

CRS VAT CONSULTING – NHS VAT REPORT

VAT RATE INCREASE TO 20% FROM 4 JANUARY 2011

The standard rate of VAT is due to rise again from 17.5% to 20% on 4 January 2011. This rise in VAT may encourage NHS organisations to make large value purchases in December 2010 rather than in January 2011, but there are other ways to ensure that the lower rate of VAT is applied where possible to supplies.

As NHS bodies are unable to recover all of the VAT they incur, the correct application of the rules should be considered to avoid any unnecessary costs.

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 20% in particular circumstances.

1. Supplies made and invoiced for / paid for prior to 4 January 2011

The provision of goods and services prior to the 4 January 2011 deadline, which are invoiced for or paid for prior to that date, will be subject to VAT at the current standard rate of 17.5%.

2. Supplies made on or after 4 January 2011 but invoiced or paid for in advance

Where services or goods are invoiced for or paid for in advance, the VAT rate usually applies according to the date of the invoice/payment under the normal 'tax point' rules. Therefore, if a supplier raises an invoice prior to 4 January or your NHS body pays in advance for goods or services supplied from 4 January 2011, the 17.5% VAT rate can still apply.

It may therefore be advisable to arrange for pre-payments in relation to certain supplies due to be made after the rate change to trigger a lower tax point at 17.5%, however, commercial risks, cashflow issues and 'anti-forstalling' legislation should be considered beforehand.

In certain circumstances, the 'anti-forestalling' legislation introduces a supplementary charge of 2.5% VAT which limits the extent to which a benefit can be obtained by applying the 17.5% rate to supplies of goods or services provided on or after 4 January 2011.

3. Supplies made before 4 January 2011 but invoiced from 4 January 2011

Under the normal rules, a VAT invoice issued on or after 4 January 2011 (usually within 14 days) which relates to work completed before that date will be chargeable to VAT at 20%. This also applies to any retention payment received on or after 4 January 2011. However, the special change of rate rules can be applied in this situation.

If a supplier issues a VAT invoice on or after 4 January 2011 for transactions completed before 4 January 2011, it may, if it wishes, apply the 17.5% rate. The supplier may decide to apply these rules even after it has issued a VAT invoice showing 20% VAT. If it does, it must issue a special credit note giving credit for the extra 2.5% VAT within 45 days of the rate change (i.e. by 18 February 2011). The original invoice should not be cancelled. The special rate change rules apply to the provision of goods as well as services.

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 4 January 2011, any VAT invoices it receives or payments it makes on, or after, that date will be liable to VAT at 20%. 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 before 4 January 2011. This enables VAT to be charged at 17.5% on the work performed up to midnight 3 January 2011. (VAT will be chargeable at 20% for work completed after this date).

4. Work in progress on 4 January 2011

Your supplier may be carrying out a service which commences before 4 January 2011 and is still in progress after that date. The normal rule is that where an invoice is issued or a payment received after 4 January 2011, VAT is chargeable at 20%, even if part of the supply was undertaken before that date.

The special rules enable the element of work performed before 4 January 2011 to be charged at 17.5%, (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 17.5% rate on that part of the supply made before 4 January 2011. 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 17.5% on the value of the goods actually supplied or services actually performed before 4 January 2011. After this date, it must account for VAT at 20% 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

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 2010 to 31 January 2011?

The normal rule is that VAT should be charged at 20% on the entire £5,000 fee because the invoice is issued after 4 January 2011. However, if a supplier so wishes it can charge VAT at 17.5% on the amount due for from 1 November to 3 January. 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 4 January 2011 but is not completed until after that date. Unless the supplier has received payment or issued a VAT invoice before 4 January, the whole supply should be charged at the 20% rate under the normal rules.

However, if the supplier wishes it may charge VAT at 17.5% on the work done before 4 January 2011 and 20% 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 2010 to 31 March 2011. How does the hospital calculate the VAT?

The web-based information provider may account for VAT at 17.5% on the website access provided before 4 January 2011 and 20% 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.

7. Income Generation

The same rules as above apply to business supplies made by NHS bodies.

You need to ensure that your own accounting systems and staff responsible for debtor income, cash income and income generated from staff salary deductions are prepared to charge VAT at 20% on appropriate business supplies from 4 January 2011.

Where VAT is calculated on gross income receipts (e.g. car parking or catering), the fraction used to calculate the VAT will need to be changed from 7/47ths (for 17.5% VAT) to 1/6th (for 20% VAT).

With the VAT rate increase to 20% and the introduction to the NHS of penalties and interest on VAT errors from 1 April 2011, it is more important than ever to ensure that the correct VAT liability is applied to business income generation. Please visit our website at www.crsvat.com to download a business income VAT liability table showing the VAT rate for common business supplies of NHS bodies.

If you have any questions concerning the above, please do not hesitate to contact us.

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About us

CRS VAT Consulting is a firm of chartered tax advisers specialising in pro-active and innovative VAT solutions. Since 2002 we have grown to become a leading provider of VAT services to the NHS. We have achieved this by consistently identifying increased levels of VAT recovery and providing flexible services tailored to the specific needs of our clients. Our credentials can be checked with the Chartered Institute of Taxation, which is the senior professional body in the United Kingdom concerned solely with all aspects of taxation. For further advice about items in this VAT report, or to find out about our comprehensive range of NHS VAT services, please contact us.

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