

VAT increase 4th January, 2011

From 4th January 2011 you'll notice a change to your telecommunications bill.

The VAT rate will rise from 17.5% to 20% on 4th January 2011. Line rental and other communication services provided by Daisy will be charged at the new VAT rate from the 4th January onwards. Daisy customers can expect to see a change to their invoices from January and will continue to be billed at this rate going forward.

If you have any questions about the VAT increase please call us on **0845 450 4520** or email [**customersupport@daisyplc.com**](mailto:customersupport@daisyplc.com)

PECIAL RULES FOR SALES THAT SPAN THE CHANGE IN RATE

Under the normal rules, standard rated supplies with tax points created by payments received or VAT invoices issued on or after 4 January 2011 will be liable to the 20 per cent rate.

However, there are **optional** change of rate rules that you may be interested in applying. You can apply the rules selectively to different customers. Also, you can adopt them without notifying HMRC.

Note: The special change of rate rules are **optional** – you do not have to apply them and you are unlikely to want to if your customer can recover all the VAT you charge them (unless it is administratively more convenient for you).

3.1 How do the rules work?

3.2 Goods or services provided before 4 January 2011

The change of rate rules may be used where you provide goods or perform services before 4 January 2011 and raise a VAT invoice and, in some cases, receive a payment after the rate change.

So, for example, if you issue a VAT invoice on or after 4 January 2011, for goods you provided, or services that you completed before 4 January 2011, you can, if you wish, apply the 17.5 per cent rate.

You can decide to apply these rules even after you have issued a VAT invoice showing 20 per cent VAT. If you do, you must issue a special credit note giving credit for the extra 2.5 per cent VAT, within 45 days of the rate change (i.e. by 4 January 2011). The credit note details required are given in section 2.5 above. You should not cancel the original invoice.

I deliver a computer to a customer on 29 December 2010 when the VAT rate is 17.5 per cent. On 6 January 2011 I issue a VAT invoice in respect of the sale. What rate of VAT do I charge?

Under the normal tax point rules 20 per cent VAT is due as the invoice was issued after the increase in the rate and within 14 days of the supply of the computer. However, under the special rules you may decide to charge the 17.5 per cent standard rate of VAT which was in effect when the computer was delivered. This will reduce the amount of VAT you are liable to account for on the sale. If your customer is VAT registered and able to recover the VAT charged in full the use of the special rules will not save them any tax.

I carry out a service on a car on 29 December 2010 and on 7 January 2011 I issue a VAT invoice to my customer. Can I charge VAT on this supply at 17.5 per cent?

Yes. The position here is the same as in the previous example.

3.3 Goods or services provided on or after 4 January 2011

You can also opt to use the rules where you receive a payment or raise a VAT invoice before 4 January 2011 for goods or services you will be providing on or after that date. Under the normal rules you should account for VAT at 17.5 per cent (but see section 11 about special rules to prevent avoidance for certain deposits or prepayments).

However, under the special rules you may account for VAT at 20 per cent, not 17.5 per cent, on the payment or amount invoiced before 4 January 2011. You may find it more convenient to do this and to issue a VAT invoice for the 20 per cent rate in cases where your customer can recover all the VAT you charge them.

3.4 Supplies that are in progress on 4 January 2011

There will be instances where a service 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 on or after 4 January 2011 VAT is due at 20 per cent even if part of the supply was undertaken before that date. However, the special rules also apply here both in relation to continuous supplies of services and to single supplies of services carried out over a period of time. Two examples might help to explain the difference between these two types of supplies.

An office equipment company has a contract to lease photocopiers to a bank. The contract is open-ended but can be terminated by either party with three month's notice. Payment is made by the bank monthly in arrears. This would be regarded as a continuous supply.

The same office equipment company prepares a report for the bank about its future photocopier needs. The report takes four months to compile. This would be a single supply of services (i.e. of the completed report) carried out over a period of time.