



## E-Update: December 2009

This month Robert Bradley takes a look at the rules relating to the change in the VAT rate with effect from 1 January 2010.

### Ready for the January 1 increase?

We've been living with 15% standard rate VAT for a year but on January 1 2010 the rate will revert to 17.5%. What are the main rules to watch out for?

### No need to be concerned

Whilst there are some anti avoidance rules the general principles affecting the switch back to 17.5% standard rate VAT are pretty straightforward.

### The Tax Point

VAT is worked out at the rate applying when a tax point (TP) occurs. The basic TP is the time you actually supply goods or services. So, if you deliver a product or carry out a service prior to January 1 2010, then 15% VAT applies. On or after that date it's 17.5%. You can improve your cash flow by encouraging customers to pay early for post-January 1 purchases. The incentive for them is that by doing so they'll override the basic TP and can pay 15% rather than 17.5% VAT. To make this ploy work, you must invoice them, or they must pay for the goods or services, by December 31 2009, even if the supply is made later.

### Overlapping

If the supply you made starts in December but ends in January, for example a builder carrying out a job that takes several weeks, then the goods and services provided up to December 31 2009 can be charged at 15% and thereafter at 17.5%. If you're sending a bill after December 31 2009 that relates to supplies liable to both 15% and 17.05% VAT, you must show each element separately on your invoice.

### Continuous services

A similar rule applies for continuous services, e.g. bookkeeping. VAT is due at the rate applying when you raise an invoice or get paid, whichever is the earlier. If your billing routine means that you issue an invoice, say, quarterly, for example on January 31 2010, covering November, December, January, you can charge 15% VAT on the value of your supplies up to December 31 2009 and 17.5% on those made later. Please contact me should you require specific advice.

**Robert Bradley**

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