

Temporary reduction in the standard VAT rate from 17.5% to 15%

It has been announced that the standard rate of VAT will be reduced to from 17.5% 15% with effect from 1 December 2008 to 31 December 2009. For any sales of standard rated (currently 17.5%) goods or services that take place on or after 1 December, VAT should be charged at the new rate of 15%. (The new VAT fraction for calculating VAT on an inclusive cost will be 3/23 e.g. £115 gross = £15 VAT).

The Chancellor is clawing-back the saving on certain items such as alcoholic drinks, tobacco products and vehicle fuel. Non VAT registered businesses and partly exempt businesses such as charities, financial institutions and those in the property sector that do not recover all of the VAT on their costs will benefit from the change.

As a result of the change the rates in use in the flat rate scheme have been amended and relaxed rules will cover credit notes to cover supplies straddling the change.

Retailers will need to update their tills to take into account the new VAT rate. Where prices are on a VAT inclusive basis, it will be up to the retailer whether or not to pass on the VAT saving to the end consumer.

Bespoke Retail Scheme Threshold

The threshold above which a business may not use a published retail scheme will increase from £100m to £130m. This measure will come into force on 1st April 2009.

To do

- Update VAT accounting – to charge and recover VAT at 15%
- Businesses on the VAT flat rate scheme should check the new rate to use
- Consider whether to delay issuing invoices until 1 December where tax points permit

Links

- A summary guide for businesses - [LINK](#)
- A technical guide for businesses - [LINK](#)
- Questions & answers for business - [LINK](#)
- Questions & answers for consumers - [LINK](#)