

Changes to the Standard Rate of VAT 4th January 2011 Guidance Notes

On 4th January 2011 the standard rate of VAT will increase from 17.5% to 20%. This guide sets out the key points which we need to be aware of as we implement the change.

What do I have to do?

For any sales of standard-rated goods or services that are **supplied or performed on or after 4th January 2011** you should charge VAT at the new rate of 20%. This means that departments making cash sales will need to amend their tills to calculate the new rate of tax from 4th January 2011. All sales orders for standard-rated goods delivered from 4th January 2011 will need to include VAT at 20%

For purchases of standard-rated goods or services that are **received or performed on or after 4th January 2011** you should apply VAT at the new rate of 20%

What has changed in SAP?

As there will be two VAT rates for Sales and four VAT rates for Purchases in the short term, administrators are requested to use the following procedures.

The following table shows the rates to be applied within SAP:

	VAT code at 17.5%	VAT code at 20%
Sales – Standard Rated VAT	A1	C1
Purchases – Standard Rated VAT Fully Recoverable	V1	D1
Purchases – Standard Rated VAT Non-Recoverable	V7	D7

Which of my sales are affected?

Only standard-rated sales are affected. There are no changes to sales that are zero-rated, reduced-rated or exempt. For your standard-rated sales, it depends how you normally account for VAT:

- 1. If you are a retail outlet making mainly cash sales to customers (e.g. a shop)**
You should adjust your till and use the new rate for all takings that you receive on or after 4th January 2010.
- 2. If you sell standard rated goods or services and issue VAT invoices**

You should use the material codes relating to your sale as you do now. The new rates are in SAP and the system will apply 20% VAT where applicable. This applies to all VAT invoices issued on or after 4th January 2011.

What price should I charge for my goods?

Retailers are not obliged to increase the price to their customers – they can choose to charge the same price and fund the additional VAT out of the net price. However, if you wish to amend your prices the following example may assist you:

If you charge a VAT inclusive price, you should use the VAT fraction to work out the VAT element. The VAT fraction for the 17.5% is 7/47 and for 20% is 1/6

For example:

If you sell something for £117.5 and the VAT rate is 17.5%

$$\frac{117.5 \times 7}{47} = \text{£}17.50 \text{ VAT (therefore £}100.00 \text{ net)}$$

If you sell at the same price after 04/01/11 and the VAT rate is 20% then the VAT is

$$\frac{117.5 \times 1}{6} = \text{£}19.58 \text{ VAT (therefore £}97.92 \text{ net)}$$

If you wish to pass on the additional cost to the customer you must start with the net amount and add on the VAT at the new rate of 20%

For example:

$$\text{£}100 * 1.20 = \text{£}120.00$$

Which code do I use for Purchase Orders?

If you raise a purchase order for goods or services to be delivered on or after 4th January 2011 and they are standard rated, use code D1 if you previously used V1 or D7 if you previously used V7.

If the purchase order was raised before 4th January 2011 and the goods or services are delivered after 4th January 2011, the invoice will show VAT at 17.5%. The Procurement Services section will amend the VAT code accordingly when they process the invoice.

Where do I go for help?

For further assistance regarding creating Sales Orders and Purchase Orders, please contact SAP via the IT Helpdesk on ext 4242.

For further assistance regarding VAT, please contact either Kevin Finlay on ext. 7591 or Christine Iceton on ext. 3346.