

## Revenue & Customs Brief 44/10

### Changes to VAT in January 2011

This brief reminds businesses of two VAT changes that will take place in January 2011. These are:

- increase in the standard rate of VAT from 17.5 per cent to 20 per cent on 4 January 2011
- changes to the place of supply rules for cultural, artistic, sporting, scientific, educational, entertainment or similar activities supplied to relevant business customers on 1 January 2011.

#### 1. Change of standard rate of VAT to 20 per cent

Businesses and consumers are reminded that the standard rate of VAT goes up from 17.5 per cent to 20 per cent on 4 January 2011.

The rate change only applies to the standard VAT rate. There are no changes to sales that are zero-rated or reduced-rated for VAT. Similarly, there are no changes to the VAT exemptions. Any sales you make at these rates are unaffected by this change.

#### Payments on Account Regime

The VAT rate increase means that there will be consequential changes to the VAT Payment on Account (POA) thresholds. Under the POA, certain businesses are required to make monthly VAT payments. Since the VAT rate change will increase the VAT liabilities of businesses, the POA entry and exit thresholds will go up from £1.6m and £2m to £1.8m and £2.3m. The thresholds will change on 1 June 2011 for quarterly reviews and on 1 December 2011 for annual reviews. For further information on the POA see Notice 700/60 Payments on account on our website, go to [www.hmrc.gov.uk](http://www.hmrc.gov.uk)

#### Businesses – what you must do when the standard VAT rate changes

For any sales of standard-rated goods or services that you make on or after 4 January 2011, you must charge VAT at the 20 per cent rate. The special arrangements for businesses trading on 31 December 2009 (when the standard rate reverted to 17.5 per cent) will not apply to this rate change.

If you have a cash business and calculate your VAT using the VAT fraction you must use the VAT fraction of 1/6 on your standard-rated VAT inclusive sales from 4 January 2011.

If your business issues VAT invoices, the normal rule is that you must use the new 20 per cent rate for all VAT invoices you issue on or after 4 January, which are issued within 14 days (or longer period that has been agreed with HMRC) of you providing the goods or services.

#### Supplies that span the rate change

If you supply goods or services before 4 January 2011, but issue a VAT invoice on or after that date, you can choose to charge VAT at 17.5 per cent.

For continuous supplies of services where a contract started before 4 January, you can choose to charge the old rate, 17.5 per cent, on services actually performed before 4 January, and the new rate of 20 per cent on the value of services actually performed on or after.

#### Businesses reclaiming VAT

From 4 January 2011, you may receive VAT invoices with the new 20 per cent rate, as well as VAT invoices with the old 17.5 per cent rate for goods or services you bought before the rate changed. In such cases, you should claim back VAT at the rate shown on the invoice.

#### Completing a VAT return

The deadlines for submitting VAT returns remain the same, so you should continue to submit VAT returns in the usual way – whether you send them monthly, quarterly or annually. For returns that span the change in rate, you will need to add together both the VAT on sales charged at 17.5 per cent and those charged at 20 per cent. You then put this total in box 1 of your VAT return.

### **Countering arrangements designed to take advantage of the VAT rate change**

In order to counter arrangements where businesses aim to take advantage of the VAT rate change by applying the 17.5 per cent VAT rate to goods or services to be delivered or performed on or after 4 January 2011, anti-forestalling legislation has been introduced. Further details can be found in the web link below.

#### **Guidance**

HMRC has published detailed guidance on the rate change, which can be found at [Business Link-VAT rate change \(Opens new window\)](#)

### **2. Changes to the place of supply rules for cultural, artistic, sporting, scientific, educational, entertainment or similar activities supplied to relevant business customers**

From 1 January 2011, as part of the changes to the cross border VAT rules (agreed at EU level in 2009), most business to business (B2B) supplies of cultural, artistic, sporting, scientific, educational, entertainment and similar services will be taxed where the customer is established, under the B2B general place of supply rule. However, supplies of admission to cultural, artistic, sporting, scientific, educational and entertainment events, and services ancillary to admissions (such as cloakrooms) will remain taxable where the event takes place. Business to consumer supplies (B2C) will be unaffected.

Admission will cover any payment that gives the right to attend an event even if it is covered by a season ticket or subscription. This includes payment to attend conferences, exhibitions and seminars even if they are of an educational nature. In-house events will fall within this rule as well as those open to the general public. Guidance on the place of supply rules can be found in VAT Notice 741A Place of supply of services on our website, go to [www.hmrc.gov.uk](http://www.hmrc.gov.uk)

For further information on other VAT and Excise matters, you can also contact the Helpline on 0845 010 9000.

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