

CRS VAT CONSULTING

VAT rate increase – how the NHS can avoid unnecessary costs on purchases

The standard rate of VAT is due to rise from 15% to 17.5% on 1 January 2010. This rise in VAT may encourage NHS organisations to make large value purchases in December 2009 rather than in January 2010, but there are other ways to legitimately take advantage of the lower VAT rate.

Below are various transactions which your NHS body may be involved in during the period of the rate change. A special set of transitional rules are available to enable relief from the charge to VAT at 17.5% in particular circumstances. As NHS bodies are unable to recover all of the VAT they incur, the rules represent a vital cost saving opportunity.

1. Supplies made and invoiced for / paid for prior to 1 January 2010

The provision of goods and services prior to the 1 January 2010 deadline, which are invoiced for or paid for prior to that date, will naturally attract a charge to VAT at 15%.

2. Supplies made after 31 December 2009 but invoiced or paid for in advance

Where services or goods are invoiced for or paid for in advance, the VAT rate applies according to the date of the invoice/payment under the normal rules. Therefore, if a supplier raises an invoice in December or your NHS body pays in December for goods or services supplied in January, the 15% VAT rate will still apply.

3. Supplies made up to 31 December 2009 but invoiced from 1 January 2010

Under the normal rules, a VAT invoice issued on or after 1 January 2010 (usually within 14 days) which relates to work completed before January will be chargeable to VAT at 17.5%. This also applies to any retention payment received on or after 1 January 2010.

However, the special change of rate rules can be applied in this situation. Therefore, if a supplier issues a VAT invoice after 1 January 2010 for transactions completed before 1 January 2010, it may, if it wishes, apply the 15% rate. The supplier may decide to apply these rules even after he has issued a VAT invoice showing 17.5% VAT. If it does, it must issue your NHS body with a special credit note giving credit for the extra 2.5% VAT within 45 days of the rate change (i.e. by 14 February 2010). The original invoice should not be cancelled. The special rate change rules apply to the provision of goods as well as services.

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Your NHS body may have entered into a construction contract (which may include design, advisory and supervisory services) which requires it to make stage payments. Under the normal rules, if your NHS body continues with work under a stage payment contract on 1 January 2010, any VAT invoices it receives or payments it makes on, or after, that date will be liable to VAT at 17.5%. However, the special change of rate rules can be applied by your supplier if it issues a VAT invoice or receives a payment (including retention or final account payments) covering work actually performed up to 31 December 2009. This enables VAT to be charged at 15% on the work performed up to midnight 31 December 2010. (VAT will remain chargeable at 17.5% for work completed after this date).

4. Work in progress on 1 January 2010

Your supplier may be carrying out a service which commences before 1 January 2010 and is still in progress after that date. The normal rule is that where an invoice is issued or a payment received after 1 January 2010, VAT is chargeable at 17.5%, even if part of the supply was undertaken before that date.

The special rules enable the element of work performed before 1 January 2010 to be charged at 15%, (including retention or final account payments). An apportionment of the value of the transaction should be made by the supplier (based on measurable work or normal costing or pricing structures).

5. Continuous supplies

If your supplier provides goods or services on a continuous basis and receives payments regularly or from time to time, it must declare VAT to HMRC (the tax point) every time it issues a VAT invoice; or receives a payment (whichever happens first).

Under the special change of rate rules, it may account for VAT at the 15% rate on that part of the supply made before 1 January 2010. This is the case, even if the normal tax point occurs later (for example, where a payment is received in arrears of the supply).

If the supplier decides to do this, it should account for VAT at 15% on the value of the goods actually supplied or services actually performed before 1 January 2010. After this date, it must account for VAT at 17.5% on the value of the goods actually supplied or services actually performed. This may represent a significant cost saving for NHS bodies receiving such supplies, given that they may be unable to recover all the related VAT.

Example

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A supplier leases beds to a hospital for £5,000 per month plus VAT. It invoices quarterly in arrears. What VAT should the supplier charge for the quarter covering 1 November 2009 to 31 January 2010?

The normal rule is that VAT should be charged at 17.5% on the entire £5,000 fee because the invoice is issued after 1 January 2010. However, if a supplier so wishes it can charge VAT at 15% on the amount due for November and December 2009. As the hospital is not generally able to recover the VAT, using the special rules will result in a VAT saving.

6. Single supplies carried out over a period of time

A supplier may make a single supply of a service which is carried out over a period which commences before 1 January 2010 but is not completed until after that date. Unless the supplier has received payment or issued a VAT invoice before 1 January, the whole supply should be charged at the 17.5% rate under the normal rules.

However, if the supplier wishes it may charge VAT at 15% on the work done up to 31 December 2009 and 17.5% on the remainder. The supplier will have to demonstrate to HMRC that the apportionment between the two amounts accurately reflects the work done in each period.

Example

A hospital subscribes to a web-based information provider from 1 October 2009 to 31 March 2010. How does the hospital ward calculate the VAT?

The web-based information provider may account for VAT at 15% on the website access provided before 1 January 2010 and 17.5% on the remainder. It will need to be able to show that its calculation is accurate – perhaps by maintaining a usage log to demonstrate this.

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