

VAT

VAT thresholds

The VAT registration limits increase with effect from 1 May 2009 as follows:

- the threshold for compulsory registration is £68,000
- the threshold for voluntary deregistration is £66,000.

Change of the standard rate of VAT

The standard rate of VAT was reduced from 17.5% to 15% for the 13 month period 1 December 2008 to 31 December 2009. HMRC have confirmed their intention that the standard rate of VAT will revert to 17.5% from 1 January 2010.

Legislation will be introduced to counter schemes which purport to apply the 15% VAT rate to goods or services to be supplied on or after the date that the rate returns to 17.5%. The measures will apply where the customer cannot recover all the VAT on the supply and:

- the supplier and customer are connected parties or
- the supplier funds the purchase of the goods or services or
- a VAT invoice is issued by the supplier where payment is not due for at least six months.

A supplementary charge will also apply where a pre-payment in excess of £100,000 is made before the rate rise in respect of goods or services to be provided on or after the date of the rate rise.

The effect of the measures will be to charge supplementary VAT of 2.5% on which VAT of 15% has been declared.

Children's car seat bases

The reduced rate of VAT currently applies to children's car seats and applies to the combination of a safety seat and a related wheeled framework, booster seats and booster cushions. The reduced rate will be extended to apply to children's car seat bases from 1 July 2009.

Opting to tax land and buildings

Simplifications will be made to the procedures for opting to tax land and buildings, in respect of which the tax payer has made previous exempt supplies. The simplification will be made by the replacement of an automatic permission condition (APC) for tax payers who would otherwise have to seek permission from HMRC before opting to tax.

The new APC will have effect from 1 May 2009. Two related extra statutory concessions will also be withdrawn but not until 30 April 2010.

VAT system for cross-border trading

A package of measures is being introduced to simplify and modernise the VAT system for cross-border trading and to counter fraud with effect from 1 January 2010 across the EU. The measures include:

- changes to the basic place of supply of services rules
- changes to the time of supply rules
- European Sales List (ESL) reporting for supplies of cross-border services
- a new electronic refund procedure for VAT incurred in other EU Member States.

Place of supply of services rules

Changes will be made to the complex rules on the place of supply of services rules which determine the country where a supply of services is made and where any VAT due is payable. The rules also determine whether, if VAT is due on a supply, it should be accounted for by the supplier or their business customer.

The proposal is that, as far as possible for business to business supplies, VAT is due in the country where the service is consumed. This will have the effect of reversing the present general rule.

The basic rule for supplies to non-business customers will remain unchanged in that it will be where the supplier is established.

Time of supply rules

The tax point for the supply is generally when the supply is paid for. Where the consideration is non monetary the tax point will occur at the end of the VAT accounting period when the service is performed.

From 1 January 2010 the rules will be amended to change the tax point to when a service is performed. A distinction will also be made between single and continuous supplies. For single supplies the tax point will occur when the service is completed or when paid for if earlier. For continuous supplies the tax point will be the end of each billing or payment period. Where no billing or payment period applies the tax point will be 31 December each year unless a payment is made beforehand which creates a tax point.

European Sales List reporting

There will be a requirement for UK businesses which supply services which will be accounted for under the reverse charge procedure to complete an ESL for each calendar quarter. Further rules will be introduced to reduce the time available to businesses to submit the ESLs from six weeks to 21 days for electronic returns.

VAT refund procedures

A new electronic VAT refund procedure is being introduced across the EU from 1 January 2010 to replace the current paper based system.

From 1 January 2010 UK businesses will submit claims for overseas VAT electronically on a standard form to HMRC rather than direct to the Member State where the VAT was suffered.