

20% VAT White Paper



In his first budget speech in June 2010, Chancellor George Osborne announced that standard VAT would rise from 17.5% to 20%, effective from 4 January 2011. Consequently, all businesses will need to make changes to their pricing, invoicing and accounting systems.

## How SMEs can prepare for the VAT increase

Established businesses should by now be familiar with changes to the VAT rate, which fell to 15% in 2008 and rose back up to 17.5% at the beginning of 2010 under the previous government.

“In the past couple of years we’ve already had two changes to the standard rate of VAT, so making the change is not as daunting a task as it used to be for some businesses,” says Suzanne Wardingham, a VAT specialist at Sage.

Business owners are aware of the need to amend invoicing and accountancy systems, and know that the process of re-pricing goods and services is time consuming. Additionally, SMEs will have to work out whether or not the increased prices will dissuade their customers.

“As before, SMEs will have to decide whether they want to pass the costs to their customers,” explains Suzanne. “However, as the VAT increase takes place on the 4th of January, rather than the 1st this year, there will be more businesses that have to complete a VAT return incorporating both standard rates of VAT. Where this is the case, we strongly recommend that business owners seek advice from either their accountant or **HM Revenue & Customs (HMRC)** if they are unsure.”

## Complying with the changes

Businesses need to ensure they comply with the changes. During the previous VAT hike in January 2010, HMRC caught out a number of companies trying to benefit from the change by applying the lower rate of VAT where the higher rate should have been used. This time around, however, there should be no winners as special ‘anti-forestalling’ legislation has been introduced to prevent such eventualities.

## How we can help

All SMEs using accounting-based software will need to manually update the VAT rate, but support to do this is available.

“With more than 800,000 businesses using Sage software in the UK, we are working hard to support our customers through the change,” says Suzanne.

We have developed a dedicated **VAT Microsite** that features step-by-step instructions on making the change. And for our **SageCover** and **SageCover Extra** customers we have also created a VAT Utility Tool to help businesses update the rate in their software, and a Report Pack to make calculating their VAT return – using the two standard rates of VAT – easier. We also have a team of 300 dedicated UK-based experts available to provide telephone.

## We have software and services designed to help your business manage the VAT increase.

## About Sage

For over 20 years, Sage have been working with all types and sizes of business across the UK, delivering the very latest in thinking on business software and services for every aspect of business. We offer a full range of software and services to make managing your people a whole lot easier, and tackling all the complicated legal issues that come from employing them much more simple.

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