

Change of VAT rate

With effect from 1 January 2010, many companies will adjust their invoicing systems to automatically charge VAT at 17.5%. Customers, however, which are unable to recover all or part of the VAT charged to them, may challenge invoices issued at the beginning of January which relate to supplies made prior to the rate change (and which were therefore properly subject to VAT at 15%) and may therefore expect suppliers to make a s88 adjustment to re-invoice them VAT at the lower rate.

Under the provisions of Reg 15 of the General VAT Regulations, where there is a change in the VAT rate, the supplier has 14 days after the change in to issue a valid credit note to give effect to the change of rate on the invoiced supply. When the rate was reduced, HMRC extended the time limit to 45 days. It is not yet known whether or not they will repeat this.

Businesses need to be aware of this issue and identify customers which are likely to be affected as if there is insufficient time to issue a VAT credit note, the business will ultimately end up compensating its client from its profit margin rather than being able to reclaim the VAT that was incorrectly charged by it from HMRC or otherwise it will need to refuse to adjust the VAT charged with the inevitable negative impact on client relations.

Comment

Partially exempt businesses or those businesses with other VAT recovery issues should identify supplies which are likely to be affected and contact suppliers accordingly. Suppliers should seek to identify clients that will be affected and take steps to ensure that where appropriate they are charged the lower VAT rate. (It may be sufficient to bring invoicing forward prior to 1 January).

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