

Budget 2009



BN71

22 April 2009

VAT: CHANGE OF STANDARD RATE

Who is likely to be affected?

1. All businesses registered for VAT.

General description of the measure

2. This measure will return the standard rate of VAT to 17.5 per cent from 1 January 2010.
3. The 2008 Pre-Budget Report announced a temporary reduction in the standard rate of VAT to 15 per cent for a 13 month period from 1 December 2008 to 31 December 2009. The reduction was implemented by secondary legislation effective for 12 months. Legislation will be introduced in Finance Bill 2009 for the 15 per cent rate to apply during December 2009 and for the rate to revert to 17.5 per cent on 1 January 2010.
4. The measure also provides for minor amendments to the powers contained in the VAT Act 1994 (VATA) to implement a temporary change to the standard rate and for related changes to the Agricultural Holdings Act 1986.
5. Zero rated supplies, such as basic foodstuffs, children's clothing and books; exempt supplies, such as education and health; and supplies subject to VAT at 5 per cent, such as domestic fuel and power, are not affected by this change.

Operative date

6. The 17.5 per cent rate will have effect on and after 1 January 2010. The other changes to VATA will have effect on and after the date that Finance Bill 2009 receives Royal Assent.

Current law and proposed revisions

7. Section 2 of VATA specifies the standard rate of VAT to be charged on the supply of goods or services, the acquisition of goods from another EU Member State or the importation of goods from outside the EU Member

States. The standard rate was reduced to 15 per cent by the VAT (Change of Rate Order) 2008 with effect from 1 December 2008 to 30 November 2009. The Order will now cease to be in force on 1 January 2010 when the rate will return to 17.5 per cent.

8. Section 2 also provides powers for the standard rate to be varied by secondary legislation for a period of 12 months. The measure amends section 2 to make clear that an order adjusting the standard rate of VAT can be made for a period of less than 12 months and that any order introduced under the section may be revoked.
9. Section 97 of VATA prescribes the Parliamentary procedures that govern the order making powers contained in the Act. A new subsection, (4A) will be introduced, making it explicit that an order implementing a temporary reduction in the standard rate may be revoked using the negative resolution procedure.

Further advice

10. If you have any questions about this change, please contact the National Advice Service on 0845 010 9000. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk