Bangor University
VAT Rate Change 1 January 2010 – Guidance Note

1. Background
On 1st December 2008 the standard rate of VAT was temporarily reduced to 15% for a period of 13 months, finishing on 31st December 2009. Therefore, with effect from 1st January 2010 the standard rate will return to 17.5%.

The University will therefore be required to charge and account for VAT at 17.5% on all supplies made on or after 1 January 2010, and on all invoices raised on or after 1 January 2010 which are issued within 14 days of the University providing the goods or services to which the invoice relates to its customer subject to the transitional rules below.

The purpose of this guidance note is to advise on the points that should be considered when dealing with both sales and purchases when the rate increase takes effect.

As before, other rates of VAT (i.e. zero, reduced and exempt) are not affected by this change and the remainder of this note deals only with standard rated supplies.

2. Cash or Credit Card Sales
The new rate of 17.5% will be applied to all takings on or after the 1 January 2010.

An exception to this rule arises if the customer pays for something they took away (or you delivered) before the 1 January 2010, in which case the old rate of 15% applies as the tax point arises when the goods were delivered (i.e. prior to 1 January 2010).

Action point: *complete separate Finance Office Banking Summaries for those takings up to 31 December 2009 from those takings on or after 1 January 2010. Any takings on or after the 1 January 2010, where the sale took place before this date, should be specifically highlighted and annotated with the actual collection/delivery date.*

3. Invoiced Sales of Goods and Individual (i.e. "one off") Services
In general the new 17.5% rate should be applied to all invoices that are issued (i.e. dated) on or after the 1 January 2010.

There are special transitional rules in place to deal with a VAT rate change. Assuming these are not altered in any way, these provisions essentially allow businesses to override normal tax point rules and use the basic tax point where this is beneficial. The key example is where goods/services are invoiced on or after 1 January 2010 but were supplied before the VAT rate change. In this situation if the University issues a VAT invoice after 1 January 2010, for goods provided before 1 January 2010, the University can, if it wants, choose to charge VAT at 15% rather than 17.5%. Please note these transitional rules are optional.

Action point: *when raising invoices on the Agresso financial system the **SS** (Sales Standard Rate) VAT code will be set to 17.5% from the 1 January 2010. From the 1 January 2010, when it is necessary to apply the old 15% rate to either an invoice or credit note you should select the **SO** (Sales Old Standard Rate). For subsidiary companies still on the Prophecy financial system, the **01** (Standard Rate) VAT code will be 17.5% and the **02** (Standard Rate) VAT code will be 15%.*

4. Supplies that are in progress at 1 January 2010
4.1 Single supplies carried out over a period of time (e.g. discrete professional or other services)

There are special rules for sales which span the change of rate. If you provide services before 1 January 2010 and raise a VAT invoice after this date you can choose to account for VAT at 15%.

If you provide services starting before 1 January 2010 but finishing afterwards you can choose to account for the work done up to 31 December 2009 at 15% and the work done after 31 December 2009 at 17.5%. If you choose to do this you must be able to demonstrate that the apportionment between the 15% and 17.5% VAT rate is fair and reasonable. Please note that the transitional rules are optional and the University can choose to charge VAT at 17.5% for the whole supply.

Commissioning a lawyer to undertake a specific legal transaction or piece of advice would constitute a single supply. Most research contracts undertaken by the University would probably constitute a single supply, or a series of individual supplies. However, whether research is a single or continuous supply (see 4.2 below) will turn on the form of agreement, and the Finance Office should be consulted accordingly.

Action point: *in cases where payment on account has been made or invoiced before the 1 January 2010 then special transitional rules can apply. Under the special rules the University can opt to charge VAT at 15% on the part of the service performed* ***before*** *the 1 January and at 17.5% on services performed on or after 1 January 2010.*

4.2 Continuous supplies (e.g. lease, hire, rents, licences, membership fees)
If you are making a supply of services that are consumed over a period of time, the new rate of 17.5% is applied to all payments made and invoices issued on or after the 1 January 2010.

Where the University provides a continuous supply of services VAT should be accounted for whenever a VAT invoice is issued or payment received, whichever is the earlier.

You must charge 17.5% on invoices issued and payments received on or after 1 January 2010.

The University has the option of charging 15% on the services provided in the period up to 31 December 2009, and 17.5% on the remainder of the services (i.e. those provided on or after 1 January 2010). If the University chooses to apportion between supplies made prior to 1 January 2010 and those made on or after 1 January 2010, the University must be able to demonstrate that the apportionment used is fair and reasonable.
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Action point: *in cases where advance payment has been received or invoiced before the 1 January for a period of supply which spans the rate change then special transitional rules may apply. Under the special rules the University can opt to charge VAT at 15% on the part of the service that has been performed* ***before*** *the 1 January and at 17.5% on services performed on or after 1 January 2010.*

5. Sales Credit Notes
Care must be exercised when issuing sales credit notes to ensure that they credit VAT at the same rate applied to the original invoice being credited.

Action point: *when raising credit notes on the Agresso financial system the* ***SS*** *(Sales Standard Rate) VAT code will be set to 17.5% from the 1 January 2010. From the 1 January 2010, when it is necessary to apply the old 15% rate to a credit note you should select the* ***SO*** *(Sales Old Standard Rate). For subsidiary companies still on the Prophecy financial system, the* ***01*** *(Standard Rate) VAT code will be 17.5% and a* ***02*** *(Standard Rate) VAT code will be 15%. Credit notes that correct VAT charged at the wrong rate, or which are issued under transitional rules, must quote the invoice number and date of the original invoice being credited.*

6. Purchases of Goods and Individual (i.e. “one off”) Services
All invoices dated on or after the 1 January should carry the new standard rate of 17.5%, with the following exceptions:

Where the University purchases goods/services that are invoiced on or after 1 January 2010 but were supplied to the University before the VAT rate change, the University should request that the VAT invoice issued by its supplier charges VAT at 15% (i.e. the supplier takes advantage of the optional transitional rules)

Where the University has paid for goods/services before 1 January 2010 (i.e. where the University has paid cash and requires a VAT invoice by way of receipt) **and** the services or goods have been delivered before the 1 January, then the supplier should charge the old rate of 15%.

Action point: *it is the responsibility of the signatory responsible for authorising payment to verify that the correct standard rate of VAT has been charged. Incorrect invoices should not be passed to the Finance Office for payment. Such invoices should be drawn to the attention of suppliers who should be asked to cancel the original invoice and issue a corrected invoice showing VAT at the correct rate.*

7. Purchases of Services that are in progress at 1 January 2010

7.1 Purchases of supplies carried out over a period of time (e.g. discrete professional or other services)

There are special rules for sales which span the change of rate.

If the University receives services before 1 January 2010 but receives a VAT invoice after this date, the University should request that VAT is charged at 15% (i.e. the supplier uses the optional transitional rules).

If the University is purchasing a service where work starts before 1 January 2010 but finishes after 1 January 2010, the University should request that its supplier charges VAT at 15% on the work done up to 31 December 2009 at 17.5% (i.e. the supplier uses the optional transitional rules). Please note that the University's supplier will have to be able to demonstrate that the apportionment is fair.

Action point: *the University should encourage its suppliers to take advantage of the 15% VAT rate where possible under the transitional rules as this will reduce the VAT cost to the University. Contact the Finance Office if you are unsure about any of these points.*

7.2 Purchases of continuous supplies (e.g. lease, hire, rents, licences, membership fees)

If the University receives continuous supplies of services spanning the VAT rate change it should be ensured that VAT is charged at the appropriate rate.

VAT should be charged at 17.5% on invoices issued to the University and on payments made by the University on or after 1 January 2010.

The University should request that suppliers charge VAT at 15% on the services supplied in the period up to 31 December 2009, and 17.5% on services supplied on or after 1 January 2010 (i.e. the University's supplier takes advantage of the optional transitional rules). Please note that the University's supplier will have to be able to demonstrate that the apportionment is fair.

Action point: *the University should encourage its suppliers to take advantage of the 15% VAT rate where possible under the transitional rules as this will reduce the VAT cost to the University. Contact the Finance Office if you are unsure about any of these points.*

7.3 Annual invoices including payment schedules (prepayments)

The normal rule is that VAT on a pre-payment invoice should be charged at the rate in force when it is issued, subject to the anti-forestalling provisions. However, legislation has been introduced to limit the extent to which the 15% rate can apply to prepayments for certain supplies of goods or services provided on or after 1 January 2010 when the standard rate returns to 17.5%. This legislation is intended to prevent artificial avoidance and, in practice, should affect very few businesses.

The anti-forestalling legislation introduces **a supplementary charge to VAT** which will apply to transactions that span the date of the VAT rate change, i.e. where a VAT invoice is issued and/or prepayment received before 1 January 2010 (creating an actual tax point) but the goods or services are to be provided on or after that date. Where applicable, VAT of 15% is due on the date of issue of the VAT invoice or receipt of payment but a supplementary charge of 2.5% will become due on 1 January 2010.

The supplementary charge will only apply where **the customer cannot recover VAT in full on the supply** and at least **one** of the following conditions is met:

- the supplier and the customer are connected with each other at any time between the date that the invoice is issued, or payment received, and 1 January 2010; or
- the supplier or a person connected to the supplier finances a prepayment by the customer; or
- the supplier raises a VAT invoice where payment is not due in full within six months of the invoice date; or
- the consideration for the supply and any related supply of goods or services (see section 8) amount to more than £100,000. However, the supplementary charge will not apply where the supplier can show that the pre-payment is made or advance VAT invoice raised between unconnected parties in accordance with **normal commercial practice** when **no VAT rate increase is expected**

Action point: *the onus is on suppliers to provide an amended invoice for those periods after the 1 January. Departments/resource centres should check with suppliers to ensure that revised invoices are received, and should monitor actual charges to ensure that these increase in line with the increase in the VAT rate.*

8 Purchase Credit Notes

Care must be exercised to check that credit notes received for purchases include VAT at the same rate applied to the original invoice being credited.

Action point: *it is the responsibility of the signatory responsible for authorising credit notes to verify that the correct standard rate of VAT has been charged. Incorrect credit notes should not be passed to the Finance Office for processing. Such credit notes should be drawn to the attention of suppliers who should be requested to reissue the credit note with the correct rate of VAT.*

9. Particular types of supply

9.1 Construction Services

Different VAT accounting rules apply to construction services.

Action point: *you should refer to the Finance Office for further advice if this area is applicable to you*
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9.2 Coin operated machines

Normally VAT is accounted for when takings are removed from the machine, but special rules apply at the time of a change in the VAT rate.

However when there is a VAT rate change you are required to revert to the normal rules and account for VAT based on the date the machine is used. If the machine does not record this information you will need to apportion any takings spanning 1 January 2010 based on typical usage. The 15% VAT rate can be applied to the sales up to 31 December 2009 and 17.5% to sales on or after 1 January 2010.

Action point: *takings spanning the 1 January are based on the machine date and if this is not recorded then the takings should be apportioned.*

9.3 Finance Leases, Hire Purchase, Conditional Sales and Credit Sales

If you issue a VAT invoice before 1 January 2010 (when the VAT rate was 15%) for goods to be handed over after that date, you can account for VAT at 15%.

For hire purchased goods, there will be no adjustment to the VAT rate where payments are being made in instalments. The only potential exception to this would be where an agreement is to be entered into either just before or after 1 January, in which case you should consult the Finance Office team. The position may differ for finance leases.

Where a finance lease is subject to monthly or quarterly payments you should consult the Finance Office team as, in certain circumstances, it may be possible to adopt the reduced rate for payments spanning or subsequent to 1 January 2010.

10. Finance Office contacts for further information
For all further advice and questions please contact either of the following:

Carl Shipton (3549)
Karen Parry (8168)

Ends
C Shipton
1 December 2009