

taxbreaks

29/4/2009

Summary of Budget 2009 and recent VAT changes

As promised in the Budget edition of Tax Breaks, this edition summarises the more important recent changes which have taken place in VAT, including those announced in the Budget.

Registration Limits

The VAT registration threshold will increase to £68,000 with effect from 1 May 2009.

The VAT deregistration threshold will increase to £66,000 with effect from 1 May 2009.

VAT Fuel Scale Charges

Businesses must apply the new VAT fuel scale charge rates from the start of their next VAT return period beginning on or after 1 May 2009. Details of the new rates can be found by following the link to our website www.bhp.co.uk/content/forums_vat/vatfuel.html#12month, or can be provided on request.

Change in standard rate

As previously announced, the standard rate of VAT will revert from 15% to 17.5% on 1 January 2010. HMRC have also provided notice that anti-avoidance rules will be introduced to combat businesses who attempt to treat a transaction at the 15% rate when, under normal tax point rules, VAT should be charged at 17.5%.

Simplification of option to tax procedure

HMRC has announced a simplification of the procedure for opting to tax land and buildings where the potential opter has previously made exempt supplies of the land and/or buildings in question.

Under the current rules, if a business does not meet one of the four conditions for automatic permission (APC) to opt it must seek prior permission from HMRC before being allowed to do so.

A new APC is to be introduced and the existing APCs will be amended, with the aim that it will be less likely for businesses to need to obtain HMRC prior permission to opt to tax, where previous exempt supplies have been made.

Full details have yet to be released by HMRC, but the change will take effect from 1 May 2009

Intra-EU transactions

Fundamental changes to the way VAT is charged, and transactions between businesses based in different EU Member States are required to be reported, are being phased in with effect from 1 January 2010.

Briefly the changes are as follows.

a) The place of supply of services rules will be amended so that the basic place of supply will be in the country where the customer is established (for business customers) and not the country where the supplier is established as at present.

This change will be phased in from 1 January 2010.

b) The time of supply rules which govern when services supplied by suppliers based in other EU member states are deemed to take place will become the date of completion of the service provided rather than date of payment as it is at the moment.

This change takes effect from 1 January 2010.

c) Businesses that supply services to business customers based in another EU member state will be required to complete an EC Sales List.

The information required is the customer's EU VAT number and the value of the services supplied.

This change takes effect from 1 January 2010.

d) UK businesses that incur VAT in other EU member states will be able to claim that VAT online via HMRC, replacing the current paper based system.

This change takes effect from 1 January 2010.

More detailed information on these changes will be provided in a Tax Breaks later in the year.

Changes to partial exemption standard method

HMRC have recently announced four changes to the partial exemption standard method as follows;

a) The recovery percentage in the previous year's annual adjustment may be used to determine the recovery percentage on the VAT returns in the following year. Any under or over recovery of input tax in that year will be corrected in that year's annual adjustment.

This change takes effect for VAT years commencing on or after 1 April 2009.

b) The annual adjustment can now be made on the last VAT return for the VAT year or held over to the first quarter of the new VAT year.

This change applies to VAT years ending on or after 30 April 2009.

c) Businesses that become partially exempt for the first time can for certain VAT returns opt to recover input tax on their overheads based on a "use" based method (provided it is fair and reasonable) rather than by reference to turnover where this is beneficial.

This change is available for VAT return periods beginning on or after 1 April 2009.

d) Overseas supplies must be included in the standard method from 1 April 2009. Previously it was possible to have a separate method to calculate VAT recovery on these supplies.

Tour Operators' Margin Scheme ("TOMS")

There are several changes to be made to the operation of TOMS to ensure it fully complies with EU Law. Briefly these changes are that business to business supplies will cease to be dealt with within the TOMS calculation and following the ECJ ruling in the MyTravel case, tour operators must (where possible) use market value for that part of the selling price which corresponds to in-house supplies. Currently TOMS is calculated solely by reference to costs.

These changes take effect from 1 January 2010.

Bingo and games of chance

The charge for the right to play bingo and other games of chance will no longer attract VAT at the standard rate and becomes VAT exempt from 27 April 2009.

Children's car seats

With effect from 1 July 2009 the reduced (5%) rate that currently applies to children's car seats will be extended to cover bases for such seats.

Staff Hire Concession

The Staff Hire Concession has been withdrawn from 1 April 2009. The concession allowed businesses (usually employment agencies) who made supplies of staff as a principal to exclude from the value of their supply the wage element and other costs such as PAYE, NI etc provided such payments were made direct to the worker by the hirer or a third party payroll company. VAT was therefore due on an amount less than the true value of the supply.

From 1 April 2009, VAT must be charged on the full value of the staff supplied. Particularly affected are businesses who hire staff from agencies, but who are unable to recover their input tax in full eg businesses in the finance, education, health and charity sectors.

New penalty regime

On 1 April 2009 a new penalty regime was introduced by HMRC across all the major taxes. As far as VAT is concerned, the new penalty regime is radically different from the one it replaced and will result in more penalties being issued for errors made on VAT returns. One major change from the VAT point of view is that voluntary disclosures will be subject to penalties for the first time.

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