



## VAT Increase – Spend now to save?

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The 15% VAT rate is due to be withdrawn on 1 January 2010, at which point it should, in theory, revert to 17.5%. In VAT circles, however, there is much debate on whether the 15% rate will be retained for a longer period or the standard rate increased **above** 17.5%. Interestingly, a number of other EU countries have already increased their standard-rate of VAT

There are pundits who believe that post-election the UK rate could increase to around 19% as the Government wrestles with the yawning chasm in the public purse.

Even if the rate returns to its previous level of 17.5%, those charities that cannot recover VAT should seriously think about essential projects or items.

If you anticipate a significant purchase in the next 6-12 months that will be liable to standard rate VAT, you could save at least 2.5% by making the purchase before 1 January. By prepaying, or simply pre-ordering, you may be able to obtain a significant VAT benefit.

Given the current economic climate and the uncertainty that exists over future funding, charities would be well advised to take advantage of the reduced standard rate of VAT while it lasts.

For example, arranging for £100,000 of VATable expenditure to be billed before the rate changes could lead to a saving of £2,500 (possibly more if the standard rate is increased).

As long as a supplier issues a VAT invoice (and creates a 'tax point' for VAT purposes) before the rate increases, and subject to some conditions, HMRC should not take issue with the transaction. One such condition is that for any invoice issued, payment must be made within 6 months. The other conditions affect:

- supplies made between connected parties
- supplies involving funding arrangements
- payments or invoices exceeding £100,000

HMRC have taken the view that some organisations may attempt to obtain an unfair VAT advantage by applying the lower standard rate as far as possible before it is withdrawn and have introduced rules to combat this.

Where HMRC's conditions are not met, they would seek to apply a supplementary charge to VAT of 2.5% to goods or services where VAT has been unfairly accounted .

With some careful planning Charities could enjoy a 'window of VAT opportunity'.

Charities should now be looking at how they address the VAT opportunities available to them before the lower rate is withdrawn. Talking to their professional advisers may be their first course of action.

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