Construction **In**dustry **S**olutions

How To Handle UK VAT Rate
Changes in COINS

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HOW TO … Handle UK VAT Rate Changes in COINS
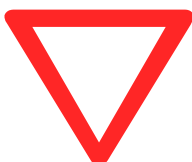
These notes are published as guidelines only.

This "How to…" Guide may contain recommendations about configuration changes. Your configuration will almost certainly vary from the examples given in this document. Any configuration changes should always be applied to a separate non-live environment first and tested to prove that the features work as you require. Should you have any difficulties with this please contact either the COINS communication centre or your account manager to arrange for some specialist COINS consultancy.

Please note that you should not expect the Applications Support team to conduct configuration changes for you.

The information in this document is based on our current understanding of UK VAT legislation and practice. It is the responsibility of clients to ensure that they comply with all relevant legislation.

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1   Purpose of this Document

A decrease to the Standard Rate of VAT in the UK comes into effect on 1st December 2008. This document explains what you need to do within COINS to implement this change.

Please note that this guide is specifically tailored to the requirements of this particular change in VAT rate. Items which might apply to other changes of VAT rates either in the UK or other jurisdictions have been excluded if they are not relevant to the change which comes into effect on 1st December 2008.

The information in this document is based on our current understanding of UK VAT legislation and practice. It is the responsibility of clients to ensure that they comply with all relevant legislation.

1.1   Background

The decrease in the standard rate of VAT from 17.5% to 15% was announced by the Chancellor of the Exchequer in his pre-budget statement on 24th November 2008.

Guidance from HMRC on the rules for applying the rate change is available from their website: www.hmrc.gov.uk

The following documents from HMRC are available to download from http://www.hmrc.gov.uk/pbr2008/measure1.htm and give guidance on applying the change:

• VAT – Change in the Standard Rate – A summary guide for VAT-registered businesses

• VAT – Change in the Standard Rate: A detailed guide for VAT-registered businesses

• Changes in VAT Rate – Top Q&As for VAT-registered businesses

• PBRN26 – Changes to the Standard Rate of VAT

You may also find it useful to refer to Notice 700 – The VAT Guide which includes Section 30 "Changes in Tax Rates and Liability".

Zero rated goods and those goods and services subject to VAT at 5% are not affected by the change.

The decreased rate generally applies only to invoices dated on or after 1st December 2008. During December 2008 (and during early 2009) companies will be processing some invoices dated prior to 30th November 2008 at the old 17.5% rate together with other invoices dated on or after 1st December 2008 at the new 15% rate. Therefore, it is necessary to create new VAT codes on COINS – it will **not** be possible to implement this change correctly by changing the percentage rate on the existing VAT codes in COINS.

There are a number of different areas within the COINS database where VAT codes are stored against various types of record. Some of these may not apply to all clients, but several are very widely used. It is thus essential that the procedures in this guide are followed to ensure trouble-free implementation of this change.

1.2   Changes in v1.1 of this document

This version of the document contains additional advice on areas not covered in v1.0 of the document. The advice given in v1.0 of this document is still valid.

The following sections are affected:

2.2   Check Parameter Settings

Additional parameters are included.

2.3   Change Default VAT Codes

The VAT Code Update utility has been revised and you will need to install a new fix if you wish to make use of the additional features. There are some default VAT codes you will need to change manually.

2.8   Change eCommerce Mappings

We have established that you no longer need to shut down the eCommerce background processes.

1.3 Checklist

The following is a checklist of things you need to do within COINS to implement the increase in the standard rate of VAT.

Done?	Action	Comment
	Create New VAT Codes (see 2.1)	This can be done in advance so that they are ready to use on 1st December 2008.
	Check Parameter settings (see 2.2)	These should be checked in advance but only changed on or as soon as possible after 1st December 2008.
	Change Default VAT Codes (see 2.3)	COINS has provided a software utility to assist with this; however, there are some codes you will need to update manually
	Check Transaction Templates (see 2.4)	On or as soon as possible after 1st December 2008, update any transaction templates to use the new codes.
	Check certificate definitions (see 2.5)	Ensure certificate definitions to not calculate VAT on a cumulative basis.
	Consider copied transactions (see 2.6)	Ensure any copied transactions dated on or after 1st December 2008 use the new codes.
	Review partially-processed transactions (see 2.7)	Consider transactions where the VAT invoice date is dependant on the date of payment.
	Change eCommerce mappings (see 2.8)	Create new mappings for BASDA VAT codes; do this as late as possible but before 1st December 2008.
	Consider configured reports, etc (see 2.9)	These may require updating to use the new codes.
	Consider handling of future Retention Releases (see 2.10)	This depends on whether VAT is calculated before or after retention.
	Retire Old VAT Codes (see 2.11)	This should only be done once all invoices dated on or prior to 30th November 2008 have been processed.

2   Detailed Instructions

2.1   Create New VAT Codes

Two new VAT codes will normally be required:

New Standard Rate Purchase

New Standard Rate Sales

and for house builders

New Non-Recoverable Standard Rate Purchase

These VAT codes can safely be set up in advance so that they are ready to use on 1st December 2008.

To set up new VAT codes:

1. Either:

    - In COINSplus, go to **VAT Codes** (under Financials > VAT).

    - In COINS OA, go to **VAT Codes** (on the VAT menu) and click to add a new code.

2. For each of the new codes, enter a code and description. For example:

    - P11   New Standard Rate Purchase
    - S11   New Standard Rate Sales

- PN1   New Non-Recoverable Standard Rate Purchase

NOTES

1. You may wish to use a naming convention for the new codes that ensures they display alongside the existing codes. For example, if the existing standard rate purchase code is P1, using a new code of P11 should ensure that the new code is displayed after the existing one.

2. You may also wish to change the descriptions on the existing standard rate codes to "Old Standard Rate…".

2. Complete the remaining fields as follows:

Rate	Enter **15**.
Recoverable	Enter **Y** or tick.
Country	Enter **GB**.
Input Account Output Account Suspense Account	Enter the GL account codes for the VAT input, output and suspense accounts.
Inactive	If you set up the VAT codes in advance, you may wish to set this to Y (or tick); however you must remember to make the codes active on 1st December 2008.
Input/Output	For the Sales code, enter **O** or select **Output**. For the Purchase code, enter **I** or select **Input**.

3. Either:

   a. In COINSplus, click OK or press F1 to save the new code.

   b. In COINS OA, click 💾 to save the new code.

2.2 Check Parameter Settings

There are two types of parameters that are affected:

- Parameters that specify default VAT codes.

   If these refer to an old standard rate VAT code, replace this with the equivalent new VAT code (for example, if the parameter refers to the old standard rate sales code, enter the new standard rate sales code).

   Parameters affected:

   CO parameter DEFVAT

   BQ parameter DEFVAT

   SC parameter DEFSBVAT

   VP parameters REBVAT and DEFVATCD

   FM Parameter XSVATCDE (only for clients licensed for COINS FM module)

- Parameters that specify a list of VAT codes.

   Add the new standard codes to the list as appropriate.

Parameters affected:

CS parameter WEBVAT

SC parameter WEBVAT

You should check the parameters in advance but only change them on or as soon as
possible after 1st December 2008. If any of the parameters are currently blank, you do
not need to update them.

To check and update the parameters:

In COINSplus:

1. Go to the relevant Parameters maintenance function.

2. To change the parameter (ON or AFTER 1st December 2008), highlight the line,
   press Return and enter the new standard VAT code or add the new codes to the
   list, as appropriate.

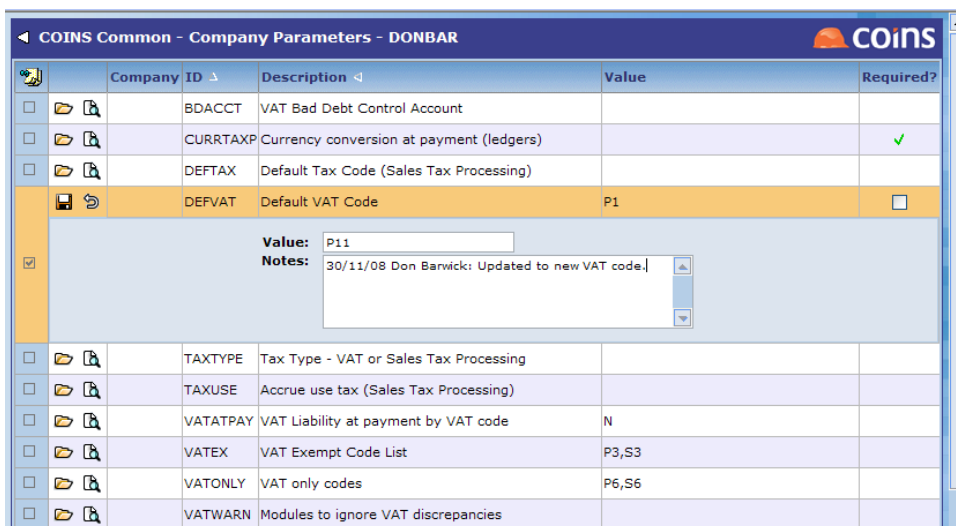3. Press F4 to return to the list of parameter groups.

   (BQ and FM are not available using COINSplus.)

In COINS OA:

1. Select the relevant module.

2. Go to the Parameters maintenance function.

3. To change the parameter (ON or AFTER 1st December 2008), click 📁 against
   the parameter, type the new standard VAT code or add the new codes to the list,
   as appropriate, and click 💾 .

2.3 Change Default VAT Codes

There are several types of records in COINS which include default VAT codes. Any of these which are currently set to a standard rated VAT code will need to be updated to the appropriate new code.

2.3.1 VAT Code Update Utility

Many of these records may be blank or may be set to a VAT code which is not affected by the change. However, it would be difficult to identify any records which may need updating using existing standard COINS functionality. For this reason, a new utility program (co700.p) is now available to overcome this.

Before using this new utility you will need to ensure that the appropriate fix for your Release of COINS has been loaded and deployed:

Release	Fix
V10.17	46279
V10.16	46280
V10.15	46281
V10.14	46282
V10.13	46284
V10.12	46285
V10.11	21742*

* If you require the fix for v10.11 please log a support call and this will be sent to you.

Note that these fixes are different from the fixes referred to in v1.0 of this document.

As with all new programs, we recommend that you install and test this in a non-live environment first. Although COINS has thoroughly tested this program in the current release, it is not practicable for us to test this against all previous releases.

This utility program can only be run from COINSplus.

This will be available as function %CO700 (Update Default VAT Codes) on the standard COINS menus from v10.18. For hosted clients, this function will be added to the following menus before 28th November 2008: Financials > VAT > Administration and on FirstBase: General/Contract > VAT > VAT Codes. Non-hosted clients may wish to create this function for convenience.

The records which may need to be updated are:

- Contracts

- FM Contracts*

- Contract Series

- Customers

- Subcontractors

- Subcontracts

- Subcontract order headers in COINS Procurement* – the utility updates these if you update subcontracts

- VAP Payment Stages* – if you update these, the utility will also update the defaults for new standard payment stages which are held against cost heads

For subcontracts, subcontractors and payment stages, you can choose to update the codes on different billing types separately

- Stock Items*

- Suppliers

- VAP matrix subcontracts* – the utility will update lines on subcontract matrices

Items marked with * are included in the new version of the utility. If you do not want to update any of these, and have already installed the earlier fix, you do not need to install the new fix.

To run the Default VAT Code update utility:

1. Either:

    a. From a COINS menu, press **.** (the "full stop" or "dot" key).

    b. Type **co700.p** and press Enter.

    or

    a. Go to **Update Default VAT Codes** (if the function has been created).

2. Enter an old standard rate VAT code (you will need to do this for each old code in turn).

3. Enter the new standard rate VAT code you want to replace it with.

4. Use the up and down arrow keys to highlight the record types you want to update, and press Spacebar to select them; you can select more than one type of record.

```
┌─────────────────────────────────────────────────┐
│ Report Options                                  │
│                                                 │
│         Old VAT Code: P1                         │
│         New VAT Code: P11                        │
│                                                 │
│              Tables: ┌──────────────────────┐   │
│                      │ > Contract            │   │
│                      │ > Series              │   │
│                      │   Supplier            │   │
│                      │   Customer            │   │
│                      │ > Subcontractor       │   │
│                      │   Subcontract         │   │
│                      │   Subcontract Payment Stages │
│                      │   Standard Payment Stages │
│                      │   Stock Items         │   │
│                      └──────────────────────┘   │
│                                                 │
│        Billing Types: A,S,I                      │
└─────────────────────────────────────────────────┘
```

5. If you selected Subcontractor, enter a comma-separated list of the billing types (**A** for Authenticated Receipt, **I** for Invoicing, **S** for Self-Billing) you want to update with the new code.

6. Press F1.

7. Choose how you want the report to be printed.

    COINS updates any records of the type(s) you selected, and produces a report to show you what has changed.

8. Repeat the process for the other VAT codes (and other record types) as necessary.

2.3.2 Manual update

You may also need to change the default VAT codes on:

*   Plant Sundry Charges

*   Expense Items

Since you are only likely to have a few of each of these, the Default VAT Code update utility does not process these records. You will need to change the codes manually.

2.3.3 Plant Configuration

The Plant Configuration screen specifies default VAT codes for internal and external hire. If these are currently set to a standard rated VAT code, you will need to update them with the appropriate new code.

```
REVENUE           --- Standard ----  -- Cross Hire ---
                  Primary  Second'y Primary  Second'y Default VAT
Internal  Weekly: 50       50        50        50        S11
          Daily:  50       50        50        50
External  Weekly: 60       60        60        60        S11
          Daily:  60       60        60        60
```

2.4 Check Transaction Templates

There are four types of transaction template in COINS which could potentially include lines with standard rate VAT codes. These are as follows:

> Cash Book Standing Journals
>
> General Ledger Standing Journals
>
> Sales Ledger Repeat Invoices
>
> House Sales Journals (inc. Plot & Part Exchange)

You can update these transaction templates manually, as you are unlikely to have a large number of them. You should check the templates in advance, and consider the tax point date on the transactions which will use them. Change any VAT codes to the new standard codes **after** you have processed all transactions at the old rate, but **before** you start to process transactions at the new rate.

If you need to use templates with the new rate before you have finished processing transactions at the old rate, you will need to set up new templates with the new rate.

It is not expected that most clients will have many (if any) transaction templates which include standard rated VAT lines and, therefore, need updating. However, all clients using COINS House Sales should carefully check their House Sales Journals, as this is probably the most likely of these transaction types to include such lines.

2.5 Check Certificate Definitions

If you have configured your own certificate definitions in Subcontract Ledger or Contract Sales Ledger, ensure that the VAT is not calculated on a cumulative basis. If it is, you need to change this before 1st December 2008.

Check that the Calc Cumulative field on the VAT line is set to N.

Certificates configured by COINS will correctly have VAT set up with Calc Cumulative = N.

2.6   Consider Copied Transactions

A standard feature in COINS OA is to allow you to create a new transaction from a copy of an existing transaction – this is available in all ledgers. In COINSplus, the only relevant transactions that can be copied are GL Journals. If you use this feature, you need to ensure that the VAT code on any copied transactions whose tax point date is on or after 1st December 2008 is set appropriately.

2.7   Review Partially-Processed Transactions

In Subcontract Ledger and Contract Sales Ledger, it is possible to input transactions for which the tax point date for VAT purposes will be based on the date of payment. If these remain unpaid after 30th November 2008, they may include an incorrect VAT code.

Since most construction operations are not VAT standard rated, it is anticipated that most Subcontract Ledger and Contract Sales Ledger transactions will be unaffected. However, clients should consider whether there could be any unpaid standard rated transactions in either ledger and take appropriate action as explained below.

2.7.1 Subcontract Ledger

In Subcontract Ledger, the handling of the tax point date for VAT depends on the Billing Type. The billing type is set for each Subcontractor (with an optional override for each Subcontract). There are three Billing Types used in the UK: I=Invoice, S=Self Billing and A=Authenticated Receipt.

- For **Invoices**, there should be no issue as the invoice is received from the subcontractor and the Invoice Date is input on the Subcontract Certificate and this will always be the tax point date for VAT.

- For **Self Billing**, the Contractor produces the invoice on behalf of the Subcontractor at the time of payment. Thus for self-billing subcontract certificates the tax point date for tax purposes can only be determined at payment – and this will dictate the VAT rate to be applied.

- For **Authenticated Receipt**, the Contractor produces a receipt at the time of payment. Thus for authenticated receipt subcontract certificates the tax point date for tax purposes can only be determined at payment – and this will dictate the VAT rate to be applied. Please note that the date of signing of the authenticated receipt has no effect on the tax point date (or the rate to be applied) – this is always calculated from the date of payment.

   If certificates are still on the draft certificates workbench or are in an unposted batch then they can be edited by the user to correct the VAT coding.

   It is not possible within COINS to change the VAT code on a posted subcontract certificate (even if it is unpaid). Any such unpaid transactions which include an incorrect VAT code will need to be reversed out and re-input by users. However, please note that where processing spans the date of the rate change, there may not be a need to follow onerous procedures to correct transactions between VAT registered businesses. Please refer to the HMRC document "VAT – Change in the Standard Rate: A detailed guide for VAT-registered businesses" for detailed guidance.

2.7.2 Contract Sales Ledger

In Contract Sales Ledger, the handling of the tax point date for VAT depends on the Transaction Type. The transaction type is set for each Contract Sales Series (with an optional override for each transaction). There are two Transaction Types used in the UK: I=Invoice and C= Certificate (used for Self Billing and Authenticated Receipt).

- For **Invoices**, there should be no issue as the invoice sent to the client bears the Invoice Date which will always be the tax point date for VAT.

- For **Self Billing Certificates** and **Authenticated Receipts**, the Client produces the invoice or receipt on behalf of the Contractor at the time of payment. Thus for self-billing contract sales certificates the tax point date for tax purposes can only be determined at payment – and this will dictate the VAT rate to be applied.

  If certificates are still in an unposted batch then they can be edited by the user to correct the VAT coding.

  It is not possible within COINS to change the VAT code on a posted contract sales certificate (even if it is unpaid). Any such unpaid transactions which include an incorrect VAT code will need to be reversed out and re-input by users. However, please note that where processing spans the date of the rate change, there may not be a need to follow onerous procedures to correct transactions between VAT registered businesses. Please refer to the HMRC document "VAT – Change in the Standard Rate: A detailed guide for VAT-registered businesses" for detailed guidance.

2.8 Change eCommerce Mappings

If you are using the COINS-etc hub for electronic trading, you will need to change the mappings between the BASDA VAT codes and the codes in COINS.

You should change the BASDA mapping to the new standard 15% codes when you are ready (for example when you have finished processing 17.5% invoices).

1. Go to **BASDA/COINS Mapping** (%SY231 under Central Repository > eCommerce > eCommerce Setup).

2. Set the mapping for IN VAT/Tax Code to your new standard purchase VAT code (for example, **P11**).

3. Set the mapping for OUT VAT/Tax Code to your new standard sales VAT code (for example, **S11**).

This will mean that any invoices received after you change the mapping will be mapped to the new standard VAT codes. When loading an invoice that has 17.5% calculated VAT (coming in with a BASDA code of S) with a mapping to the 15% code (in COINS), the invoices will load fine and register on the P/L. They will appear on a VAT Exception Report which will be for information only. The VAT figures from the XML are loaded to the COINS P/L.

You should also review any credit notes that come in during the first few weeks of December, to ensure that they use the same VAT rate as the invoice to which they relate.

2.9 Consider Configured Reports, etc

Although it is unlikely, if you have any bespoke or configured reports, screens or workflows that are filtered by VAT code, you will need to update these to take account of the new codes.

Please contact COINS if you need consultancy to do this.

2.10 Consider Handling of Future Retention Releases

The VAT regulations provide for two different situations with regard to VAT on retention releases:

> Where an invoice is raised for the full consideration, including retention, VAT liability arises on the full consideration when that invoice is raised.

>> In this case, you should already be using a subcontract certificate definition within COINS which calculates VAT before retention. Any retention release is then effectively outside the scope of VAT since the VAT has already been accounted for.

>> Likewise, if this applies to your sales, you should already be using a contract sales certificate definition within COINS which calculates VAT before retention. Any retention release is then effectively outside the scope of VAT since the VAT has already been accounted for.

> Where retention is not invoiced until the retention is paid liability on the retention arises on payment.

>> In this case, you should already be using a subcontract certificate definition within COINS which calculates VAT after retention. Any retention release is then liable to VAT at the date of that release. Provided that the default VAT code on the Subcontract has been updated to the new VAT rate as appropriate, COINS should then automatically apply the correct rate to future transactions (except where there is a split VAT analysis on the subcontract where manual intervention will be required by users).

>> Likewise, if this applies to your sales, you should already be using a contract sales certificate definition within COINS which calculates VAT after retention. Any retention release is then liable to VAT at the date of that release. Provided that the default VAT code on the contract sales series has been updated to the new VAT rate as appropriate, COINS should then automatically apply the correct rate to future transactions (except where there is a split VAT analysis on the contract where manual intervention will be required by users).

2.11 Retire Old VAT Codes

You may wish to make the 17.5% VAT rates inactive, to prevent them being used by mistake. Note that this should only be done once all invoices dated on or prior to 30th November 2008 have been processed.

The standard VAT rate will return to 17.5% on 1st January 2010, at which point you can reinstate the old VAT codes.

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To retire VAT codes:

In COINSplus:

1. Go to **VAT Codes** (under Financials > VAT).

2. Enter the VAT code you want to retire.

3. In the Inactive field, enter **Y**.

4. Click OK or press F1 to save the code.

In COINS OA:

1. Go to **VAT Codes** (on the VAT menu).

2. Click 📂 against the VAT code you want to retire.

3. Click the Inactive tick box so that it shows a tick.

4. Click 💾 to save the new code.