



# Information on preparing for the VAT rate change

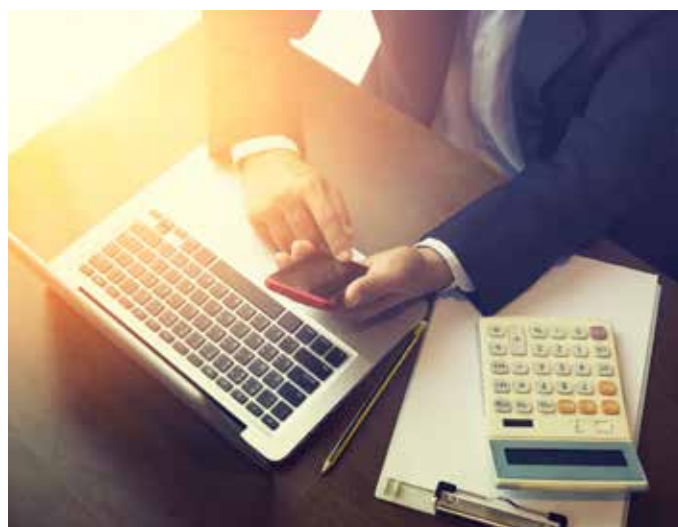
Standard rate of VAT reducing from 23% to 21% on 1 September 2020

The government recently announced its July Stimulus Package, a range of measures designed to support businesses and mitigate the economic effects of COVID-19. One of these measures is a temporary reduction in the standard rate of VAT from 23% to 21%, effective from 1 September 2020 until the end of February 2021.

It is important that businesses update their systems for these changes and are familiar with the rules that determine the applicable rate of VAT. Critical to this will be whether you account for VAT on an invoice or cash receipts basis, and also whether your customer is VAT-registered or not.

## Supplies to VAT-registered customers

- Where an invoice is issued to a VAT-registered customer, then the rate applicable is that in place on the date the invoice is, or should have been, issued. Therefore, if an invoice is issued on or after 1 September 2020, then the rate of VAT should be 21%, even if the supply actually took place before 1 September 2020. Likewise, for invoices issued on or after 1 March 2021, the VAT rate reverts to 23%.



- Where the supplier accounts for VAT on a cash receipts basis, then the rate of VAT to be applied is the rate in place on the date on which the supply is made and not on the date payment is received. For example, where goods are supplied on 15 August 2020 and payment is received on 20 September 2020, the rate of VAT is 23%.
- Where a credit note is issued, the rate of VAT should be the same rate as that shown on the original invoice to which it relates.

## Supplies to unregistered customers

- Where a VAT invoice is issued to customers who are not VAT-registered (i.e. typically private consumers), then the rate of VAT should be that in place on the date the goods or services are supplied and not the date of the invoice. For example, if on 4 September 2020 you are issuing an invoice in respect of a supply of goods to a private customer that was made on 23 August 2020, the rate of VAT should still be 23%.
- This is the case regardless of whether you are accounting for VAT on an invoice or on a cash receipts basis.
- Where a credit note is issued, the rate of VAT should be the same as that shown on the original invoice to which it relates, i.e. the rate that was in place at the time the original supply was made.

## Advance payments

- Particular care should be taken when determining the VAT treatment of advance payments, i.e. payments received (including deposits for example) before the goods or services are supplied.
- If you account for VAT on an invoice basis and the advance payment is received from a VAT-registered customer, then the rate of VAT is that applicable on the date on which you are obliged to issue the VAT invoice (or the date on which you actually issue it, if earlier).

- If you account for VAT on a cash receipts basis, then it is the rate in place on the date the advance payment is received from the VAT-registered customer.
- If the advance payment is received from an unregistered person, then the rate of VAT is that applicable on the date you receive the payment, regardless of the basis on which you account for VAT.

### Implications for contracts

- Where a contract has been entered into at an agreed price before 1 September 2020, but is not completed until after that date, then the agreed price is subject to an appropriate adjustment to take account of the change in VAT rate, unless there is an agreement to the contrary between the parties.
- Similar considerations would apply to contracts entered into but not completed before 1 March 2021.

### Fixed interval payments

- In the case of fixed interval payments that span the date of the VAT rate change but become payable in advance of it, then for the purposes of the transition between rates only, the old rates may be used provided the invoice is issued before the rate changes.
- For example, say quarterly rent for February, March and April is payable in advance on 1 February 2021. Provided the invoice is issued by 28 February 2021, then the 21% rate of VAT may be applied.



**If you require assistance with any tax requirements or challenges you face as a result of the pandemic, please contact a member of the tax team.**

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