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### 2008 Pre-Budget Report - implications for Commercial Property Tenants - VAT

**No one can have missed the fact that with effect from 1 December 2008, the standard rate of VAT will be reduced from 17.5% to 15%, remaining in place until 31 December 2009. We look at the situation where a business is not registered for VAT and is making quarterly rental payments?**

The reduced rate of 15% must be charged on sales of standard rated goods and services made on or after 1 December 2008. However, where payment has been received or a VAT invoice issued before 1 December 2008, the supplier can choose to apply the 15% rate, but they are not obliged to do so. These "special change of rate rules" may affect both leasehold and freehold properties.

#### **Leasehold properties**

In relation to leasehold properties, the special change of rate rules may apply as follows:

- The landlord of a property that is subject to VAT at the standard rate issued an invoice for rent in advance on 1 September 2008, for the quarter from 29 September 2008 to 24 December 2008.
- The invoice charged VAT at the rate of 17.5%.
- The landlord can now choose to apportion the quarter's rent and charge VAT at 17.5% from 29 September to 30 November 2008 and at the new rate of 15% from 1 December to 24 December 2008.
- The landlord would need to issue a credit note to the tenant within 45 days after 1 December 2008.

#### Tenant Implications

Where the tenant can recover the VAT, it is unlikely that the landlord would want to go to the administrative cost of applying the new rate. Tenants who are unable to recover the VAT, may be keen to benefit from the reduced rate of 15%.