



Implications of VAT Rate Change to Optics

Addendum

Partial Exemption Update

As a result of the decrease in the VAT rate to 15% effective from Dec 1 2008 practices / businesses should be aware that there may be further savings that can be achieved in respect of partial exemption disallowances for the receipt of services spanning the date of the rate change.

It is likely that practices / businesses have been billed for

- Rent
- Car leasing
- Other equipment leasing

where the charge may relate to periods post and prior Dec 1 2008. As the tax invoice will have most probably been raised at the start of the leasing period, VAT will have been charged at 17.5%. Although this is technically correct, HMRC have agreed that suppliers can apportion their charges between the supplies made post and prior Dec 1 2008 and those supplies made after that date can be charged with 15% VAT.

For example a landlord charges rent of £4000 per month billed calendar quarterly. On Oct 1 2008 he will have billed £12000 plus VAT of £2100 for the period Oct 1 to Dec 31 2008. With the rate change, the VAT amount should decrease to £2000 as the VAT on one month's rental for December 2008 is now £600 ($£4000 \times 15\%$) as opposed to £700 ($£4000 \times 17.5\%$).

Where your business has received invoices for continuous supplies of services spanning the rate change you should ensure that you receive a credit for the amount of VAT overcharged on the original invoice. As it is likely that any of the VAT overcharged is treated as non attributable Input VAT this will reduce the amount of irrecoverable VAT you will incur.

Contact Lens Replacement Schemes

The position of accounting for VAT on contact lens replacement scheme income is somewhat complicated by the reduction in the rate of VAT. HMRC accept that where goods are delivered after Dec 1 2008 the reduced rate of VAT at 15% applies. However, as payment is made in monthly instalments, it is possible the customer has paid for the lenses prior to Dec 1 2008 but they have been delivered post Dec 1 2008. In this instance if the payment received before Dec 1 2008 can be attributed to the delivery of goods after Dec 1 2008, the payment will be subject to 15% VAT for the goods element of the supply. For all payments received after Dec 1 2008 VAT at 15% will apply.

It should also be recognised that the reduction in the VAT rate only applies to the goods element of the monthly payment on the replacement scheme and so any price reduction will be dependent on the individual businesses apportionment percentage agreed with HMRC to reflect the value of exempt supply of the professional service and the taxable supply of goods.

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