



## Value Added Tax (VAT)

### Changes to the standard rate of VAT

In a move that will affect all businesses registered for VAT, the standard rate of VAT has been cut from 17.5% to **15%**, effective from **Monday 1 December 2008**. On 1 January 2010 it will revert to 17.5%.

Zero-rated supplies, such as basic foodstuffs, children's clothing and books; exempt supplies, such as education and health; and supplies subject to VAT at 5%, such as domestic fuel and power are not affected by this change.

Legislation will be introduced in the 2009 Finance Bill to ensure that businesses are not able to use artificial arrangements to reduce the VAT rate on goods or services to be provided after the VAT rate reverts to 17.5% where there is no current economic activity. Genuine commercial transactions should not be affected.

The measure includes two consequential changes. Firstly, it amends the percentages used in the flat rate scheme for small businesses to reflect the reduction in the standard rate of VAT. Secondly, it introduces a change to the timing of credit notes issued following a change of rate.

### Flat Rate Scheme entry rules

With effect from 1 April 2009, the test that requires a business to check that its total income is less than £187,500 for entry into the VAT Flat Rate Scheme will be removed. Instead, eligibility to join the scheme will be determined solely by the taxable turnover of the business, which must be less than £150,000.

#### *Comment*

*Whilst businesses may appreciate a reduction in the amount of VAT they have to charge many will be concerned by the administrative cost of dealing with the change. Non VAT registered organisations and consumers may also find a reduction in their costs assuming the reduction is passed on. It is debatable whether this measure will persuade consumers to spend.*

**For more information, contact** **Hugh Davies** [hugh@hugh-davies.co.uk](mailto:hugh@hugh-davies.co.uk) or  
**Ian Sheekey** [ian@hugh-davies.co.uk](mailto:ian@hugh-davies.co.uk).

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