



## VAT update

### The effect of the reversion of the Standard VAT Rate to 17.5% on rent

#### Collecting Rent in Advance

Are you a Landlord expecting to invoice tenants in December for rental payments in advance and do you charge your tenant(s) VAT on their rents? If so, you'll be aware that the standard rate of VAT is increasing from 15% to 17.5% on 1<sup>st</sup> January 2010.

If an invoice is raised in December 2009 then VAT at 15% can be charged even though occupation of the property is during a time period when the VAT rate is 17.5%. This rule applies unless the tenant cannot recover the VAT in full. Examples of such tenants would be private individuals, financial services businesses, insurance companies, charities, colleges and housing associations.

If the tenant cannot recover the VAT incurred on the supply then a supplementary charge (of 2.5%) may be due if one of the following conditions is met:-

1. the landlord and the tenant are connected;
2. the landlord (or a person connected with the landlord) finances the tenant's advance payments;
3. the tenant is not required to settle the invoice within 6 months of the invoice date; or
4. the invoice is for more than £100,000.

However even if one of these conditions is met, the supplemental charge will not apply where the Landlord can show that the rental invoice is in accordance with normal commercial practice (which should be easy where the landlord issues advance rental invoices to the tenant on a regular basis).

#### Collecting Rent in Arrears

If you collect your rent in arrears and raise your invoice in January 2010 for a rental period which began in 2009 then optional special rules can be applied to charge and account for VAT at 15% on the rent for the period up to 1<sup>st</sup> January 2010 and at 17.5% for the period on or after 1<sup>st</sup> January 2010. Please note that landlords are not required to apply this special rule.

Please click here to access the full HMRC guidance: <http://www.hmrc.gov.uk/VAT/forms-rates/rates/anti-forestall-guidance.pdf>

## Contact us

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