

Weekly VAT News

VAT rate to rise to 20% with effect from 4 January 2011

As had been widely expected, the Chancellor announced an increase in the standard rate of VAT to 20%. The change is deferred until 4 January 2011. The reduced (5%) rate remains unchanged. As happened last year, when the return of the rate to 17.5% was known well in advance, [anti-forestalling provisions are to be included in the Finance Bill \(No2\) 2010](#), to prevent the 17.5% rate applying to certain supplies of goods and service that actually take place after the 20% rate comes into force. As happened last year, [HMRC has published a detailed guide for VAT registered businesses to the new rate](#). As a result of the increase in the VAT rate, [some of the percentages applicable under the VAT flat rate scheme will be changed](#). The Chancellor confirmed that there is to be no change to the VAT base, so goods and services that currently qualify for zero-rating and exemption will remain zero-rated or exempt.

Insurance Premium Tax increases from 4 January 2011

The higher rate of IPT, which is charged on certain insurance contracts relating to electrical appliances motor vehicles and travel, will be increased to 20%, in line with the increased VAT rate, with effect from 4 January 2011. The standard rate of IPT (currently 5%), will also increase on 4 January, to 6%. The IPT law contains provisions that will largely prevent the current rates from applying to policies coming into force after 4 January 2011.

Adjustments to the VAT "payments on account" scheme

In order to maintain the overall effect of the scheme, the "payments on account" scheme, under which larger businesses (currently those paying £2 million or more in VAT a year) is to be amended "to maintain the status quo of the scheme". This suggests that the threshold for entry to the scheme will be changed to reflect the higher VAT rate, and naturally, the amounts payable under the scheme will increase due to the higher VAT rate.

Reinstatement of measures announced on 24 March

Many of the measures announced in the previous Budget on 24 March, which were lost when the truncated Finance Bill 2010 was passed ahead of the election, have been reinstated. These include changes to the "green" taxes – climate change levy, landfill tax, etc, and the majority of the excise duty changes on alcohol, tobacco and fuel, the VAT changes to the treatment of aircraft (albeit from 1 January 2011, rather than September 2010 as had previously been intended), postal services and assets bought for a mixture of business and non-business uses, and the revised penalties for late filing of returns and payment of tax. One notable exception is the substantial increase in the duty on cider, which was reversed ahead of the election, which has now been cancelled altogether. In addition, an anti-avoidance measure is being introduced which will increase the duty on "long" cigarettes (those over 8cm) by treating them as two –or even more – cigarettes.

Landline duty – the tax that never was!

The Chancellor announced that the 50p per month landline duty, which was to be imposed on all fixed telephone lines to finance high speed broadband access, is to be abolished – before it came into force!

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