VAT BREAKFAST HEADLINES

IS AN INCREASE IN THE VAT RATE INEVITABLE?

George Osborne presents his emergency Budget on 22 June 2010. With the UK's deficit forecast to be in the region of £163 billion, it appears that drastic measures are required to tackle the seemingly unconquerable debt mountain.

Over the last couple of years there have been increases in the VAT rate throughout the EU which, with planned rises in other EU member states, will leave the UK with the second lowest VAT rate in Europe.

Other member states of the EU have taken the view that an increase in VAT rates was required to rebalance their economies. The current VAT rates throughout the EU reflect this. A glance at the EU VAT rates will show that the standard rate of VAT is anything between 19% and 25%. Therefore, can the UK afford not to increase the current rate of 17.5%?

The scenario considered most likely is an increase of 2.5% making the UK standard rate 20% - this would raise in the region of £11 billion. Other VAT changes could be to bring the UK in line with the rest of Europe, by introducing a reduced rate of VAT to our current zero rated items such as children's clothing, books, newspapers, food. However, we all realise that what may be advantageous economically may be subservient to political expediency and therefore to introduce a lower rate of VAT on our zero rated items is perhaps less probable than an increase in the current standard rate of VAT.

If the Chancellor decides to increase the rate of VAT, when will the increase be introduced? Such an increase may be delayed to the New Year as this could create a mini consumer boom to beat the VAT increase. An increase before the end of the year is likely to provide the high street with a doom and gloom forecast for the seasonal Christmas takings.

The Chancellor is likely to introduce provisions to prevent action being taken to take advantage of the existing rate prior to an increase, however, some practical steps can be taken but only after careful consideration.

Considering the size of the deficit and how the Chancellor can combat this problem, an increase in VAT is probably more a matter of "when" rather than "if".

The Rawlinson & Hunter VAT consultancy advises on domestic and international transactions. We regard VAT as a key tax for many of our clients, which is why our service in this area is led by a highly experienced and senior member of the tax team with a proven track record of negotiation success on a range of VAT matters. Our aim is to provide commercially realistic advice and practical solutions to your VAT problems. We believe that VAT should be an important part of the wider tax planning for most businesses.

Our VAT Director, Nigel Medhurst, would be pleased to discuss your business and provide a view on your VAT efficiency. You can contact Nigel direct on 020 7842 2150 or email nigel.medhurst@rawlinson-hunter.com *for an initial consultation to assess whether there is a need to consider your VAT affairs in more detail.*

Experience has shown that by considering VAT early on, businesses can keep one step ahead which can pay considerable dividends later on.

Eighth Floor
6 New Street Square
New Fetter Lane
London EC4A 3AQ

and at
Lower Mill
Kingston Road Ewell
Surrey KT17 2AE

T +44 (0)20 7842 2000
F +44 (0)20 7842 2080
firstname.lastname@rawlinson-hunter.com
www.rawlinson-hunter.com

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RAWLINSON & HUNTER