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January 2011 VAT Rate Increase to 20%

It surprises me every time I see notices about VAT from retailers, either in the form of posters or adverts on TV or the radio, saying "Beat The VAT Rise" or "We Hold Back The VAT Rise". This is simply a marketing ploy to get you to spend money and the fact of the matter is, from the 4th January 2011, everything you buy which is VATable will include VAT at 20% - forget what the retailers claim.

Quite simply, all they are offering you is a discount and with regard to this rise, it will be 2.5%. Ask them for a VAT receipt and you will see the rate on there so don't be fooled by these marketing tricks.

The Government have a big hole to fill in the deficit which was inherited from the previous Labour Government. One way of trying to reduce this deficit is to increase VAT but the press only tell you that "VAT is 20%". Wow! That's huge! Well, it's not! You need to remember one thing, the VAT rise is only 2.5% and that is quite negligible really.

Apply this to your weekly shopping bill, assuming that you spend £100, and what is the net impact to your wallet or purse? £2.13. That is all. And that is assuming that everything you buy is VATable at the standard rate which of course it isn't as the majority of food items are Zero rated.

What about that new LCD television you were thinking of buying? The price before the rise was £299 which makes a pre-VAT amount of £254.47; now add the VAT back at the new rate and the price now comes to £305.36; a small increase of £6.36. Now assuming that you were prepared to spend just short of £300, what difference does an extra £6 make? Not a lot really.

In business, again things are much the same but considering that most business are VAT registered, they claim back the VAT they are charged so ultimately whatever rate is used, it doesn't impact hugely on them – the end consumer (or the non-VAT registered person) taking the brunt of the rise.

With this rise, the Government hopes to raise an additional £13bn of revenue per annum over the course of this current Parliament – this will substantially reduce the debt and it is something that will affect EVERYONE, rich and poor.

If you also put this in context with the rest of Europe, our rate is now about average although some European countries such as Denmark, Hungary, Sweden and Norway charge 25% but not as good as Switzerland who only charge a mere 8% (until 2018 that is).

If you would like more information, advice or help on VAT or any other aspect of business, please feel free to contact Anderson Accountancy FREE on 08000 588 905.