

VAT

The Value Added Tax (VAT) rate will be temporarily reduced to 15 per cent from 1 December 2008 until 31 December 2009.

VAT (Value Added Tax) is a tax that you pay when you buy most goods and services. It's usually included in the price.

The standard rate of VAT has temporarily been reduced from 17.5 per cent to 15 per cent, from 1 December 2008 until 31 December 2009.

This means that for sales of goods or services that take place on or after 1 December 2008, providers should charge VAT at the new rate of 15 per cent.

From 1 January 2010, the VAT rate will return to 17.5 per cent.

Prices that aren't affected

There are some goods on which you don't pay any VAT, like:

- most food (but not meals in restaurants or hot takeaways)
- books, newspapers and magazines
- children's clothes and shoes
- public transport
- special exempt items - for example equipment for disabled people

There are also some cases where you pay a reduced VAT rate of 5 per cent, like domestic fuel and power, and children's car seats.

The VAT rate change only affects standard-rated sales. There are no changes to sales that are zero-rated or reduced-rated for VAT.

Examples of how much you could save

If you buy something that costs £10.00 excluding VAT:

- at the old rate, the net amount before VAT was £100.00, and the 17.5 per cent VAT was £17.50, making a total of £117.50
- at the new rate, the net amount before VAT is £100.00, and the 15 per cent VAT is £15.00, making a total of £115.00 - so you pay £2.50 less VAT

If you buy something that costs £10.00 including VAT:

- at the old rate, the net amount before VAT was £85.10, and the 17.5 per cent VAT was £14.90, making a total of £100.00
- at the new rate, the net amount before VAT is £87.00, and the 15 per cent VAT is £13.00, making a total of £100.00
- if the shop changes its prices to pass on the VAT reduction, then it will still charge the original net amount of £85.10, and add VAT at the new 15 per cent rate of £12.80, making a total selling price of £97.90 - so you could save £2.10 for every £100.00 that you would have spent

The government has encouraged businesses to pass on the benefit to customers through reduced prices, but ultimately, it is up to businesses to decide the prices they charge.