

Rate Change continued

Flat Rate Scheme

As from 1st January the rates applicable to the Flat Rate Scheme were revised to adjust for the new standard VAT rate. See H M Revenue and Customs website (www.hmrc.gov) for details.

Anti-forestalling Rules

H M Revenue and Customs have published clear anti-forestalling rules to avoid VAT registered traders taking advantage of the rate increase by falsely charging for transactions at the lower rate where the customer is unable to reclaim all or some of the VAT charged to him. If any one (or more) of the following apply to a supply which spans the 1st January, then the trader has to invoice at the higher VAT rate:

- The supplier and customer are connected.
- The value of the supply is in excess of £100,000.
- The supplier is in some way financing a prepayment by the customer.
- The invoice raised by the supplier has a deferred payment term which postpones the due date for payment until at least six months from the date of the invoice.

Opportunity

VAT registered traders, within these rules, could offer their customers who are unable to reclaim any or all of the VAT charged to them, a bonus, perhaps in return for a part or full payment prior to 31st December. This could produce significant cashflow advantages for the business.

In similar vein, service providers could choose to issue interim bills on work in progress prior to 31st December at the 15% rate thus boosting their billing and advancing their cash collection, while at the same time offering some of their customers an effective 2.5% discount.

Place of Supply of Services

The 1st January also brought about a significant change in the regulations relating to supplies of services. If your business only supplies goods then you need read no further, the changes purely relate to providers of services. Also if you are a provider of services who purely deals with UK customers the changes will have no impact on the VAT status of your supplies. The key changes impact on those trading with EC based customers.

New General Rule

As from 1st January the place of supply of services where the supply is from one business to another will be where the customer belongs. This is a reversal of the previous general rule which set the place of supply as to where the supplier belonged.

There are exceptions to this general rule in the case of certain categories of services, brief details of which are provided below.



Place of Supply of Services continued

Impact of the Change continued

Where you are making a supply which is subject to the reverse charge and, therefore, does not contain any UK VAT charge, your invoice should be clearly marked with the following phrase – “this is a reverse charge service for VAT purposes”.

One advantage coming with the change is that since 1st January 2010 the recovery of input VAT that has been suffered by a UK business in other European countries should be easier to reclaim. As from that date a new system was introduced whereby any such claim will be made to the UK VAT authorities rather than to each individual European country.

The previous system has proved to be so difficult and slow for UK suppliers that many of them have not bothered to reclaim VAT in the past. It is hoped that the new system, that will be based on forms in English, which will be submitted to the UK authorities, will provide a much simpler system to recover VAT suffered in the EC.

Exceptions to the General Rules

The following categories of supply of services have different rules. If you are making supplies which fall into these categories please talk to us:

- Supplies relating to land.
- Artistic, cultural, sporting and educational services.
- Restaurant and catering services.
- Means of transport.

Conclusion

If you are a supplier of services with customers in the EC you need to make sure of the VAT status of your supplies as from 1st January. Also, for the first time, you have the new burden of the quarterly submission of EC sales lists which need to be done regularly and on time, even if you only make one supply of service to a business customer in the EC in any quarter. There is no de minimus limit for EC sales lists.



For further advice and assistance

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