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Top tips - nine ways to prepare for the VAT rise !!!

It's never too soon to start preparing for the VAT increase in January. Companies will have to be up to speed on the detail, as businesses of all kinds will have to factor in pricing and cost control implications. It is the responsibility of company owners and directors to ensure they are fully prepared and they can't rely on their accountants. HMRC will not accept any excuses for getting it wrong!!

It will need to be a team effort to ensure that all departments in the business are fully aware of the requirements so here are nine top tips that should make the process easier:

1.) Beware of promotions

Don't be fooled by "'beat the VAT increase" promotions leading up to Christmas. Unless cashflow is extremely tight or VAT is irrecoverable, a company will need to spend £1,000 to incur an additional £25 cost as a result of the VAT rate increase. However, for larger businesses, payments on account will be based on pre-VAT rate rise quarterly liabilities which will give some relief from the effect of the rise.

2.) Don't forget the anti-forestalling regulations

It is sensible to explore opportunities for pre-invoicing and payment at the lower 17.5% rate but ensure that you are operating under allowable legislation. HMRC were very quick to pick up on companies who broke the rules when the rate went from 15% back up to 17.5%. Any company caught this time will be dealt with harshly by HMRC so you have been warned.

3.) Educate relevant staff

Tax point rules apply so be aware of them and ensure that you have a company policy that all relevant staff know and understand. As each business is unique, it is not appropriate for every business to have the same policies relating to the VAT rate increase. It is, however, essential that any policy adopted fits within the scope of the tax point rules as well as the anti-forestalling legislation.

4.) Ensure accounting accuracy

Don't expect leniency for any accounting errors. As there has recently been an increase in the standard rate of VAT, we can expect HMRC to be less lenient with accounting errors arising as a result of the VAT rate increase, and this time we don't expect anyone to be given a second chance. Where credit or debit notes are issued, businesses should ensure that any VAT credit or debit is applied at the correct rate by referencing the rate applied for the original supply.

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5.) Analyse margins

Retailers should be planning to reduce cost prices for goods and increase selling prices to reflect lower margins which will be achieved. They also need to ensure that they have the resources in place to manage the change in January, at what is already an incredibly busy time. HMRC will take the view that sufficient notice has been given so ensure you pass inspection with flying colours.

6.) Think about marketing

All companies, but particularly retailers may wish to consider boosting pre-Christmas sales by advertising the lower VAT rate currently in place. After the increase in January, "no VAT rise" pricing can be marketed on certain product lines, with this being compensated for by boosting margins on other lines. This will need to be researched and planned in advance to ensure you get it right, so don’t leave it to the last minute. Get it wrong and cash will be squeezed and you may become one of the business failure statistics of 2011.

7.) Beware charities and VAT exempt businesses

Such organisations are unable to recover VAT costs on purchases and will be hardest hit. Be aware that your budgets are fixed you will have 2.5% less to spend in 2011. If you're considering making a capital investment, you may wish to consider bringing the purchase forward to benefit from the 17.5% rate.

8.) Pay particular attention if you import

Import VAT deferment levels should be reviewed. SIVA (Simplified Import VAT Accounting) could be a good option but you'll need to take advice on this to ensure it is right for your business.

9.) Review flat rate scheme

Companies operating this scheme should take the opportunity to review their position. Revised flat rate scheme rates will become effective at the same time so take advice to establish if there is the chance to use a lower banding. This could have a considerable impact on cashflow, so make sure it is still right for your business to be on this scheme.

REMEMBER!!!

HMRC have set out clear rules as to what companies will be required to do. With recent experience of VAT rate changes they are ready for any companies that flout those rules, and will come down hard on them with penalties and interest charges.

They will consider sufficient time has been given to companies to enable them to put the necessary plans in place, so start now and don't pay the price for poor preparation.