



## VAT advice to optometrists/opticians

In what has been billed as the first VAT rate cut (and is actually the third in the main rate) little has been said about the practicalities of getting ready for 1 December and, indeed, what happens thereafter. Steve Botham, of BNB Tax Consultants, has the answers to some questions about how the change affects the profession.

### **What if anything do I need to do before 1 December?**

Obviously, this only impacts on members who are VAT registered. Those who are not, will at least see the benefit of their VAT cost dropping, with the exclusion of road fuel where excise duty has been put up to cover the VAT “saving” – so no real break for Locum members there!

The real issue faces the “High Street” practices where, at the minimum, tills may need to be changed so that at one second past midnight on 1 December 2008, they record the VAT being charged at 15% and not 17.5%. Of course, if a member has a till which does not show VAT at all, then there will be no change.

### **Do I need to change all the receipts on 1 December?**

No. There is no requirement in VAT law, or indeed any other law, forcing a retailer to drop prices by the amount of the VAT change. If the member does not wish to change prices and instead wishes to take more margin, then there is nothing to stop that. Indeed, small businesses have been suffering since long before the bailed out banks and perhaps this small improvement in profitability is at least one silver lining amongst all the gloom.

There could be an issue with labelling, however. There is a great deal of difference between the position where the member advertises, say, sunglasses at “£100 inclusive of VAT” and “£100 inclusive of VAT at 17.5%”. The member making the former statement has no work to do. The statement remains true before and after midnight on 30 November. The latter is an issue because it will no longer be correct. In those circumstances I understand that it is arguable under consumer law that an adjustment should be made. It may be, therefore, that labelling, including advertising material (posters, website etc) will need to be changed in order to either state the correct VAT rate or instead to just move to “inclusive of VAT” OR “Inclusive of VAT at the standard rate”.

They say never take business advice from an accountant, and I feel sure every accountant would say “certainly do not take business advice from a VAT Consultant”, so all I can do in respect of practicalities on pricing is pass on what we are hearing from businesses. Some intend to leave prices just as they are and ride things out. They suspect little if any drop in demand. Some believe that the VAT rate cut will be forgotten by 1 December by most customers, and that could well be true by early January. Some intend to pick out individual lines where they will show a “VAT Cut” special, where the reduction will be higher than the VAT cut but make out that they will instead concentrate the VAT savings on those lines. I have heard of no-one who intends to change all their prices, but there will be some of course.

I also understand that price positioning is important. Therefore an offer at £99.99 or £79.99 is better than showing, say, £100 or £80. The public have certainly got used to seeing “99” prices. Quite frankly a post VAT rate change to £97.86 or £78.28 just does not seem to have the same ring to it.

### **How do I treat the supply of a spectacles that I have agreed a price on with the patient in November which I will be supplying and collecting payment for in December?**

This is going to sound like a side step, but it depends on your contract with your patient. If your contract is set in VAT exclusive terms (which would be exceptionally rare) or is stated inclusive of VAT at 17.5%, then you will, in my view, need to make a price adjustment.

Otherwise, commercially, you may need to make a price adjustment, as these patients will be quite keen to see a discount for the VAT rate change. An argument at the front desk is going to waste valuable time and may well put off other patients. Hence, it may be better to bite the bullet in such circumstances.

### **What if I have to supply a credit note?**

I can do no worse here than quote from the Technical Guide to the VAT rate change issued by HMRC on 24 November and available in pdf format on their website: -

## **What about refunds?**

If you give a refund on or after 1 December 2008 for a sale you made before 1 December, you will have to adjust your daily gross takings to take account of the VAT originally charged at 17.5% by using the VAT fraction of 7/47.

In this I have assumed that we are talking, in reality, about a refund as opposed to a credit note, given that few members will actually issue tax invoices for sales and also that even if they do, where they are supplying the public, their VAT calculations will, to all intents and purposes, ignore them.

### **What happens when I have to do an annual adjustment calculation when 2 rates of VAT are involved?**

Thankfully the VAT rate change will not affect partial exemption calculations, at least not directly.

The annual adjustment merely looks at VAT deducted in the VAT periods during the year and then compares what the answer would be over a full year. It therefore follows input tax and the income side is, assuming most members use a standard method, going to be driven by that income.

The minor affects are twofold: -

- 1 Reduced taxable income means reduced VAT recovery, albeit by a minor amount. This does raise an interesting point, however, concerning the full cost apportionment calculations. These calculations add VAT, as things stand, at 17.5% to cost to come to the apportionment. *The reduction in the VAT rate does mean that these calculations need to be amended, reducing the VAT payable in all cases, whether or not the VAT savings are passed on to customers.* Accordingly, before the next VAT return is processed, members are advised to re-do the full cost apportionment calculations – and you wondered what you would be doing on Boxing Day!
- 2 The end of the VAT year calculation will show less input VAT in it. This in turn will reduce exempt input tax and residual input tax. OK Alan, you did say cut out the technical stuff, but it may mean that some members will no longer be partially exempt, whether in 2008/09 or in 2009/10 or both, bearing on mind the VAT rate will go up again at the end of next year.

### **Is there any planning I should be thinking about to take advantage of the window afforded of a temporary reduction in VAT? (e.g. accelerating capital expenditure)**

The easy answer is “buy now whilst stocks last”. In reality, there will be few instances where the VAT reduction will change the business decision on timing of an acquisition. Things are tight at present. This is probably going to be a better driver for timing of purchases, whether in terms of availability of cash flow within the practice or because sellers are going to find themselves offering better and better deals over the coming year in order to survive.

### **What about retail schemes – are any changes needed?**

Apart from applying the new fraction (3/23) for sales on or after 1 December 2008, it may be necessary for members to undertake split calculations on their retail schemes i.e. a calculation for the period to 30 November 2008 and a further calculation for the period from 1 December 2008. The details on this point provided within the Technical Guide to the VAT rate change issued by HMRC on 24 November are very good and so I would recommend these are followed.

### **What about the reversal on 31 December 2009?**

All I can say is, start planning now for the staff New Year's Eve VAT adjustment party! Seriously, we will need to go through the till changes again and next time on New Year's Eve. 31 December is a Thursday. Those members who open on New Year's Day will have to make the changes within a holiday period. Even those members who will not open until the Saturday also face issues.

With a known VAT rate rise, the question is to consider whether it is worth planning a campaign for patients of "buy now to beat the VAT rate change".

### **Anything else?**

Well, I am not known for heaping praise on HMRC, but in respect of the VAT rate change I think they have done a very good job with generic information. Within the Pre Budget Report area of their website – [www.hmrc.gov.uk](http://www.hmrc.gov.uk) - (there's a red box to click on the front page at present) there is a click through to the VAT changes and in there members will find a number of guides. I have mentioned the technical guide, which I think is superb (probably because it appeals to a VAT anorak) but there are also FAQs for both taxpayers and consumers. Lots of questions are answered there.

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