 |
| 230 | 134.00 | 19.96 | 114.04 |
| 235 | 138.00 | 20.55 | 117.45 |
| 240 or above | 142.00 | 21.15 | 120.85 |

6. The scale charge for a particular vehicle is determined by its CO₂ emissions figure. Where the CO₂ emissions figure of a vehicle is not a multiple of 5, the figure is rounded down to the next multiple of 5 to determine the level of charge. For a bi-fuel vehicle which has two CO_a emissions figures, the lower of the 2 figures should be used. For cars which are too old to have a CO₂ emissions figure HMRC have prescribed a level of emissions by reference to the vehicles engine capacity (cc).

Further advice

7. An update to notice 700/64 VAT: Motoring Expenses will be available from the National Advice Service including the revised figures in due course. If you have any questions about this change, please contact the National Advice Service on 0845 010 9000. A Regulatory Impact Assessment for this measure and information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

VAT: AMENDMENT TO VAT LEGISLATION FOLLOWING
RECENT JUDGMENTS OF THE EUROPEAN COURT OF
JUSTICE

Who is likely to be affected?

- 1. Any business or other organisation which uses land and buildings or other assets partly for non-business purposes.**

General description of the measure

- 2. This measure has three parts:**

- (a) It will repeal legislation that was introduced in 2003, and which is now ineffective;**
- (b) It will allow HM Revenue and Customs to make regulations about how VAT charges on non-business use are calculated. The effect of these regulations will be to shorten the period over which VAT charges on non-business use of land and building are paid; and**
- (c) It will address a potential loophole in the deemed supply legislation.**

Operative date

- 3. Changes a) and b) will have effect on and after 1 September 2007. Change c) will have effect on and after 21 March 2007 to prevent forestalling attempts.**

Current law and proposed amendments

- 4. Currently organisations which acquire an asset which is to be used partly for the purposes of the business can choose at the outset between:**
 - (a) Allocating the asset only partly to business purposes, apportioning the VAT charges, so as to recover up front only the VAT attributable to the business use made of the goods.**
 - (b) Allocating the asset wholly to business purposes, recovering all the VAT charged up front (subject to the normal partial exemption rules) and accounting for VAT on the non-business use in each VAT return period, calculated by spreading the capital cost of the asset over an "economic life" and multiplying the cost attributed to the VAT return period by the proportion of non-business use in the period, This is also known as '*Lennartz accounting*'. Or**
 - (c) Allocating the asset wholly to non-business purposes, recovering none of the VAT charged and not accounting for output VAT when the asset is used or sold.**
- 5. The first part of this measure will repeal legislation that was introduced in 2003 to prevent *Lennartz accounting* on land and buildings. This follows**

the decision of the European Court of Justice (ECJ) in *Charles & Charles-Tijmens* which in effect prevents EU member States from legislating against the use of *Lennartz accounting*.

- 6. The second part of this measure will enable the UK to implement the ECJ decision in *Wollny* and, for land and buildings, to reduce the period over which VAT charges on non-business use are paid. Currently, HMRC's policy is that for land and buildings the maximum period is 20 years. The regulations made under this measure will introduce a 10-year period for land and buildings (in line with the existing VAT Capital Goods Scheme.) In practice, this will mean that 10% of the full cost of the building will be taken into account in calculating non-business use charges each year (paid according to VAT return periods). It will also specify the period for non-business use charges on other assets.**
- 7. The second part of the measure will affect assets where *Lennartz accounting* has already been applied. Non-business use charges accounting for use of assets after 1 September 2007 will need to be calculated on the new basis. The regulations are likely to provide for transitional relief.**
- 8. The third part of this measure will address a disputed loophole as to whether or not the rules that deem a supply of land or building to arise when an interest is disposed of for no consideration apply where there is (in land law terms) a 'surrender' of an interest in land. This measure will put it beyond doubt that a surrender of an interest in land for no consideration is treated in the same way as the grant of a new interest or an assignment (transfer) of an existing interest to another person.**
- 9. These measures will be introduced in Finance Bill 2007, and the detailed rules for part (b) will be introduced by Order. The Order and guidance on the whole measure will be available for consultation during the summer.**

Further advice

- 10. If you have any questions about this change, please contact the National Advice Service on 0845 010 9000. A Regulatory Impact Assessment for this measure and information about other Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk**

VAT: REDUCED RATE FOR SMOKING CESSATION PRODUCTS

Who is likely to be affected?

- 1. Suppliers and consumers of smoking cessation products.**

General description of the measure

- 2. A reduced Value Added Tax (VAT) rate of 5% for 'over the counter'¹ sales of smoking cessation products will be introduced. The reduced rate will apply for one year and will take effect alongside the introduction of the ban on smoking in public places in England.**
- 3. Smoking cessation products that are dispensed on a prescription remain zero rated.**

Operative date

- 4. The Treasury Order will be introduced shortly. Subject to Parliamentary approval, it is expected that the reduced rate will have effect from 1 July 2007.**

Current law and proposed revisions

- 5. Smoking cessation products dispensed by a pharmacist on the basis of a prescription of a medical practitioner are already zero-rated by the Value Added Tax (VAT) Act 1994. This measure will not affect smoking cessation products supplied in these circumstances.**
- 6. The reduced rate applies to all other supplies of smoking cessation products by retailers including supplies made over the internet. This includes all non-prescribed sales of patches, gums, inhalators and other pharmaceutical products held out for sale for the primary purpose of helping people quit smoking.**
- 7. A new Group will be added to Schedule 7A to the VAT Act 1994 by Treasury Order, to introduce the reduced rate.**

Further advice

- 8. If you have any questions about this change, please contact the National Advice Service on 0845 010 9000.**

VAT: TRANSFER OF GOING CONCERN

Who is likely to be affected?

- 1. Any type of business that sells or acquires a business as a going concern, but mainly small and medium-sized enterprises.**

General description of the measure

- 2. Record-keeping requirements for businesses transferred as a going concern will be brought into line with other tax and regulatory regimes so that the seller retains his records, except in the few cases where the buyer retains the seller's VAT number.**

Operative date

- 3. This change will have effect on and after 1 September 2007.**

Current law and proposed revisions

- 4. Section 49 of the VAT Act 1994, and regulation 6 of the VAT Regulations 1995, will be amended so that:**
 - The seller will keep the business records in all but a few specified cases.**
 - The seller must make available to the buyer information necessary for the buyer to comply with his duties under the VAT Act.**
 - HMRC may disclose to the buyer information it holds that is needed by the buyer to comply with his duties under the VAT Act.**

Further advice

- 5. If you have any questions about this change, please contact Ian Allen on 020 7147 0009 (email: ian.Allen@hmrc.gsi.gov.uk). A Regulatory Impact Assessment has been published today accompanying this measure. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk.**

VAT : GAMBLING ACT 2005 CONSEQUENTIALS

Who is likely to be affected?

- 1. Any business, club or other institution offering bingo or other games of chance.**

General description of the measure

- 2. Legislation will be introduced in Finance Bill 2007 to update VAT law on participation fees for playing bingo or other games of chance in the light of the Gambling Act 2005.**
- 3. This measure will maintain the VAT exemption for those exceptions listed in the law. Charges for player-to-player gaming will continue to *be* subject to VAT. The Gambling Act also allows charges, as opposed to stakes risked in the game, to be made for games of chance against the 'House'. These will also be subject to VAT.**

Operative date

- 4. This measure will have effect on and after a date to be appointed by appointed day order when the Gambling Act provisions come fully into effect. This is expected to be on 1 September 2007.**

Current law and proposed revisions

- 5. The current law (note 1(b) of Group 4 of Schedule 9, to the VAT Act 1994) taxes the granting of a right to take part in a game of chance in respect of which a charge may be made, by virtue of regulations under section 14 of the Gaming Act 1968 or Article 76 of the Betting, Gaming, Lotteries and Amusements (Northern Ireland) Order 1985.**
- 6. This measure will have the effect of taxing all participation fees for bingo and gaming, subject to certain exceptions, such as small scale cash bingo, prize bingo and gaming played for fund raising purposes, subject to monetary limits prescribed by law under the Gaming Act or the 1985 Order.**
- 7. The new legislation will update the existing legislation to take account of the Gambling Act 2005. It will maintain the existing exceptions from taxation by mentioning the relevant sections of the Gambling Act or Articles of the 1985 Order under which these games are played. It will also maintain the existing exemption for participation charges for remote gaming.**
- 8. Notice 701/26 (Betting and Gaming) and Notice 701/27 (Bingo) will be**

amended in due course.

Further advice

- 9. If you have any questions about this change, please contact the National Advice Service on 0845 010 9000. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk**

VAT: JOINT AND SEVERAL LIABILITY

Who is likely to be affected?

- 1. Businesses trading in electronic goods, mobile phones, computers and related parts and accessories.**

General description of the measure

- 2. A Treasury Order is to be made on 21 March 2007 to extend the list of goods to which section 77A of the Value Added Tax Act 1994 (joint and several liability) applies by adding certain electronic goods.**
- 3. Legislation will also be introduced in Finance Bill 2007 providing a power to extend or amend the 'rebuttable presumption' (see paragraph 7 below) contained within section 77A.**

Operative date

- 4. The extension of the list of goods to which section 77A applies will take effect from 1 May 2007. The power to amend the 'rebuttable presumption' will take effect from the date that Finance Bill 2007 receives Royal Assent.**

Current law and proposed revisions

- 5. The joint and several liability provisions in section 77A of the VAT Act 1994 allow HMRC to direct that a VAT-registered business receiving goods listed in section 77A(1) from another VAT-registered business is jointly and severally liable for VAT if they had reasonable grounds to suspect that VAT would go unpaid elsewhere in the supply chain. At present the provisions apply to telephones, computers and their parts and accessories**
- 6. The Treasury may, by Order, amend the list of goods contained in section 77A(1). Such an Order will extend the list of goods to which section 77A(1) applies. The further goods will be certain sorts of electronic equipment, of a kind ordinarily owned by individuals and used by them for the purposes of leisure, amusement or entertainment. The order also clarifies that satellite navigation systems (SatNavs) are included as computer equipment.**

- 7. Section 77A(6) allows HMRC to presume that a business had reasonable grounds to suspect that VAT would go unpaid if they purchased specified goods for less than the open market value or less than the price payable for them by any previous supplier. That presumption is rebuttable on proof that the low price payable for the goods was due to circumstances unconnected with a failure to pay VAT. The Finance Bill 2007 amends section 77A by introducing a new section 77A(9A) and (9B). The new subsections will allow the Treasury to extend or otherwise alter the circumstances in which a person is presumed to have reasonable grounds for suspecting that VAT will go unpaid elsewhere in the supply chain,**

Further advice

- 8. If you have any questions about this change, please contact the National Advice Service on 0845 010 9000. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk.**