

# What's new

Additional information responding to questions received between 24 November 2008 and 12 January 2009.

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## **1. Electronic Cash Registers**

### **1. I cannot update my electronic cash register or till with the new VAT rate on 1 December 2008**

We acknowledge that some retailers may be unable to adjust their electronic cash registers or tills and there may be instances where either a VAT rate of 17.5 per cent or an incorrect VAT amount will be shown on till receipts after 1 December 2008 even though the gross price may have been reduced. In order to achieve a pragmatic solution we will exceptionally allow retailers to account for VAT at the correct rate of 15 per cent (3/23) where appropriate even if the till receipt is incorrect. We would however expect retailers to be producing correct till receipts as soon as possible.

Where separate systems exist to supply tax invoices or less detailed tax invoices to business customers, these must be changed as a matter of priority. Businesses customers that have made purchases from a retail shop after 1 December 2008 may only recover 3/23 of the gross amount on those items on which they are entitled to recover VAT and incorrect VAT or VAT rates shown on your VAT invoices will impose on business customers the inconvenience of calculating the correct VAT.

## **2. Refunds**

### **1. I received payment before 1 December 2008 for goods and services to be delivered after that date. Do I have to refund the difference in VAT to my customer?**

If you have received a payment or issued an invoice using the old 17.5 per cent rate before 1 December 2008 for goods that will be provided (or services delivered) after 1 December 2008, you have a choice. You can choose either to leave the VAT charged to your customers at 17.5 per cent and account for that to HM Revenue & Customs (HMRC), or to account for VAT at the new rate of 15 per cent on the amounts already received or invoiced.

If you issued a VAT invoice you will have to issue a credit note to your customer and refund the difference between the 17.5 per cent and 15 per cent rates.

If you have not issued a VAT invoice (because you are a retailer for example) you can account to HMRC for VAT at the 15 per cent rate. In these circumstances you are not obliged to issue a credit note to your customer and the VAT legislation does not require you to refund the difference between the rates to your customer. However, you may be required to make a refund under the terms of the contract between you and your customer or by consumer protection legislation. HMRC cannot provide advice on these issues.

### **3. Treatment of tickets to events (theatre, football season tickets etc.)**

#### **1. I am a concert promoter. I do not issue VAT invoices but received payment in October 2008 for a concert that will take place in April 2009. Can I adjust the VAT?**

The short answer is no. The special rules for supplies spanning the change in the VAT rate apply where payment is received (or a VAT invoice is issued) before 1 December 2008 where the goods are to be supplied or services performed on or after that date.

In the case of tickets to a concert (or theatrical performance etc) what you are selling is the right to attend a particular event. As in this instance the right to the event was granted in October 2008, the supply does not span the change in the rate and VAT of 17.5 per cent should be accounted for.

The same principle applies to football season tickets. If these were bought and paid for prior to 1 December 2008 they are subject to the 17.5 per cent VAT rate with no scope for adjustment

#### **Update 21 January 2009**

Since the above guidance was published on 8 December 2008 it has become clear that a number of businesses were not aware of HMRC's view of the correct VAT treatment of tickets to events. Some have assumed that where a ticket was sold prior to 1 December 2008 for an event due to take place on or after that date that the 15 per cent rate should apply.

Where a business has mistakenly refunded its customers the difference between the 17.5 per cent VAT originally charged on ticket sales and the 15 per cent rate HMRC will operate a light touch and will not seek to recover the VAT that has been refunded. This treatment applies to refunds that were made up to the date of the publication of this update.

#### 4. Extension to the normal time limit for raising VAT invoices

##### Summary

HMRC has by concession extended the period of 14 days referred to in the table below, to 30 days, for supplies made between 18 and 30 November 2008.

If you are a business that sells mainly to other VAT-registered businesses and have to issue VAT invoices	
You should use the new rate for all VAT invoices that you issue on or after 1 December 2008 ...	<p>... <b>except</b> for where</p> <ul style="list-style-type: none"> <li>• you provided goods or services <b>more than 14 days before you issue the VAT invoice</b>. For example, if you issue a VAT invoice on 1 December 2008 for goods or services provided before 18 November 2008, or</li> <li>• you were paid before <b>1 December 2008</b>.</li> </ul> <p>In these cases, your sale took place before 1 December 2008 and you must use the old rate of 17.5 per cent.</p>

##### Detail

VAT becomes due on the supply of goods and services when the ' tax point' occurs. The table below explains the **basic** tax point:-

##### Basic tax points

If you supply...	Then the basic tax point is...
goods	usually the date when you send them to your customer or the customer takes them away. This includes supplies under hire-purchase, credit sale or conditional sale agreements.
goods <b>but</b> they are not to be sent or taken away (for example because you put them together on your customer's premises)	the date you make them available for your customer to use.
services	the date when the service is performed (normally taken as the date when all the work except invoicing is completed).

However, VAT legislation provides that where a VAT invoice is issued up to 14 days after the basic tax point the date of the issue of the invoice becomes the **actual** tax point.

The VAT legislation also permits HMRC to agree an extension to the 14 day limit if a business applies to use a longer period.

HMRC has been approached by a number of trade sector bodies asking for a temporary extension of the 14 day limit that could be used by any business without requiring HMRC's formal approval. This will allow businesses additional time to amend their accounting systems following the rate change.

HMRC has agreed that the normal 14 day limit can be extended to **30** days. This general approval applies to all businesses where the goods or services to be invoiced were provided between 18 November 2008 and 30 November 2008, inclusive.

Businesses that have previously agreed an extension to the 14 day limit with HMRC can continue to use that time limit but where it is less than 30 days they can opt to use the 30 day limit.

## **5. Flat Rate Scheme and the change in the standard rate**

### **1. I'm on the Flat Rate Scheme. Why hasn't my rate fallen by 2.5 per cent?**

The flat rates as a whole have been correctly adjusted to take account of the 2.5 per cent reduction in the standard rate, but this doesn't mean that each of the flat rate amounts falls by 2.5 per cent. There are two reasons for this.

Firstly, **the flat rate** takes account not only of the VAT payable on sales, but also a number of other factors including the amount of VAT reclaimable on purchases and expenses and the level of VAT inclusive turnover. And because businesses are not the same - different types of business have different patterns of input and outputs - it is necessary to have different flat rates for different types of business.

Secondly, the flat rates are also reviewed annually to ensure that they reflect the net VAT paid by small businesses that do not use the flat rate scheme. This avoids distortion of competition between flat rate users and small businesses that opt not to use the Flat Rate Scheme.

### **2. My rate hasn't changed. Why?**

There are a few types of business whose rates have remained unchanged – this reflects the combined effect of the standard rate reduction and the review of rates referred to above. Those flat rates that have remained the same would have needed to go up had the standard rate of VAT remained at 17.5 per cent.

### **3. Have any rates gone up?**

No rates have gone up.

The changes introduced in the Pre Budget Report cut the flat rate for the overwhelming majority of businesses – 50 out of 55 of the flat rate scheme categories have been reduced.

### **4. I no longer wish to use the flat rate scheme following these changes**

We would normally expect you to apply for and leave the scheme at the end of an accounting period. Businesses can leave the scheme and account for VAT in the normal way by notifying HMRC in writing and we will notify you of the date you have left the scheme.

## **6. Credit Notes and the change in the standard rate**

**1. Can credit notes be issued to cancel supplies of services completed and invoiced before 1 December 2008 when the rate of VAT was 17.5 per cent, with new invoices issued on or after 1 December 2008 showing VAT of 15 per cent?**

### **Response**

No. Where services have been completed and invoiced before the rate change, the 17.5 per cent rate applies.

**2. Does HMRC insist that businesses have to make a cash refund to their customers to be able to credit VAT?**

No. It is not necessary to make a refund by cash, cheque or bank transfer (for example) provided that the credit note you issue actually gives value to your customer. In many cases all that will be required is to credit your customer's account instead.

For example, a trade association charges its members an annual fee. The membership year runs from 1 April to 31 March, fees are payable in advance and VAT invoices issued. For the year ending 31 March 2009 eight months of the fee will carry VAT at 17.5 per cent and the remaining four will carry VAT at 15 per cent. The association issues credit notes to its members to take account of the reduction in the standard rate from 1 December 2008. However, it does not refund the money but, instead, holds the amounts as credits against next year's subscription.

This is acceptable because the members have received the value of the credit.

## **7. Guarantees for import VAT**

### **1. Will my Guarantee for Import VAT go down as a result of the VAT rate change?**

Guarantees for Import VAT that have been secured before 1 December 2008 will be charged at 17.5 per cent, but thereafter all guarantees for import VAT will be based on the new rate of 15 per cent.

Businesses that have an existing guarantee to cover import VAT can request a lower guarantee amount to take account of the potentially lower liability as a result of the VAT rate reduction. However, this may involve additional costs and businesses may prefer to maintain the current level of their guarantee.

**8. Importation of works of art, antiques and collectors' items eligible for reduced valuation.**

**1. If I import eligible goods on or after 1 December 2008 how do I calculate the reduced value?**

From 1 December 2008, to calculate the reduced value for import VAT purposes, you need to calculate a value for duty using the appropriate duty method, add any additional costs (see [paragraph 3.1 of notice 702 - Imports](#)) and multiply the total by 33.34 per cent.

To find out which goods are eligible for the reduced valuation, see [paragraphs 3.4 and 3.5 of notice 702 - Imports](#)

## 9. VAT Rate Change 2008: TOMS calculation

This sheet deals with the changes to be made to the method used to calculate the output tax due under the Tour Operators' Margin Scheme as a result of the change to the standard rate of VAT.

From 1 December 2008 the standard rate of VAT was decreased to 15 per cent.

Tour operators must account for VAT on supplies with a tax point up to 31 November 2008 at 17.5 per cent and on supplies with a tax point on or after 1 December 2008 at 15 per cent.

You must therefore record separately the selling price of supplies:

- (i) with a tax point up to 31 November 2008 and
- (ii) with a tax point on or after 1 December 2008

### Annual calculation

Where your financial year starts before and ends after 1 December 2008, the calculation must be modified:

- 1A Add up selling prices as at Step 1 for supplies with tax points up to 31 November 2008
- 1B Add up selling prices as at Step 1 for supplies with tax points from 1 December 2008

To calculate the total margin for all supplies:

Step 11: add the totals at 1A and 1B then deduct the total at step 10.

then take the following steps

(i)

11A Total at 1A x Total at step 11

Total at 1A + 1B

This is the total margin in margin scheme supplies and the mark up on in house supplies with a tax point up to 31/11/08

11B Total at 1B x Total at step 11

Total at 1A + 1B

This is the total margin in margin scheme supplies and the mark up on in house supplies with a tax point from 1 December 2008.

(ii)

To work out the VAT due on the supplies included in 1A with a tax point up to 31 November 2008 take the total at 11A and follow steps 12 – 27 in respect of that sum.

To work out the VAT due on the supplies included in 1B with a tax point from 1 December 2008 take the total at 11B and follow steps 12 – 27 in respect of that sum.

(iii)

Step 28 To work out the total VAT on the supplies included in 1A and 1B add the totals at steps 20 to 22 inclusive for both periods.

Follow steps 29 to 30.

### **Provisional calculations: Section 9 of the Notice**

The percentage worked out at step 2 Section 9 (from the previous year's calculation) is to remain unchanged for supplies with a tax point on or after 1 December 2008.

For transitional tax periods spanning 1 December 2008

Complete separate calculations at steps 3 to 5 for the periods before and after 1 December 2008, using the appropriate VAT fraction, and add together the amounts of output tax due.

For periods starting after 1 December 2008, complete the calculation using 15 per cent as standard rate.