

### **Increase in the standard VAT rate**

The standard VAT rate will increase from the current 17.5% to 20% with effect from 4 January 2011.

Anti-forestalling provisions are to be introduced in the Finance Bill so that certain supplies with a basic tax point made after 22 June 2010 will be liable to a supplementary charge.

The rates applicable to the flat rate scheme will also be amended to reflect the raising of the standard rate of VAT.

The Chancellor announced that the scope of zero rates is to be retained throughout the lifetime of the current Parliament.

Further details in relation to these changes in rates are published in the relevant budget materials from the HMRC website:

[BN 43: Change of Standard Rate](#)

[BN 44: Change of Standard Rate - Anti-Forestalling Legislation](#)

[BN 45: Flat rate scheme - Changes to the Flat rate thresholds and percentages](#)

[Draft legislation and Explanatory Notes on Anti-Forestalling](#)

HMRC guidance [VAT - Change of the Standard Rate to 20 per cent - a detailed guide for VAT registered businesses](#)

HMRC guidance [VAT - Change of the Standard Rate to 20 per cent - a guide to the anti-forestalling legislation](#)

[Impact Assessment of a change to the standard rate of VAT](#)

#### **Comment**

The increase in rate was widely anticipated. The provision of anti-forestalling provisions replicate those that were introduced in respect of the recent increase in rate from (the temporary) 15% to 17.5% on 1 January 2010.

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Retailers, partly exempt businesses such as those in the financial services, education and health sectors and their suppliers will be impacted significantly since irrecoverable VAT will be a significantly higher burden on consumers and exempt businesses.

This increase in the VAT rate poses many of the same questions as the return to 17.5%, e.g.:

- whether to pass on the increase to customers;
- which rate to use for supplies of goods and services straddling the date of change;
- the logistics of changing advertised prices if necessary;
- implementing systems changes to cope with additional rates of both output VAT and input VAT; and
- the effects of the anti-forestalling legislation.

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