

BRITISH RETAIL CONSORTIUM GUIDE TO VAT CHANGES

The VAT guide outlines these key points for customers and retailers to consider:

- The 2.5% cut in VAT is a modest but welcome saving for customers with tight budgets.
- It comes on top of the competitive prices and many seasonal discounts which retailers are already offering.
- Retailers are working day and night to ensure that the VAT reduction is passed on to customers. Each retailer will find the best way to pass on the benefit of these changes. The price at the till may well change before the display price.
- Retailers will be following HMRC guidelines in calculating the change and will in many cases need to apply 'rounding' to take the price to the nearest penny.
- The reduction in prices you see will probably be around 2.1% because of the way VAT is calculated. For example:

£2.00 pre-tax + 17.5% VAT = £2.35 on-shelf price

£2.00 pre-tax + 15.0% VAT = £2.30 on-shelf price

The price reduction is 5p on £2.35 = **2.13%**

- It's important to remember that not all products and services will be affected – there will be no change to the price of goods that already have no or lower VAT.
- For example, most basic food items and younger children's clothing will be unaffected, since they do not carry any VAT.
- Even where VAT charges fall, not all prices will follow.

For example, the falling value of the pound means that some imported products may become more expensive in the coming months.

- The Chancellor also added extra taxes to alcohol and cigarettes to offset the VAT reduction, so there will be no overall tax reduction on these items.