

2011 VAT Rate Change Effective 4 January 2011



Julian Sims

How to account for the increase in the standard rate of VAT

From 4 January 2011, the standard rate of VAT will increase from 17.5% to 20%.

How this affects you will depend on the VAT scheme you use and the type of sales that you make. If you make zero-rated, reduced-rate (5%) or exempt sales the VAT treatment of these does not change.

Sales Invoices

Any sales invoices that would normally be raised using the standard rate should have VAT applied at 20% from 4 January 2011.

Purchase Invoices

Any purchase invoices received from suppliers at standard rate dated 3 January 2011 or earlier should be posted at a standard rate of 17.5%, and any dated 4 January 2011 and later should be posted at 20%. These rates should match those shown on the suppliers invoice.

Flat Rate Schemes

Any businesses that use the flat rate scheme to account for their VAT will need to refer to the HMRC website (<http://www.hmrc.gov.uk/vat/start/schemes/flat-rate.htm>) to see how the change will affect them as many of the percentage rates will reduce. The increased rate should apply from 4 January 2011.

Cash Accounting

Any businesses that use the cash accounting scheme to record their VAT should be aware that the tax point of the supply is the time of the invoice and not the point of payment. If the sales invoice is dated 3 January 2011 or before but payment or receipt is after this date, then the payment or receipt must use the same VAT rate as the invoice. Any clients using Cash Accounting for VAT on Sage Software should note that Sage will do this automatically for you provided that the receipt is allocated against the relevant invoice or invoices when it is posted.

For detailed instructions on how to make the change if using Sage software, please see the reverse of this note.

If you are using other software, please consult your software provider or manual. If you have any concerns or problems we will always be pleased to assist.

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VAT Changes required in Sage Software

Any clients using Sage software should amend their T1 VAT code to 20% in Sage, as from 4 January 2011, to ensure that January sales invoices are raised at the correct rate of 20%.

Clients should take great care when posting purchase invoices during January as any that are dated 3 January 2011 and earlier will include VAT at 17.5%, and the value of VAT should be overwritten when posting the relevant invoice on Sage.

We would recommend that postings during January are double checked to ensure that they have been made correctly.

Sage gives the following instructions to enable the T1 VAT code to be amended to 20%.

To change the VAT rate in Sage Accounts

- Open the Settings menu
- Choose Configuration
- Click the Tax Codes tab
- Select T1
- Click Edit

The Edit Tax Code window appears

- Enter 20.00 in the Rate box
- Click OK
- The Edit Tax Codes window closes

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- To apply the change, and return to the Sage Accounts desktop,
- Click Apply
- Click Close

Tip: If you are prompted to save your changes, click No.

If using Sage Instant Accounts

- Click Save
- Click Close

You have successfully changed the standard rate of VAT

Sage Accounts applies the new rate of VAT to any new transactions that use this tax code. All existing transactions remain unchanged at the old rate of VAT.