

## The Manufacturer Quarterly tax update – January 2010

### 'VAT changes afoot'

As it is likely that there have been a number of changes to tax that will affect manufacturers in the Pre-Budget Report, we will discuss the impact of these in our next quarterly report. The area we expect not to have changed significantly is VAT and therefore in this review we have concentrated on this area.

### VAT changes

The ending of the reduction in the VAT rate on 1 January 2010 came as no surprise as this was always understood to be a temporary measure. However, in addition to this a number of other important changes to the VAT system came into effect on the same date. These changes apply to supplies made between EU member states and can affect the liability to VAT on cross border supplies as well as administration of VAT compliance.

### Restoration of the 17.5% VAT rate

Any changes in the Pre Budget Report on 9 December 2009, will now be known but at the time of writing were not, but it is almost certain that the VAT rate will have reverted to 17.5% on 1 January 2010, following the 2.5% cut in the standard rate that had been in force for the past 13 months. The original cut in the standard rate caused some confusion among businesses and the reversion will again be an administrative headache for some.

The rate of VAT charged depends on the date when the goods or services are supplied. For VAT purposes, and without making this a precise technical note, this means the date on which the goods physically change hands (or a service is completed) or the date an invoice is issued, or the date payment is received, whichever is the earlier. From 1 January 2010, businesses should still use the old rate of 15% if they have provided goods or services before 15 December 2009 or if they have been paid before 1 January 2010 but have not raised an invoice within 14 days.

In specific circumstances, Customs will allow 45 days for a special credit note to be issued for the 2.5% and, of course, there are anti-avoidance provisions to consider.

### Cross-border supplies

On 1 January 2010, changes to VAT rules came into force that intended to simplify cross-border supplies of services and recovery of input tax. The change will mean that in business-to-business transactions, the services are supplied where the customer is established, with the customer accounting for VAT under the reverse charge procedure. Intra EU business-to-consumer supplies will be subject to VAT in the country of the supplier as they are currently.

This is the first stage of numerous changes to the place of supply rules that will come into force over the next five years.

In addition to these changes, any business that makes supplies of services to a business customer in another EU state will need to report those supplies to HMRC, usually on a quarterly basis but they can be monthly or annual by agreement. These reports need to be made within 21 days of the quarter or month end.

Business that are currently receiving services from suppliers in other EU states should consider carefully the nature of those supplies to determine whether they should be subject to VAT in the UK through the reverse charge procedure.

Likewise, any business making supplies of services to customers outside the UK should not charge UK VAT if it is on the list of supplies such as engineering. Also, they should consider whether their systems will allow the supplies to be identified sufficiently quickly and accurately for the purposes of the new reporting requirements.

### EU VAT refund procedure

A new electronic VAT refund procedure has been introduced throughout the European Union (EU) with effect from 1 January 2010, replacing the old paper-based system. From this date, UK businesses will need to submit any claim for VAT incurred in other EU countries on a standard form through the UK Government Gateway rather than direct to the relevant member state.

This is expected to simplify and speed up the process of obtaining cross border VAT refunds.

### Online filing of VAT returns

From 1 April 2010, businesses with annual sales of more than £100,000 and all newly VAT-registered businesses will be required to file their VAT returns online. HMRC points out that filing VAT returns online brings some benefits, including, for many businesses, a seven-day extension to the filing deadline and an extra three working days before payment is taken by direct debit from the taxpayer's account. (Although a vast majority will not want to give HMRC the authority to direct debit their bank account!) HMRC is asking anyone who will be affected by the change to register for online filing as soon as possible.

### Summary

While the change in VAT rate is clearly the headline issue in connection with VAT, a number of other changes have occurred on 1 January 2010, or will take place in the near future. Businesses should ensure that their systems can cope with these changes.

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