

November 2008

NHS VAT NEWS BULLETIN

How the VAT rate change affects the NHS

As outlined in the pre-budget report, the standard rate of VAT will fall from 17.5% to 15% for a thirteen month period from 1 December 2008 to 31 December 2009, when it will return to 17.5%.

Any sales of standard-rated goods or services that take place on or after 1 December 2008 should be at the new rate of 15%. There are no changes to sales that are zero-rated, at the reduced-rate (5%), or exempt from VAT.

There are a number of issues to consider concerning the tax point (time of supply) and whether VAT is charged at the old or new rate, in particular for supplies spanning the rate change. For the NHS as a purchaser, it is particularly important to ensure that you are not charged more than you need to be if the VAT is a cost to you, i.e., where the VAT is not recoverable.

It is also important that your accounting software is adaptable to take account of the changes both in terms of expenditure (purchases) and business income generated (sales).

Expenditure

Any invoices received from your suppliers from 1 December 2008 must show the new 15% VAT rate for standard rated items, except:

1. where the goods or services were received more than 14 days before the invoice was issued, for example if you are invoiced on 1 December for goods or services received before 18 November 2008, or
2. you paid for the goods or services before 1 December 2008

In these cases, the standard rate of 17.5% still applies. You may therefore still receive some invoices from suppliers after 1 December showing 17.5% VAT but it is important to ensure that these are valid and not simply errors by your suppliers.

Pre-payments or invoices in advance of delivery

If you have been invoiced or you have paid for goods or services in advance (i.e. before 1 December) and the goods/services are to be delivered in December or later, the supplier can elect to use the date of delivery as the tax point and charge VAT at 15%.

This newsletter is designed to keep readers up to date with current VAT developments but is not intended to be a comprehensive statement of law. No liability is accepted for the opinions it contains or for any errors or omissions.

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Where a tax invoice has been issued before the rate change and you wish to take advantage of the 15% rate of VAT in these circumstances, a credit note must be issued by the supplier.

One-off supplies of services

The default tax point for a one-off supply of services is the date of completion. Under normal circumstances, this is overridden if it is preceded by a tax invoice or payment. However, if services are performed over a period that includes the date of change, suppliers can elect to apportion the work to reflect the amount that is appropriate to the new VAT rate.

Stage payments

If you are making stage payments for long contracts, such as construction schemes, the relevant date for VAT is normally when a VAT invoice is issued or a stage payment is made. So any invoices received for stage payments on or after 1 December 2008 must have VAT accounted for at 15%, even if some of the work was performed before 1 December.

Business income

Invoiced sales

The same basic time of supply rules as above apply to 'invoiced' income generated by the NHS, e.g., sales of drugs to private hospitals.

It will be necessary to make sure your accounting systems and software can be adapted to account for VAT at the new rate.

Cash sales

Cash income, e.g. catering, car-parking, vending, etc., received from 1 December will be at the new rate of 15%, so the VAT fraction to be applied to gross takings should be 3/23rds (not 7/47ths).

If you have any questions concerning the practical implementation of the changes which are not covered in this bulletin, please contact us for specific advice.

If you are a client of CRS VAT Consulting, fees for our services are fully inclusive of unlimited access to our team for general VAT advice. In our experience, we are able to answer the majority of VAT queries immediately (i.e. if you telephone us) or within half-an-hour of the call. We aim to confirm all queries via email or, if required, by letter. You can also submit queries via email, in writing or via our [technical queries web page here](#).

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Of course, if a query is going to be more complex and can't just be answered in this way, then we would recommend it being treated as an ad-hoc consultancy assignment and if appropriate, we would agree any fees with you before proceeding any further.

If you or your colleagues would benefit from receiving this bulletin electronically, please email us info@crsvat.com and we will gladly include you and/or them on our mailing list.

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