Charities hit hardest by VAT rise

Santhie Goundar on VAT

With chancellor George Osborne announcing the widely-predicted rise in the standard rate of VAT to 20% from 17.5%, accountants have warned that some businesses stand to lose more than others when the change takes place.

While many businesses' income statements will be largely unaffected by the rate change, Mike Bailey, head of indirect tax at PwC, and Marc Welby, VAT partner at BDO, both point out businesses that are exempt from VAT – such as banks, charities and certain public sector businesses – will be hit as they will not be able to recoup the extra VAT costs on expenditures, for example, accountancy and legal fees.

However, while anti-forestalling measures mean clients cannot ask firms to pre-invoice for their services to take advantage of the current lower VAT rate, Welby said that "the rules do allow a firm to invoice a client in January, locking in the 17.5% rate for services performed in 2010".

"Obviously this would need to be demonstrated to HMRC and the application of the lower rate is at the discretion of the supplier – businesses that can recover VAT will not need to take advantage of the lower rate, but it could help those that are VAT-exempt," he said.

Bailey added that the administrative burden in applying the rate change could be potentially costly for businesses, but noted that "businesses may have learned lessons from the last VAT rate changes" which were announced by the previous government.

"While you can't totally eradicate the expense from applying the rate change, businesses will have had six months' notice of the change as opposed to last time, so that takes some of the pressure off," Bailey said.