

## **IMPLEMENTING THE VAT REDUCTION IN THE GARDENING INDUSTRY**

Retail, supplier and landscape members of the HTA will face a range of technical and transitional issues in implementing the changes to VAT announced in the Pre-Budget Report on 24 November.

Implementing the new VAT rates with only a few days notice will be an exceptionally difficult task for all concerned in the supply chain, particularly as it comes at one of the busiest times of the year.

Changing IT systems, tills, ticket and shelf prices will be a mammoth and costly task. Staff will inevitably be diverted away from serving customers.

To help members, HTA is offering the following guidance to ease implementation of the change:

### **A Retailers**

- 1 The VAT rate must be reduced from 17.5% to 15% in store from the start of trading on Monday 1 December. EPOS systems and tills should be adjusted accordingly. Your next VAT return must reflect this change, though HMRC will be lenient on any honest mistakes made in this return. They are unlikely to impose fines, but they will, of course, require any under-payment to be made up. It is possible that your customer receipts do not itemise the VAT amount separately. If your receipts do itemise VAT then your systems must be updated so that the correct VAT amount is shown on your receipts and the correct VAT amount is accounted for to HMRC. If your receipts are VAT inclusive then how you implement the VAT change is really a question of pricing. The HMRC web site gives more detailed guidance on how to implement the changes.
- 2 Having dealt with the VAT issue, it is of course up to individual members what pricing strategy they then adopt. There is no legal requirement to pass on the reduction in VAT in lower prices, though clearly customers will expect this in principle. Basic choices would be:
  - a. Reduce all prices by 2.13%, and inform customers through

point of sale and till notices. This will clearly be extremely onerous.

b. Leave prices unchanged, taking the extra margin but with the considerable risk of customers recognizing this either by asking the question or by being informed by competitors.

c. Leaving prices unchanged, but creating a promotional pot with the VAT difference, which could then be applied to sales of selected items eg seasonal lines, new products, higher ticket items. Again, customers should be told through suitable signage.

d. Leaving prices unchanged, but donating the VAT difference to Charities. Customers should be informed.

- 3** It is particularly important that appropriate information is given to customers at point of sale and/or till points. It will be for individual members to consider carefully the risks of possible negative reactions from customers, particularly if led by competitors, other retailers, or the wider media. We do anticipate some media reaction to the proposals anyway, given that they are unlikely to make a significant difference to customer choice particularly in the context of the current round of general retail price promotions and reductions.
- 4** Particular care will need to be taken on reviewing price points, and in dealing with pre priced stocks, depending on which route is chosen to exercise the VAT reduction.
- 5** Members would be well advised to seek confirmation of the acceptability of their chosen route from local Trading Standards Officers, and/or their own accountants. The HTA VAT Advice Line is also available to provide guidance on these issues - 01962 735350 or email [vat@thevatconsultancy.com](mailto:vat@thevatconsultancy.com)
- 6** The above considerations should be applied to business between now and the year end. Members may well want to review their position from the beginning of next year.

## B Suppliers and Landscapers

If you primarily sell to the trade or provide VAT invoices to

consumers you must ensure that your sales invoices carry the correct VAT rate from Monday 1 December. In most cases this will require a change to your invoicing system and you must show the correct VAT rate on your invoices. It is fair to assume that your supplier's VAT invoices are correct and you can include these on your VAT return subject to any normal adjustments that you are required to make. However, you should be vigilant and if you see a supplier invoice that is clearly incorrect you can seek a credit note for the difference.

If you use a VAT retail scheme or other special VAT arrangement then you should consult the guidance available on HMRC's website <http://www.hmrc.gov.uk/pbr2008/measure1.htm>  
<<http://www.hmrc.gov.uk/pbr2008/measure1.htm>>

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