



# Change of VAT Rate

*to take effect from 4th January 2011*

## Special Considerations for Pegasus CIS / TMS Elite users

From 4th January 2011, the UK standard rate of VAT will increase from 17.5% to 20%. This factsheet explains how this change affects Pegasus CIS / TMS Elite users in special circumstances and what you need to do.

Please note that the creation of a new VAT rate (or a change to the existing VAT rate in Pegasus CIS) does not automatically recalculate any VAT Values held on existing transactions.

All un-posted values will need to be checked to ensure the VAT rate is correct. It may be beneficial to post as many pending transactions as possible before the 4th January 2011.

The following areas within Pegasus CIS / TMS Elite all calculate and/or store VAT, please review to ensure the correct VAT codes, rates and values have been used:

### SALES

- Sales Invoices
- Sales Invoice Opening Balances
- Pending Retention Sales Invoices

### CONTRACT SALES

- Contract Applications
- Contract Application Opening Balances
- Contract Certificates
- Contract Certificate Opening Balances

### CONTRACT RECEIPTS

- Job Split > Retention tab

### PURCHASES

- Purchase Orders
- Purchase Invoices

### SUBCONTRACTORS

- Subcontractor Applications
- Subcontractor Timesheets
- Subcontractor Application Opening Balances
- Subcontractor Timesheet Opening Balances

### JOB JOURNALS

- Direct Costs
- Bank Expenditure

### Changing the VAT rate on un-posted transactions

If the VAT Code needs to change or the VAT Rate used is incorrect:

- Modify the record
- Remove the current VAT Code
- Tab off the field
- Re-enter the original Code or enter the new Code
- Tab off the field (this will recalculate the VAT)
- Check the Calculated VAT value is correct
- Save the record

Where both the Header record and the Items records have VAT codes then please perform the above on the Header and all of the items.

### Contract Sales Certificates and Subcontractor Applications

Contract Sales Certificates and Subcontractor Applications are both based upon a continuous supply of services or "Staged payments". The HMRC Construction Industry Scheme allows VAT on staged payment applications to be deferred

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until the payment has been made or received. Unlike the standard invoice based system, the special "14 day rule" does not apply. For continuous supply of services such as on-going construction work, you should account for the VAT either when an invoice is issued or a payment received.

All Contract Certificates posted, where the VAT has not been deferred, should be Invoiced at 20% VAT on or after 4th January 2011.

All Subcontractor Applications and Sales Contract Certificates posted where the VAT has been deferred will be liable for VAT when the payment is made or monies received; thus any outstanding transactions at 4th January 2011 will be liable to VAT at 20%.

### Deferred VAT on Sales

This only affects Contract Certificates; if a Sales Invoice is raised then the VAT is due at the Invoice date. Contract Applications do not update VAT in your back office accounts system. VAT is updated when a Certificate is produced and payment received.

For Contract Certificates when the Deferred VAT posting is set to "Yes" the system will post a full Invoice but the VAT will be posted to a VAT Code N (i.e. beyond the scope of VAT). The associated VAT Value posts to the Deferred VAT Account in Nominal Ledger. The VAT liability is therefore recorded on your Nominal Deferred VAT Account but no VAT will show at this stage on your VAT Return.

When the Invoice is either fully matched to a Contract Receipt, or the deferred VAT is manually released by using "Deferred VAT Certificates", a nominal journal is raised to reverse the Deferred VAT postings and posts to the actual VAT account. This also updates the correct VAT code and updates your VAT return.

### Certificates Posted before 04/01/2011 but payment received on or after 04/01/2011:

*Example...*

Certificate Date	15/12/2010
Gross Valuation	£10,000.00
Discount	£0.00
Retention	£0.00
Net Valuation	£10,000.00
VAT @ 17.5%	£1,750.00
Invoice Total	£11,750.00
Deferred VAT	Yes

*If the payment is received on or after the 4th January 2011 then you must recalculate the VAT as it is now due at 20%*

Payment received	06/01/2011
Gross Valuation	£10,000.00
Discount	£0.00
Retention	£0.00
Net Valuation	£10,000.00
VAT @ 20%	£2,000.00
Invoice Total	£12,000.00

The difference in payment due is the difference in VAT, in this case £2,000.00 - £1,750.00 = £250.00.

### How to post a VAT only Deferred VAT adjustment in Contract Sales

- Calculate the value by which VAT must be adjusted (as above).
- Create a new Contract Certificate for the same Job as the original Certificate.
- To keep the next Certificate number correct use the same number as the last Certificate posted\*

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- Do not adjust any of the Current or Previous figures.
- Enter the VAT Adjustment in to the VAT Value field.
- Make sure Paid is set to "No" and Deferred VAT Posting is set to "Yes"
- Save.
- Mark the Certificate as approved.
- Update approved certificates.

**NOTE:** *If you have several Contract Certificates for a Job that have not yet been posted, and a previous Certificate requires a VAT adjustment, make sure that the Certificate number you use is less than the first pending Certificate number as you can not approve them out of sequence. Alternatively you could post all the pending Certificates in advance.*

\* Certificates can be paid out of sequence. If the adjustment relates to a certificate that is not the last one posted then ensure that you use a suitable reference so they can easily be allocated to the payments. In the case of multiple unpaid Certificates on a Job you can either enter one VAT adjustment Certificate or one for each unpaid Certificate which will give better traceability. Each pending Certificate must have a unique Certificate Number so each adjustment Certificate will need to be approved and posted separately in order to use the same Certificate number.

The VAT adjustment Certificate should be posted before the Cash Receipt is posted. This will enable the original Certificate and the VAT adjustment Certificate to be allocated at the time of posting the Cash Receipt. If not done in this way the Deferred VAT will not be reversed. To reverse the Deferred VAT postings manually you would have to use the "Deferred VAT Certificates" option.

Should a Cash Receipt be a partial payment or relate to multiple Certificates across several jobs then you must deduce how the

customer has allocated the payment, what VAT rate was used and calculate the VAT value for each one. The appropriate VAT adjustments can then be made.

### Deferred VAT on Subcontractors

This only affects Subcontractor Applications. Subcontractor Timesheets will post VAT after printing a Self Bill Invoice, Approving and then Posting the Batch.

Subcontractor Applications will always Defer VAT. When a Subcontractor Application is Certified, the transaction produced will be a credit of the payment due to the Subcontractor Control account and VAT will be posted as a Debit to the Deferred VAT account using a VAT code N (outside scope of VAT). This will show the payment liability on the Subcontractor Control account and VAT will be recorded in the Deferred VAT account, at this stage no VAT will be shown on the VAT Return.

When the Certificate is tagged in Subcontractor Payments and then the Payment Batch posted, a Nominal Journal will be produced reversing the Deferred VAT and posting the actual VAT thus updating the VAT Return.

### Applications Certified before 04/01/2011 but paid on or after 04/01/2011:

*Example...*

Certified Date	20/12/2010
Gross Labour	£2,000.00
Gross Materials	£10,000.00
Discount	£0.00
Retention	£0.00
Net Valuation	£12,000.00
VAT @ 17.5%	£2,100.00
Payment Total	£14,100.00

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*If the payment is received on or after the 4th January 2011 then you must recalculate the VAT as it is now due at 20%*

Payment Date	06/01/2011
Gross Labour	£2,000.00
Gross Materials	£10,000.00
Discount	£0.00
Retention	£0.00
Net Valuation	£12,000.00
VAT @ 20%	£2,400.00
Payment Total	£14,400.00

The difference in the payment due is the difference in VAT, in this case £2,400.00 - £2,100.00 = £300.00. If you need to recalculate the VAT once the Subcontractor Certificate has been produced then you must enter a VAT only Certificate.

**This scenario will only arise if you have unpaid Certificates outstanding on the 4th January 2011.**

How to post a VAT only Deferred VAT adjustment to a Subcontractor Certificate

- Calculate the value by which VAT must be adjusted (as above).
- Create a new Subcontractor Application for the same Subcontractor, Job and Order number as the original Application.
- To keep the next Certificate number correct use the same number as the last Certificate posted.\*
- Do not adjust any of the Application or Certificate column figures.
- Enter the VAT Adjustment in to the VAT Value field.
- Save.
- Mark the Application as Certified.

- Process certified Applications (when all other adjustments have been entered).

**NOTE:** *If you have version 2.04.60 or higher and the VAT tables are changed before the VAT Adjustment is posted, when you tag a Certificate for Payment the system will ask "Recalculate VAT at 20% instead?" Say "No" to this prompt. If you respond "Yes" you will then have to manually correct the Deferred VAT and Subcontractor Control accounts in the Nominal Ledger by posting the difference in VAT as a Non VAT Journal (the VAT Return however would be correct)*

Two Payment Certificates will be printed instead of one; one for the original Certificate at 17.5% and a second for the difference in VAT at 2.5% to give a total VAT at 20%

\* If you have several Subcontractor Applications for a Subcontractor/Job/Order that have not yet been posted, and a previous Certified Application requires a VAT adjustment, make sure that the Certificate number you enter is less than the first pending Application, as you cannot Certify pending Applications out of sequence. Alternatively you could post all the pending Subcontractor Applications first.

Certificates can be paid out of sequence. If the adjustment relates to a certificate that is not the last one posted then ensure that you use a suitable reference so they can easily be identified when trying to pay it.

In the case of multiple unpaid Certified Applications on a Subcontractor/Job/Order you can either enter one VAT adjustment Certificate or one for each unpaid Certified Application which will give better traceability. Each pending Applications must have a unique Certificate Number so each adjustment posting will need to be approved and posted separately in order to use the same Certificate number.

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## Retention Releases

HMRC have stated that "Any retention released, whether it be from "staged payments" (like Subcontractor Applications and Contract Sales Certificates), or one off invoices (like Subcontractor Timesheets or Sales Invoices), are handled in the same way".

If an invoice for the full amount due including the retention is issued, then VAT will be due on the retention at the same rate as the original invoice, regardless of when retention is released. The "14 day rule" does not apply, if the original invoice did not include the retention and VAT is due at the rate in effect when either an invoice for the retention release is issued or when the retention is paid, whichever is earlier.

## Sales Retentions released

Sales Ledger Invoices produced in Pegasus CIS / TMS Elite do not include any retention values. VAT should be applied as follows:

- **Sales Invoices** – the VAT rate at the time the retention is released should be used. Any Pending Retention Sales Invoices will have to be recalculated as described in "Changing the VAT rate on Un-posted Transactions" detailed above.
- **Contract Sales Certificates** – if VAT is deferred the VAT rate at the time of Receipt should be used. For retentions released but not paid before 4th January 2011 then VAT will need to be recalculated as described in the section "Deferred VAT on Sales".

## Subcontractor Application Retentions released

The VAT rate at the time of payment should be used. For retentions released but not paid before 4th January 2011 then the VAT will need to be recalculated by following the procedure

in the "Deferred VAT on Subcontractors" section.

## Subcontractor Timesheet Retention released

The VAT rate at the time the retention release Invoice is posted should be used.

**NOTE:** *There is a known issue with Subcontractor Timesheet Retention releases for those using Pegasus CIS version 2.04.63 and below:*

To check which version you have installed load Pegasus CIS / TMS Elite and select Help and then About, the version to check is the "Application version".

The VAT rate stored with the original Subcontractor Timesheet will be used when releasing retentions. This is not correct as the rate at the time of release should be used. Please contact TSG Support if you have any outstanding Subcontractor Timesheet Retentions not released on the 4th January 2011. Do not release any of these retentions until we have edited your data to ensure that the correct VAT rate and value will be used.

**This issue has been fixed in version 2.04.70 or above where the VAT rate at the time of retention release will be used and no editing is required.**

**For further detailed information and HMRC guidance about the change, please visit the HMRC Website.**

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