

# VAT rate decrease announced as part of the July 2020 Stimulus Plan



The July 2020 Jobs Stimulus Plan announced by the Government contains a suite of tax, loan and expenditure measures designed to directly support business at all levels of the economy that are negatively impacted by Covid-19.

One of the key measures is the **temporary reduction** in the standard rate of **VAT** from **23% to 21%** with effect from **1 September 2020** until 28 February 2021.

When a VAT rate change is introduced, there are a number of practical issues taxpayers need to consider.

## Here's 7 Matters To Consider About the VAT Rate Decrease

### Systems

Your ERP system(s) will have to be updated and tested for the new VAT rate change which takes effect from 1 September. With only 5 weeks to go and in the middle of the Summer holiday season, depending on your systems configuration, this could be a tight turnaround.

### Pricing

Does the pricing of your goods and services need to be amended as a result of the temporary VAT rate change? What will be the impact on your budgets heading into the last quarter of 2020? Does the VAT rate reduction have to be passed onto the customer? On your purchases side, particularly if you only have partial VAT recovery entitlement, will the VAT rate reduction be passed on to you, by your suppliers?

### Contracts

To assess the impact of pricing, you may need to consult your business contracts. Is the price fixed or does the contract provide for changes in VAT rates?

### Sales invoices

The VAT rate in force at the time an invoice is issued (or is obliged to be issued) is the VAT rate that applies. For sales scheduled to be supplied in August but only invoiced in September, it is the decreased 21% rate that applies.

If you have any questions or queries on any of the above, we would be delighted to talk to you further so please contact one of the below members of the VAT team or your usual EY Tax adviser to set up a call.

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## Reverse Charges

For partially recoverable entities particularly, you are liable to account for reverse charge VAT at 23% on any taxable foreign purchase invoices dated before the end of August even if those invoices are not received until September.

## Credit notes

Any credit notes issued on or after 1 September crediting supplies to VAT registered customers before this date should credit the VAT rate in force when the original invoice issued. For supplies to non-VAT registered customers, credit notes should be issued using the VAT rate in force at the time of the original supply.

## Other issues

There are other unique complications and practical issues associated with VAT rate changes, particularly with respect to payments in advance, utilities, continuous supplies of services, import VAT deferred in August and payable in September, stock in hand on date of VAT rate change and the tax point of various financial transactions such as HP or other credit arrangements which will have to be considered.

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