

How to account for the increase in the standard rate of VAT - VAT Cash Accounting

From 1 January 2010, the standard rate of VAT will increase from 15% to 17.5%. This article explains how this change affects Sage Accounts and what you need to do.

This article only applies to the VAT Cash Accounting Scheme.

Note: The following are not affected by the change in VAT rate:

- Zero-rated goods, for example, basic foodstuffs, children's clothing and children's footwear.
- Goods and services subject to VAT at the reduced rate of 5%.

Answer

The article includes the following sections:

- [Which VAT rate should I use?](#) - This section explains how to determine which VAT rate to apply.
- [To change the VAT rate in Sage Accounts](#) - To change the standard rate of VAT in Sage Accounts, you should edit the standard rated tax code, T1 by default.
- [To edit existing invoices and orders](#) - If you have any product or service invoices that were created before the change but updated after the change, you must recalculate the VAT on each of these invoices.
- [To amend the VAT settings](#) - There may be occasions when you need to credit invoices at the old VAT rate or enter late supplier invoices at the old VAT rate. If you need to do this, you must select the Item VAT amendable check box. This section explains how to do this.
- [Deposits and prepayments](#) - If you are using the VAT Cash Accounting scheme and you use the Payment Details tab to enter deposits or prepayments on invoices or orders, you must ensure that the correct rate of VAT is applied.

Which VAT rate should I use?

The rate of VAT that you should charge on your goods and services depends on:

- The VAT scheme you are using.
- The tax point of the supply.

Note: On the VAT Cash Accounting scheme, VAT becomes payable at the point of payment. However, the tax point of the supply is at the time of the invoice. If your invoice is dated prior to 1 January 2010 but your payment or receipt is after this date, the payment or receipt must use the same VAT rate as the invoice. Sage Accounts does this automatically.

To confirm which VAT rate to apply, please contact HMRC.

Note: We are unable to advise which VAT rate you should apply in specific circumstances. If you are unsure, please confirm the correct VAT rate with HMRC.

To change the VAT rate in Sage Accounts

Note: You should make this change on 1 January 2010. Under the VAT Cash Accounting scheme, the VAT on customer receipts and supplier payments calculates automatically based on the invoice.

1. Open the Settings menu, choose Configuration then click the Tax Codes tab.

Sage Accounts v9 and below - Open the Settings menu then choose Tax Codes.

The tax code information appears.

2. Select T1 then click Edit.

Note: If you use a different tax code for your standard rate of VAT, select the relevant tax code then click Edit.

The Edit Tax Code window appears.

3. Enter 17.5 in the Rate box then click OK.

The Edit Tax Codes window closes.

4. To apply the change, and return to the Sage Accounts desktop, click Apply then click Close.

Tip: If you are prompted to save your changes, click No.

Sage Instant Accounts v14 - Click Save then click Close.

You have successfully changed the standard rate of VAT.

Sage Accounts applies the new rate of VAT to any new transactions that use this tax code. All existing transactions remain unchanged at the old rate of VAT.

To edit existing invoices and orders

Note: The steps below refer to invoices only. You should use the same process to amend any relevant sales orders, purchase orders, credit notes or quotes. You should also amend any recurring invoices or orders. For further information about this, please refer to Ask Sage Article [11748](#).

1. Open the Customers module then from the Links pane click Invoice List.

The Invoicing window appears.

2. Double-click the required invoice.

The invoice appears displaying the relevant items.

3. Click in the Description column of the first item that uses the standard rate of VAT then press F3 on your keyboard.

Tip: For service invoices, click in the Details column then press F3.

The Edit Item Line window appears.

4. From the Tax Code drop-down list, choose the standard rate tax code.

Note: Although the correct tax code already appears in this box, to recalculate the VAT amount you must select the tax code again.

The VAT amount recalculates using the new rate of VAT.

5. To close the Edit Item Line window, click OK.

6. Repeat steps 3 - 5 for any other standard rated items on the invoice.

7. To save your changes and return to the Invoicing window, click Save then click Close.

You have successfully updated the VAT amounts on the invoice. If required, repeat the process for any other invoices that need to be updated.

To amend the VAT settings

Note: To determine the correct VAT rate for a particular credit note, please contact HMRC.

1. Open the Settings menu, choose Company Preferences, then click the VAT tab.

Sage Accounts v12 and below - Open the Settings menu, choose Company Preferences, then click the Parameters tab.

The VAT settings appear.
2. Select the Item VAT Amendable check box then to save your changes and return to the Sage Accounts desktop, click OK.

You have successfully amended the VAT settings.

When you enter late supplier invoices at the old rate of VAT, you can manually amend the VAT amount.

To enter a credit note at the old rate of VAT, when you enter the items on the credit note, press F3 on your keyboard then manually amend the VAT amount as required.

Deposits and prepayments

This information only applies if you are using the VAT cash accounting scheme.

If you use the Payment Details tab to enter deposits or prepayments and you choose the Post as Payment on Account option, this may result in a discrepancy in the VAT Return for the period. This only applies if you click Now on the Create Payment prompt.

Note: If you are unsure about the rate of VAT to apply to the prepayment or deposit, please contact HMRC.