

VAT rate reduction: impact on landlord and tenant



REDUCTION IN VAT STANDARD RATE FROM 17.5% TO 15%

In the pre- budget report the Chancellor announced that from 1 December 2008 until 31 December 2009 the standard rate of Value Added Tax will be 15%. After that period the standard rate will revert to 17.5%.

The reduced rate of 15% must be charged on sales of standard rated goods and services made on or after 1 December 2008. However, where payment has been received or a VAT invoice issued before 1 December 2008, the supplier can choose to apply the 15% rate, but they are not obliged to do so. Invoices rendered after 1 December covering supplies made before that date will have to apportion VAT between the old and new rates. This will be relevant on service charge reconciliation. Looking ahead, invoices covering a period before and after 1 January 2010 will also need to be apportioned to apply VAT at 15% up to that date and 17.5% (or relevant applicable rate) after.

RENT PAID IN ADVANCE

Tenants making exempt supplies and others who cannot recover the VAT paid on their rent will obviously benefit from this reduction. Such tenants may request credit notes in respect of the extra 2.5% VAT already paid at 17.5% in respect of that part of the September quarter's rent paid in advance for the period after 1 December.

Landlords can choose to apportion the September quarter's rent and charge VAT at 17.5% from 29 September to 30 November 2008 and at the new rate of 15% from 1 December to 24 December 2008. The credit note would have to be issued within 45 days of 1 December.

Where a tenant can recover its VAT, landlords may be unwilling to go to the administrative inconvenience of issuing credit notes when they are not obliged to do so. But for those tenants to whom VAT is an expense rather than a cash flow issue, such a gesture by their landlords may be of real benefit in these harsher economic conditions.

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