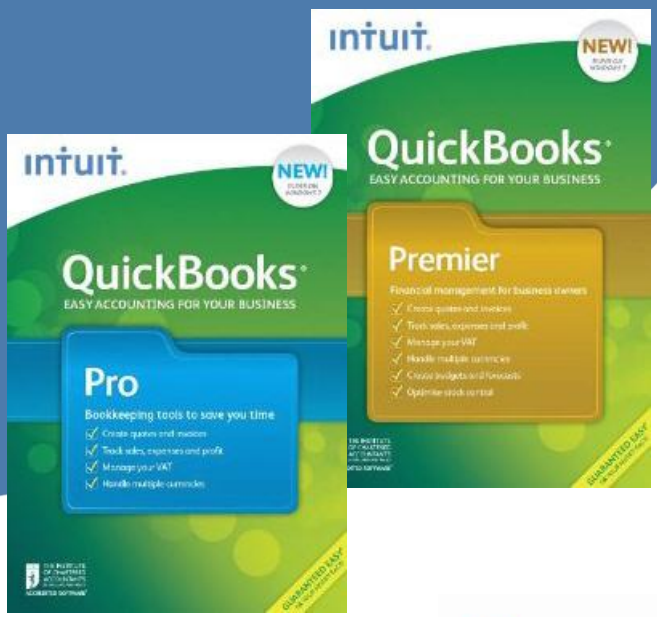
QuickBooks

Get Ready for the VAT Change



4th January 2011

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THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES
ACCREDITED SOFTWARE

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Disclaimer:

*The Institute of Chartered Accountants in England and Wales has accredited QuickBooks 2010 Pro & Premier under the terms of the ICAEW Accreditation Scheme. Purchasers should ensure that the software, its security features and related support meet their own specific requirements, as the Institute will not be liable for any damage whatsoever, incurred by any person, occasioned by the use of the software, or any related products or services howsoever caused.

1 Overview

In his 2010 Emergency Budget, the Chancellor announced an increase in the Standard Rate VAT from 17.5% to 20% effective 4th January 2011. If you track VAT, you will need to make the necessary changes in QuickBooks. For more details regarding the Standard Rate VAT changes, please visit the HMRC Web site.

2 Updating QuickBooks

You can choose from two options when implementing this change in QuickBooks 2010 Pro & Premier:

Option 1: Create a new Standard Rate VAT code

Option 2: Edit your existing Standard Rate VAT Code

2.1 Pros and Cons

The Pros & Cons of each method are:

2.1.1 Option 1

Create a new Standard Rate VAT code

Positives	Negatives
Preferred HMRC solution	Not applicable to SimpleStart
Quick – With the new VAT wizard, you can set up and assign a new VAT code in under 10 minutes	
The VAT Wizard automatically creates your VAT Items and Groups for you.	
Manual VAT calculations will not be required when editing transactions created before 4 January, 2011 using 17.5% Standard Rate VAT	
Best solution for VAT reporting and audit purposes	

2.1.2 Option 2

Edit your existing Standard Rate VAT Code

Positives	Negatives
VAT reports will be correct (if applicable, manual calculations on transactions have been completed)	Not the preferred solution of HMRC
Audit possible but relies on use of VAT code description to identify % rate used in the calculation shown on the Audit Trail report	Relies on employee vigilance when entering and modifying transactions to ensure that the correct VAT % has been calculated (manual VAT calculation may have to be performed when entering transactions)
Applicable to SimpleStart	Requires a good knowledge of VAT reporting to check the new VAT codes have been set up correctly
	The VAT summary on the invoice displays the % set up in the VAT code (this will display at 20% for current and historical invoices)

3 Option 1: Create a new Standard Rate VAT code

3.1 Checklist

Here is a checklist of steps you must follow to update your VAT to 20 % by creating new VAT codes. As you follow the steps, check them off here when you've completed them

Steps	Standard	EC Goods	EC Services	EC Reverse Charge [1]
Create new VAT codes				
Enter code you have used here				
Create new VAT items	The VAT Wizard will set these up automatically			
Create new VAT groups				
Update sales items				
Update purchase items				
Update customer VAT codes (if needed)				
Update supplier VAT codes (if needed)				
Update accounts				
update default VAT code in the VAT Preferences section				
update memorised transactions				
Update progress invoices and other business forms				

3.2 VAT Codes

Here is a table of required new VAT codes. The VAT codes shown are suggested codes. You may create your own.

The EC VAT codes are not required for Cash Accounting.

VAT code	Description	VAT Return boxes	Required for Cash Accounting?
S4	Standard (20 %)	**Sales** <1,6> VAT on Sales / Net Sales **Purchases** <4,7> VAT on Purchases / Net Purchases	Yes
EG4	EC Goods Std (20 %)	**Purchases** <2,9> VAT EC Acquisitions / NET EC Acquisitions <4,7> VAT on Purchases / Net Purchases	No
ES4	EC Services Std 20 %	**Purchases** <1,6> VAT due on Sales / Total net value of EC purchase of services <4,7> VAT on Purchases / Net Purchases	No
RC4 [1]	Reverse Charge 20 %	**Sales** <N,6> None, Net Reverse Charge Sales **Purchases** <1,N> VAT on Sales, None <4,7> VAT on Purchases / Net Purchases	No

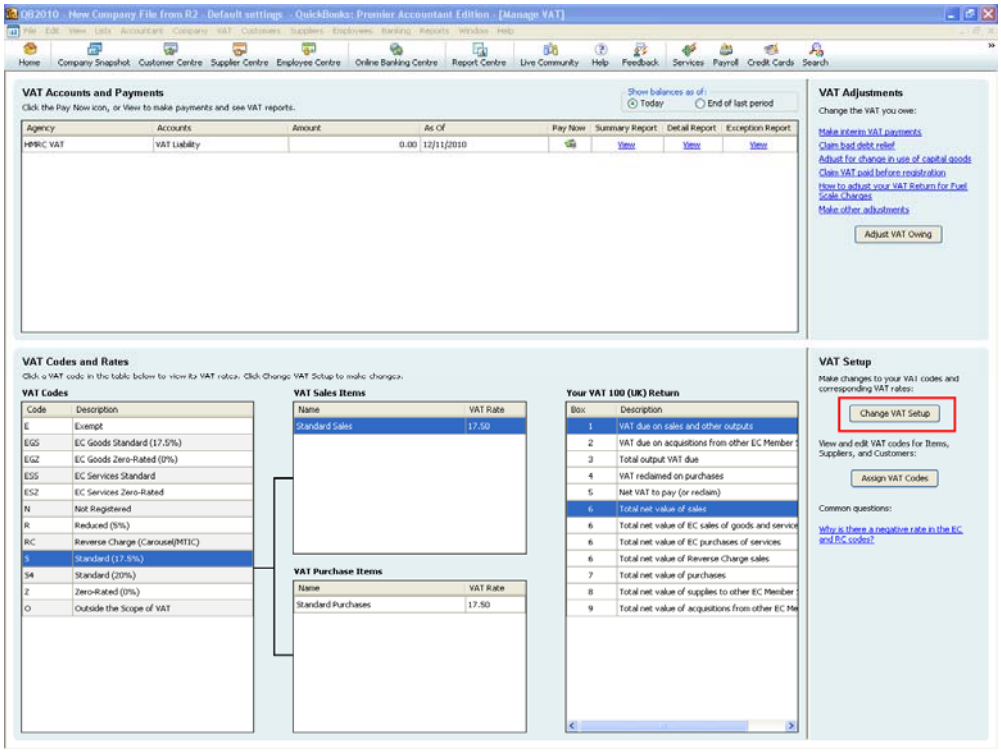
[1] *Code RC4 is used for EC transactions as per Notice 735 (mobile phones and computer chips). You only need create this code if you deal with these types of transactions.*

3.3 Create new VAT codes

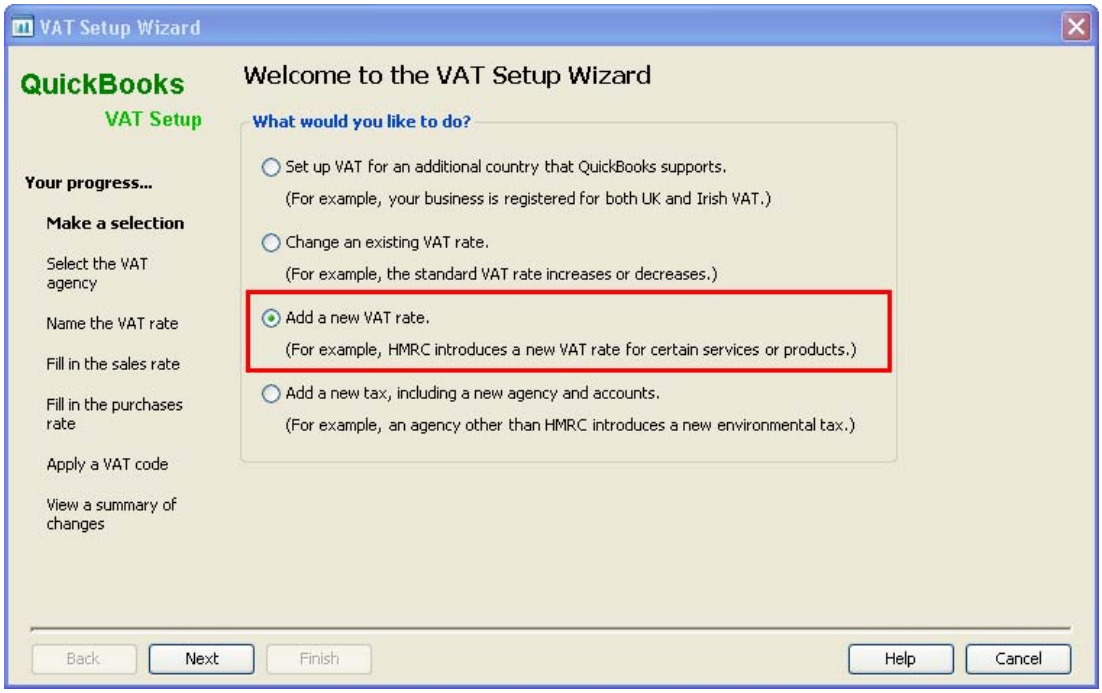
3.3.1 Creating the new Standard Rate VAT Code

Refer to the table in section 3.2 (above) for recommended VAT codes.

1. Go to the VAT menu and click Manage VAT.
2. Click Change VAT Setup.



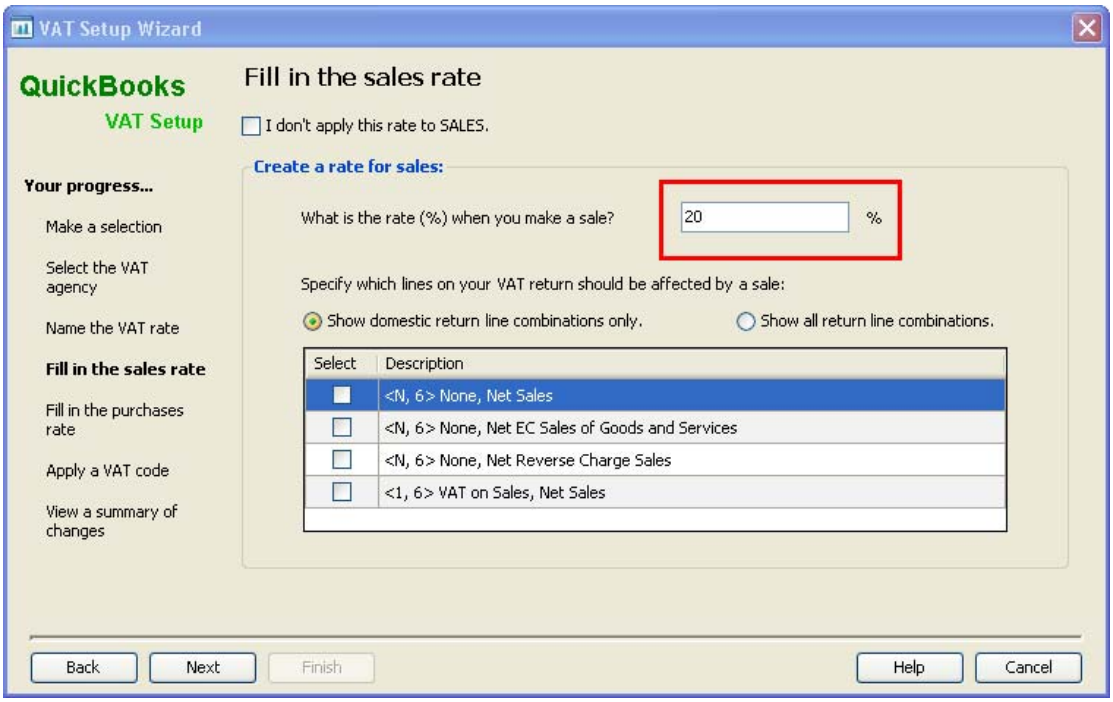
3. Select the Add a new VAT rate radio button and click Next.



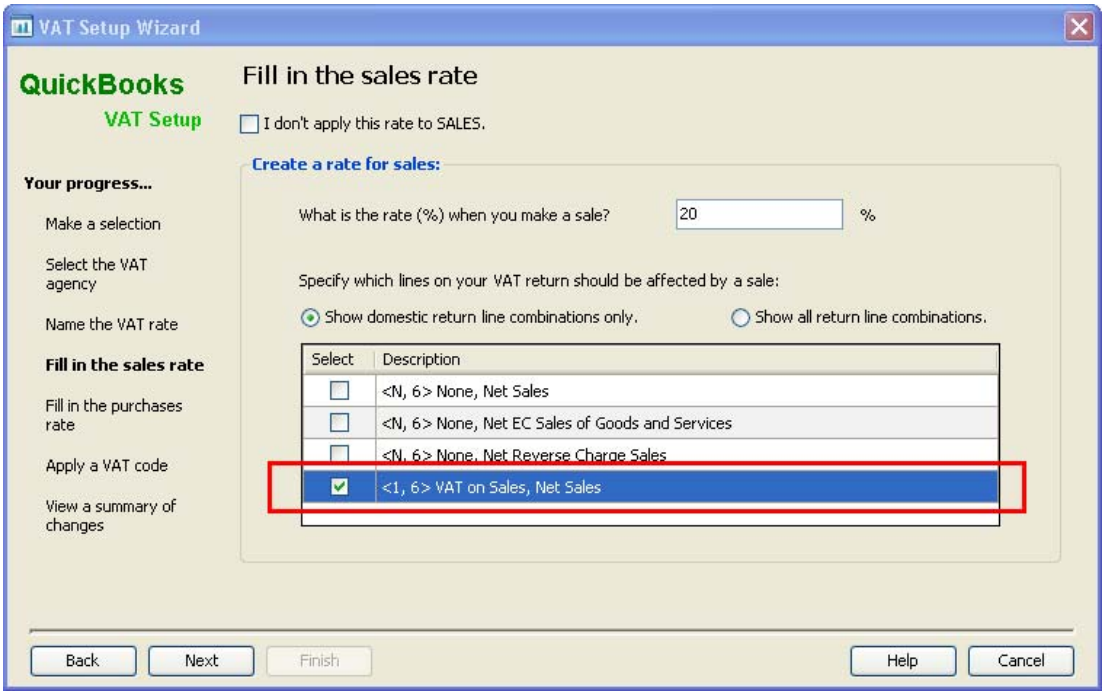
4. Check that the VAT agency is set to HMRC VAT, or select from the drop down list, and click Next.

5. Enter a name for the item. The name is for your own use. Click Next.

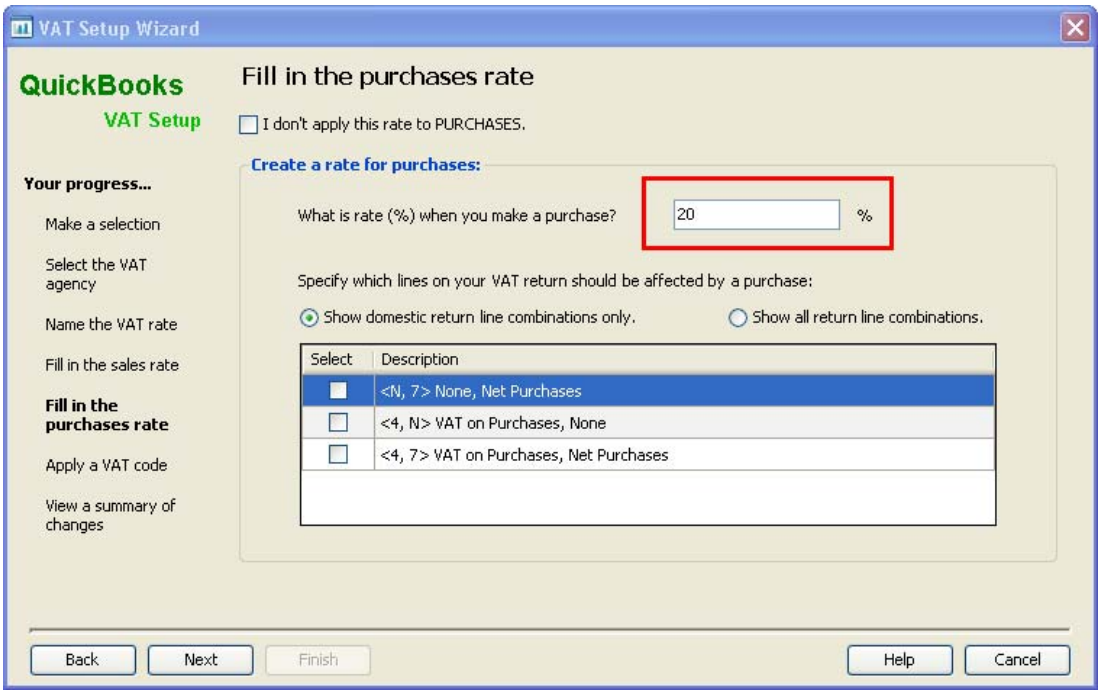
6. Enter the applicable VAT Rate % you charge on your sales e.g. 20.



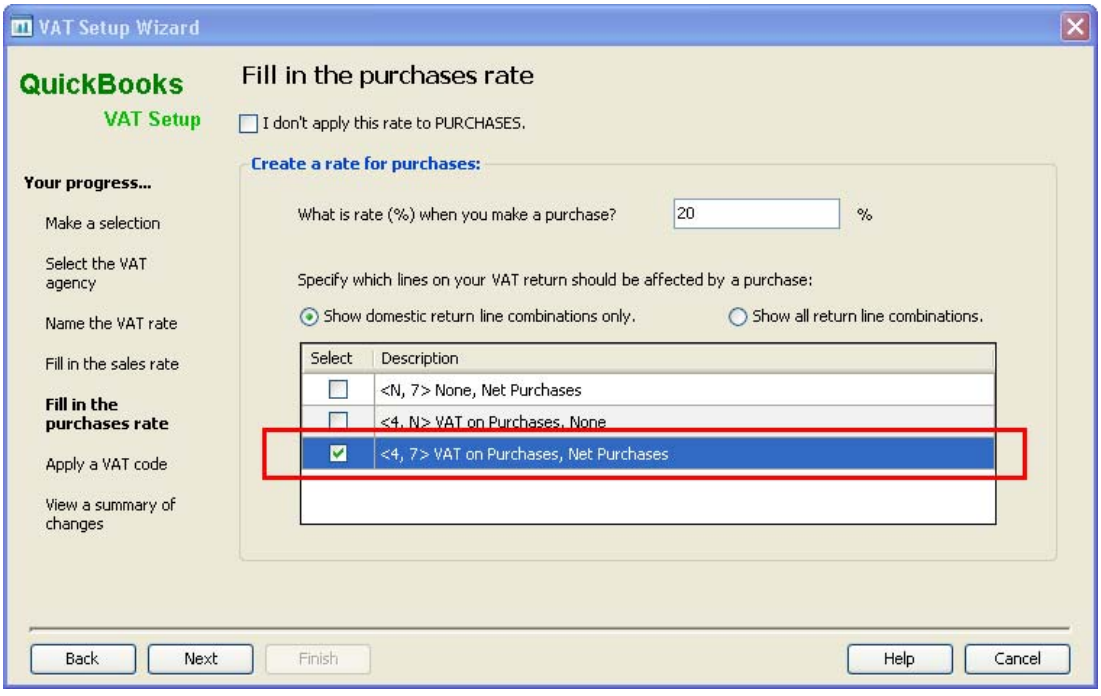
7. From the options displayed, select which VAT Return Boxes the sales must be reported in. Refer to the table in section 3.2 above, for the applicable combination/s. Click Next.



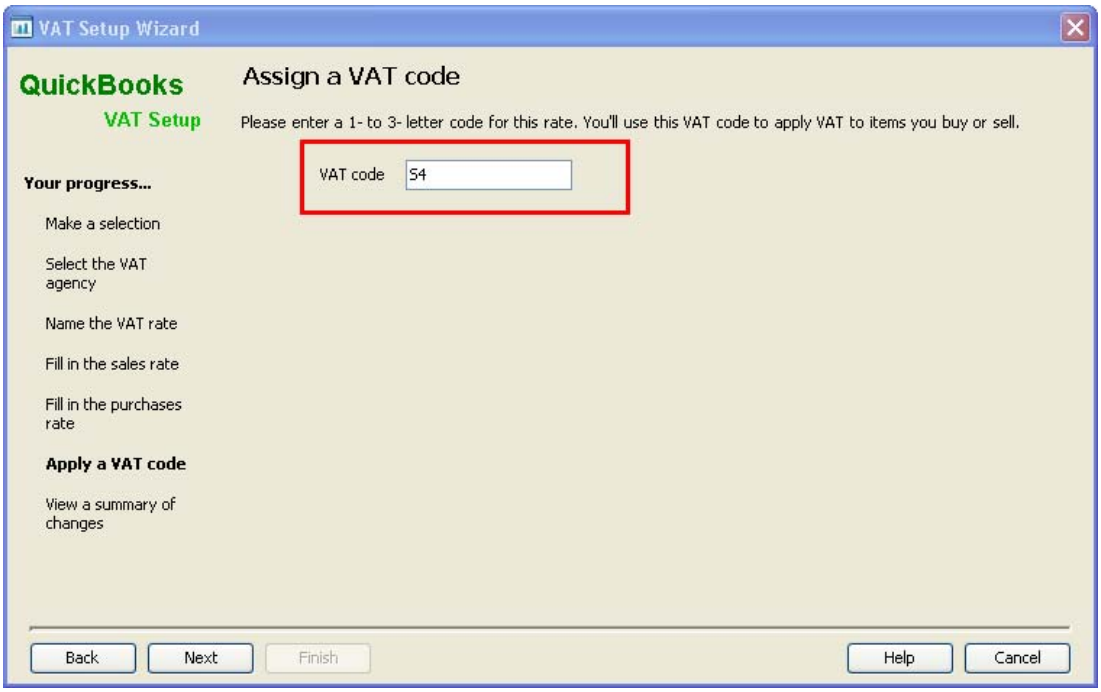
8. Enter the applicable VAT Rate % you pay on your purchases e.g. 20 and Click Next.



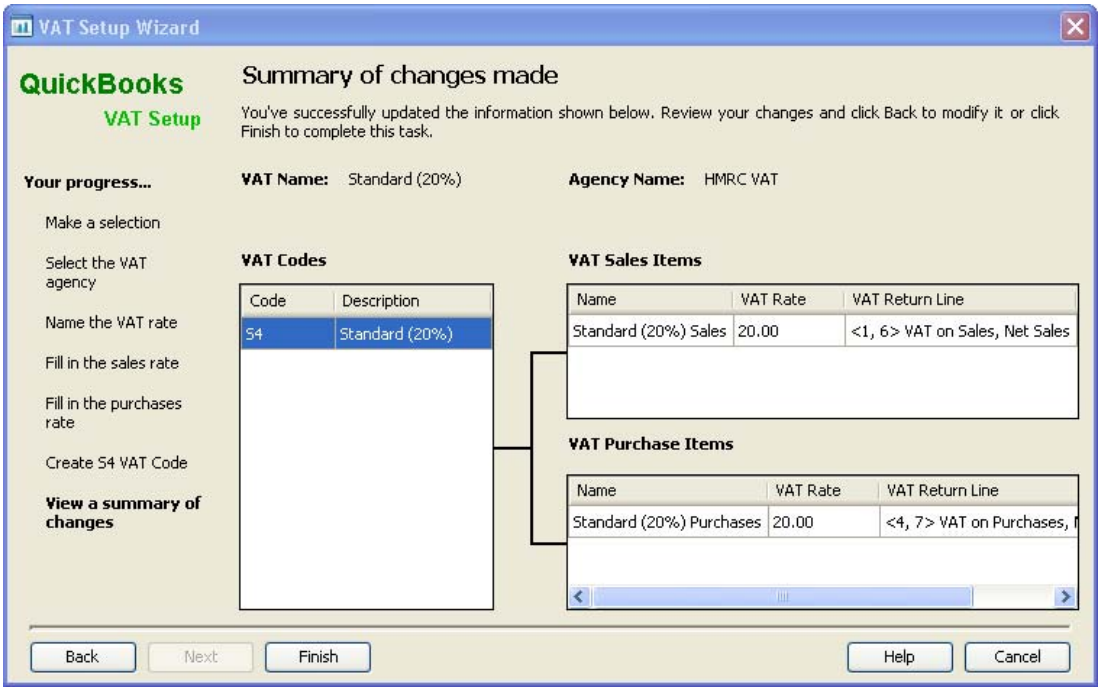
9. From the options displayed, select which VAT Return Boxes the purchases must be reported in.. Refer to the table in section 3.2 above, for the applicable combination/s. Click Next.



10. Enter a code, up to 3 characters, that you will recognise on a form such as an invoice. Click Next.



11. A Summary of changes made is displayed. Review the changes for correctness. Click Finish.

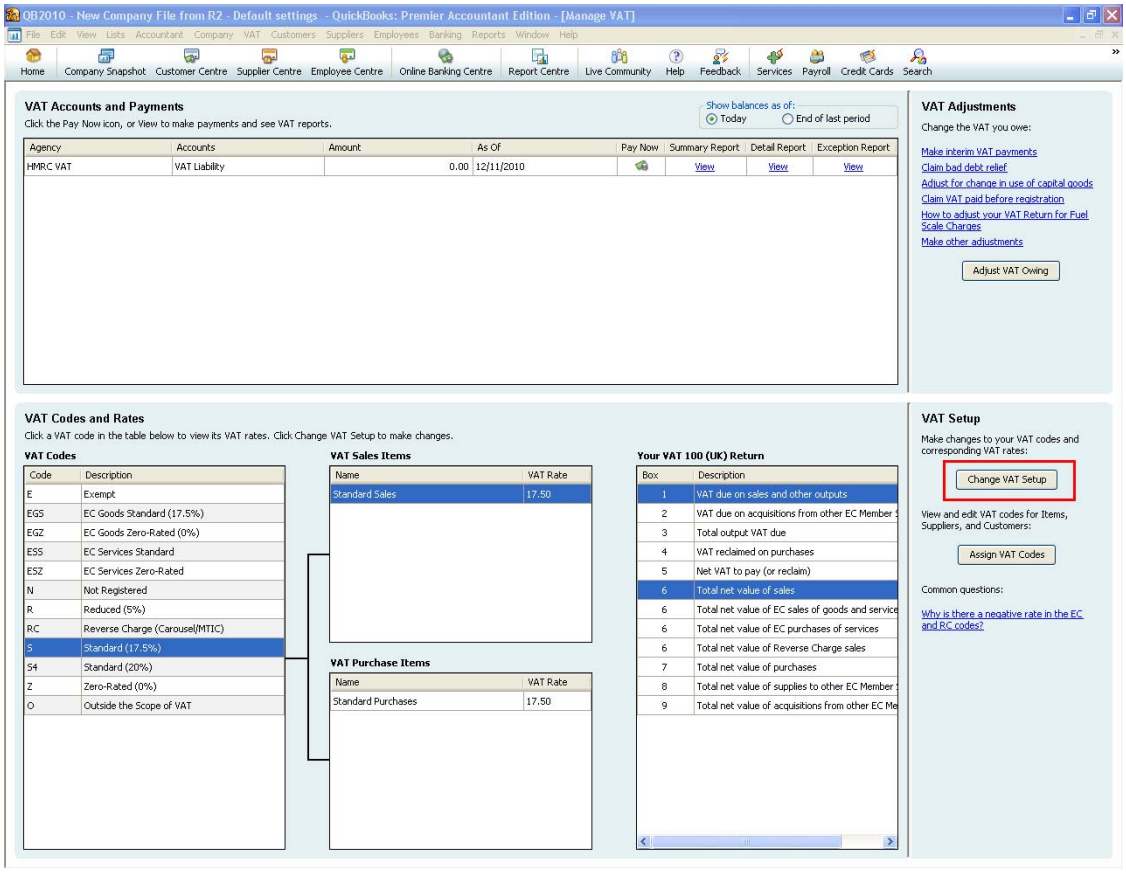


12. You will be back at the Manage VAT screen.
13. If you need to create VAT codes for EC Goods, EC Services and Reverse Charge (for mobile phones & computer chips), please continue to section 3.3.2, or
14. If you have finished creating all your VAT codes, please continue to section 3.4 Assign the new VAT codes.

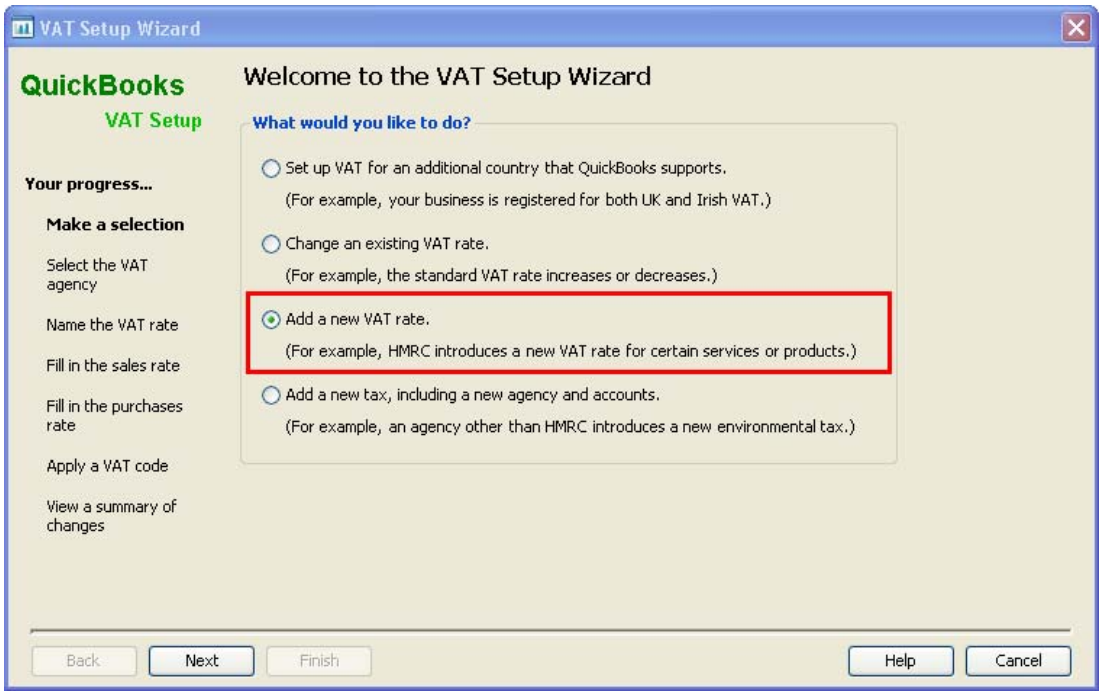
3.3.2 Creating the new EC VAT Code – Acquisitions

From the Manage VAT screen:

1. Click Change VAT Setup.

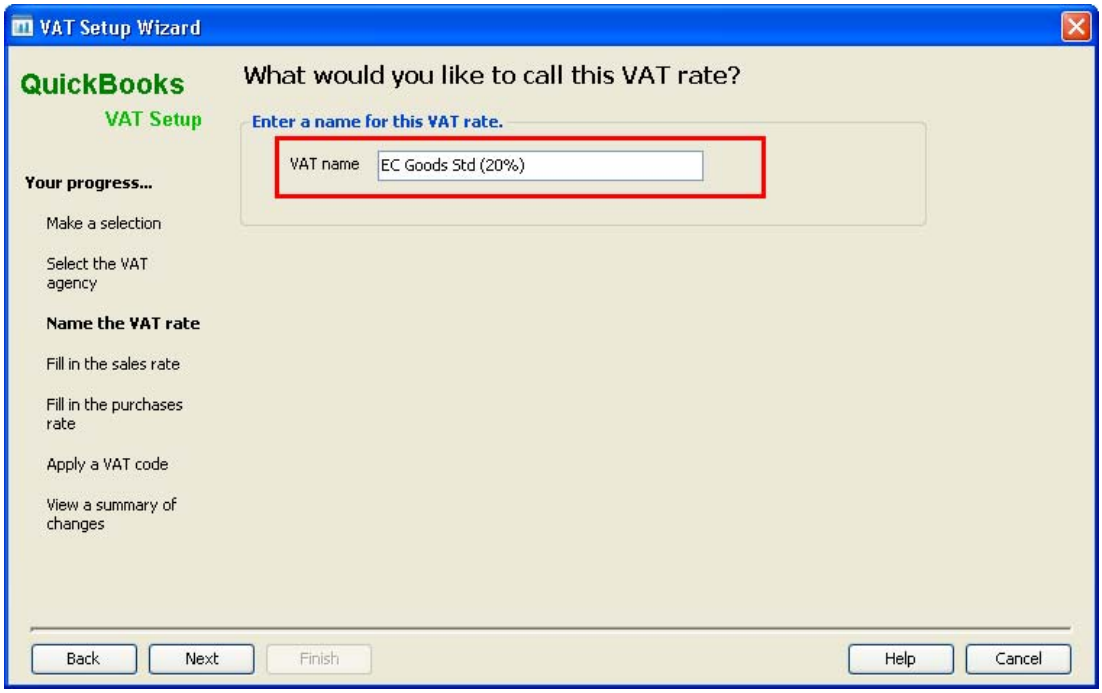


2. Select the Add a new VAT rate radio button and click Next.

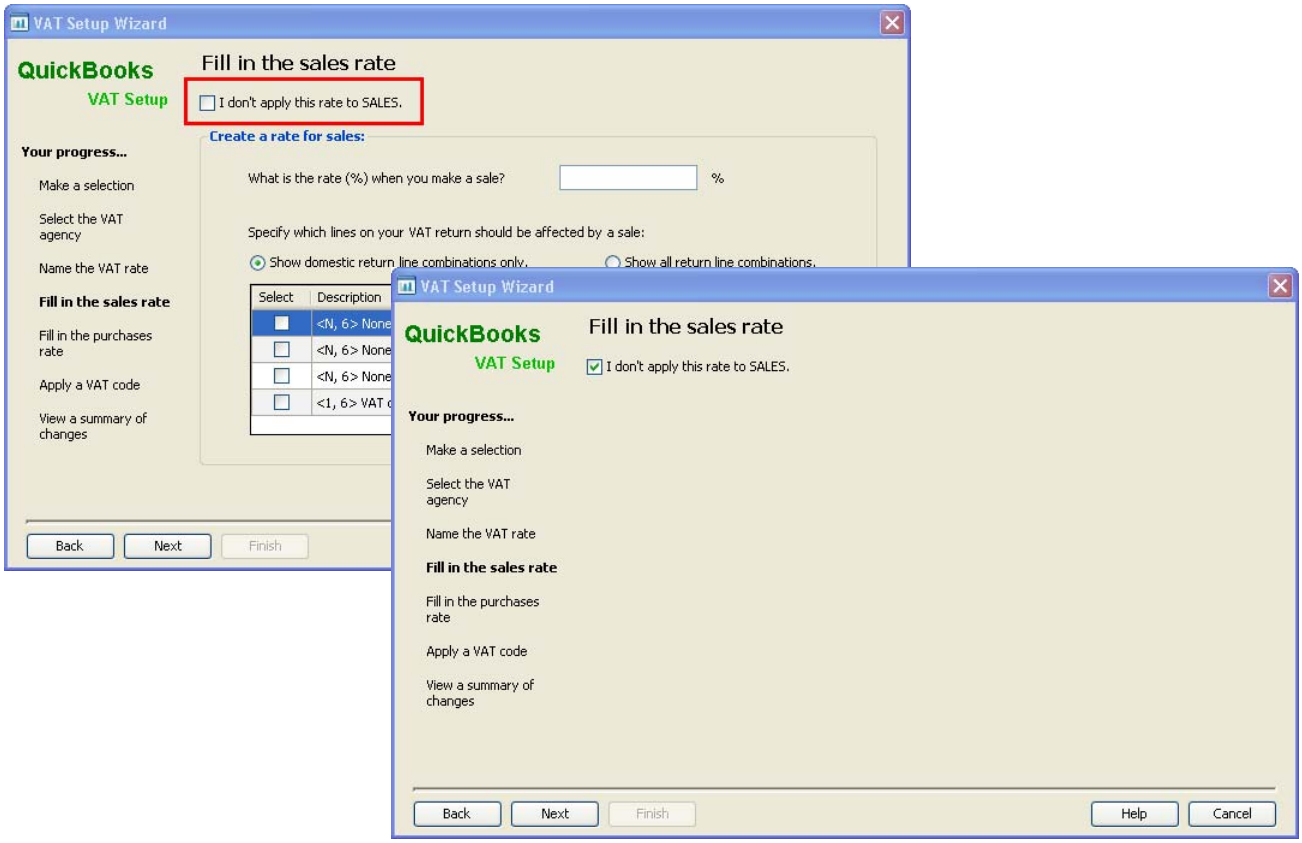


3. Check that the VAT agency is set to HMRC VAT, or select from the drop down list, and click Next.

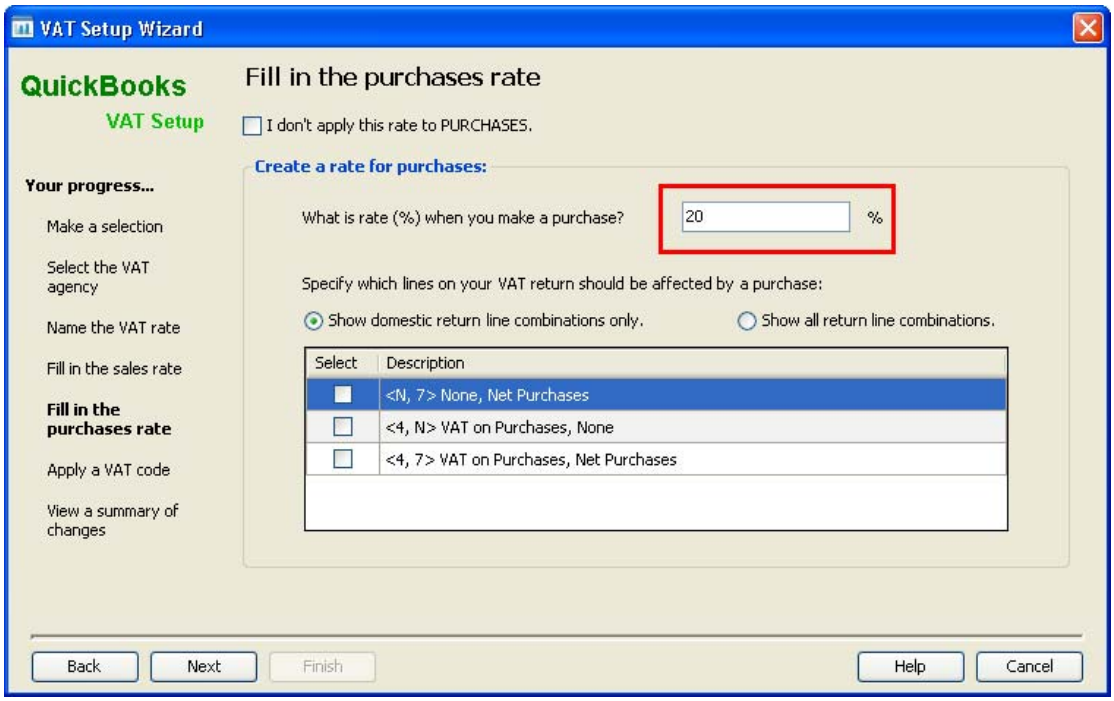
4. Enter a name for the item. The name is for your own use. Click Next.



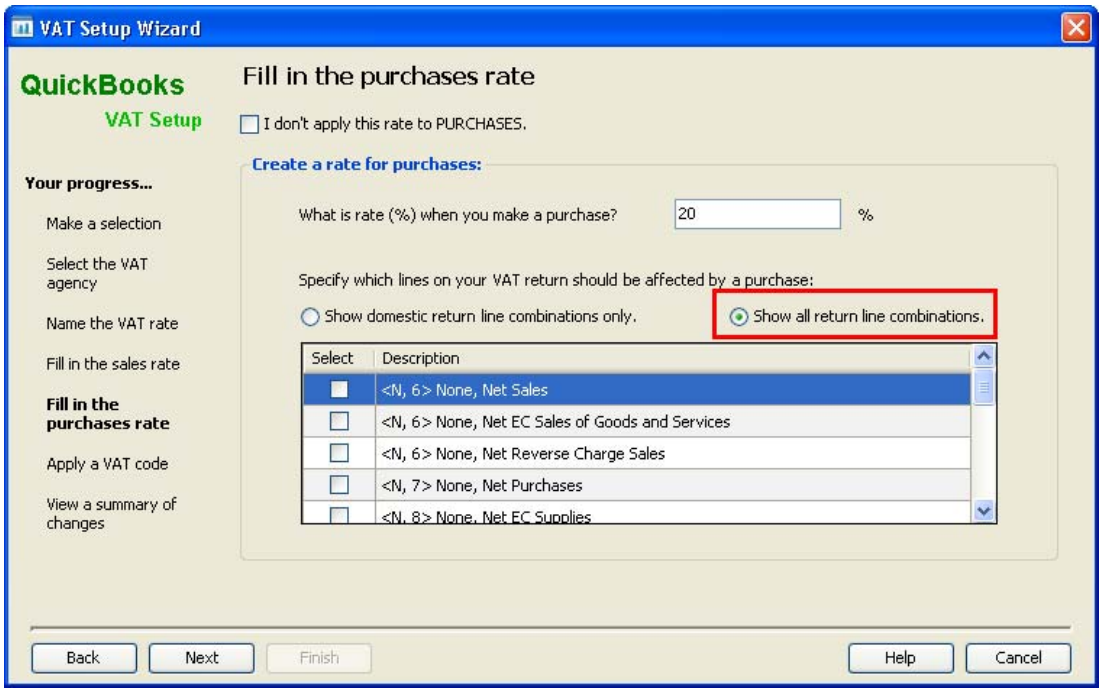
5. Click the check box I don't apply this rate to SALES. (The other fields of the screen will disappear from view) Click Next.



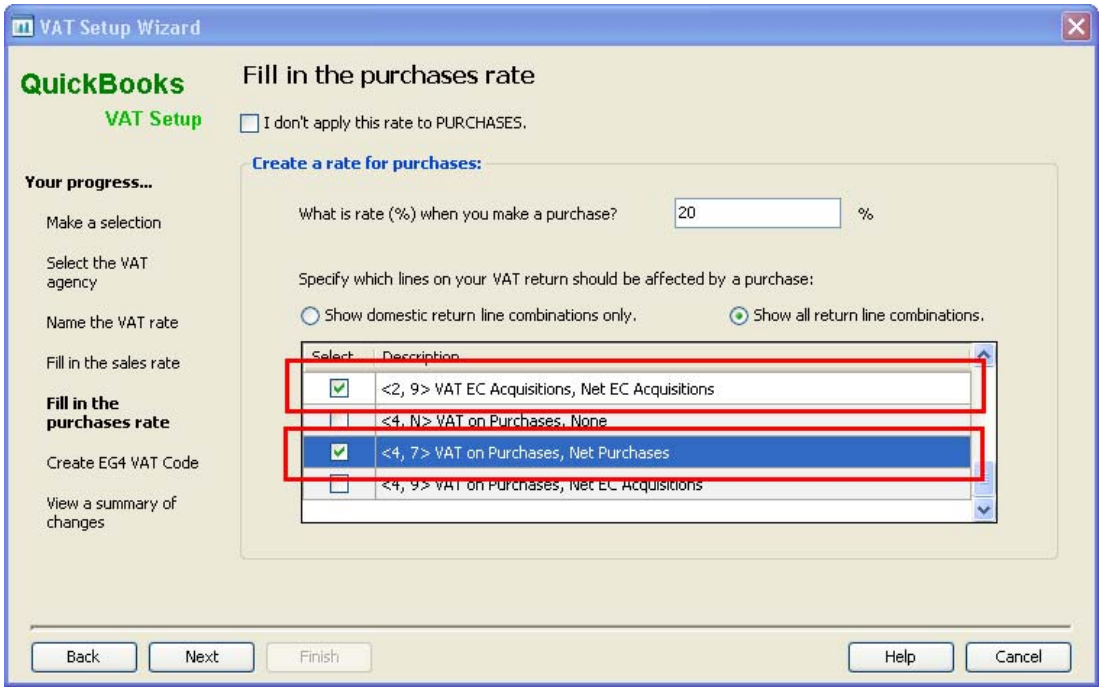
6. Enter the applicable VAT Rate % you pay on your EC purchased e.g. 20.



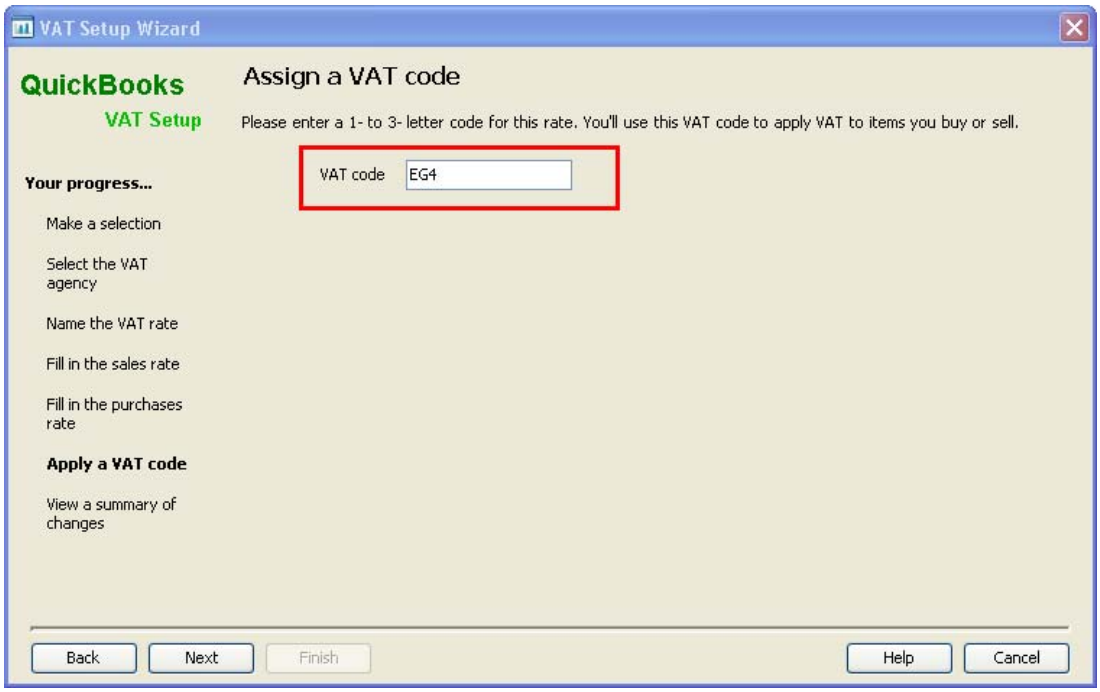
7. Select the radio button Show all return line combinations. The selection of VAT return combinations will expand to include EU transactions.



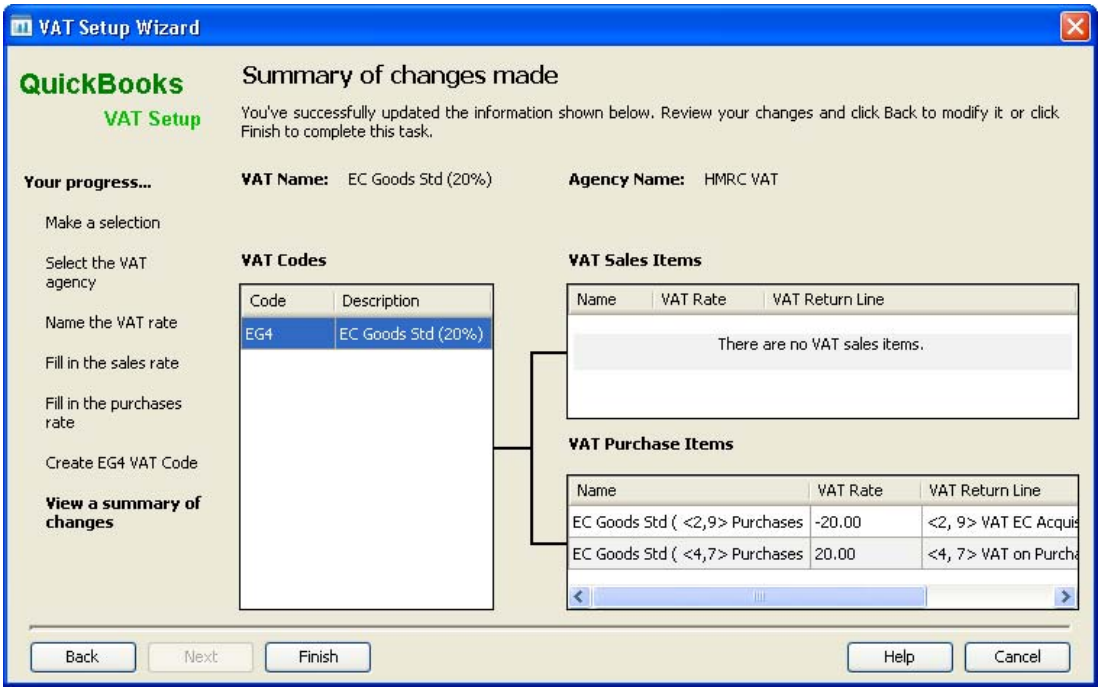
8. From the options displayed, select which VAT Return Boxes the purchases must be reported in. Refer to the table in section 3.2 above, for the applicable combination/s. Click Next.



9. Enter a code, up to 3 characters, that you will recognise on a form such as an invoice. Click Next.



10. A Summary of changes made is displayed. Review the changes for correctness. Click Finish.



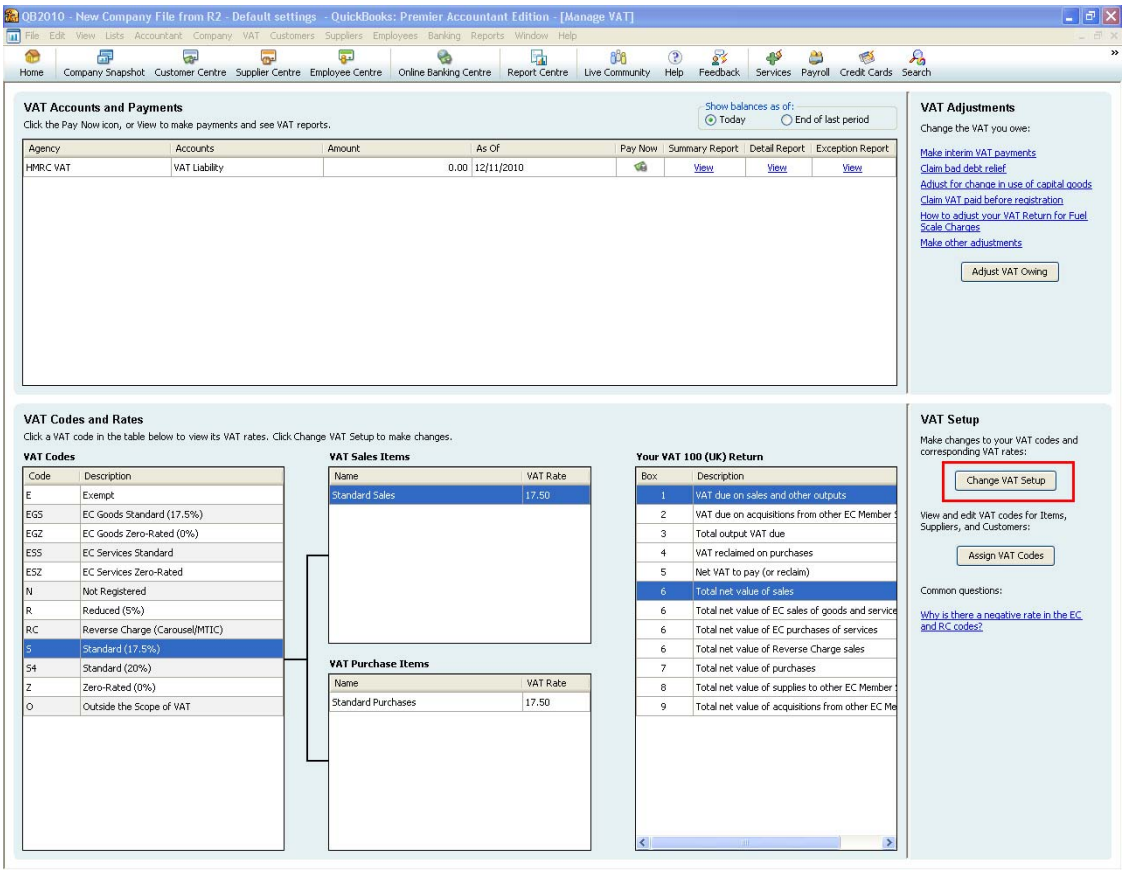
11. You will be back at the Manage VAT screen.
12. If applicable, continue to section 3.3.3 and/or section 3.3.4., or
13. If you have finished creating all your VAT codes, please continue to section 3.4 Assign the new VAT codes.

3.3.3 Creating the new EC VAT Code – Services

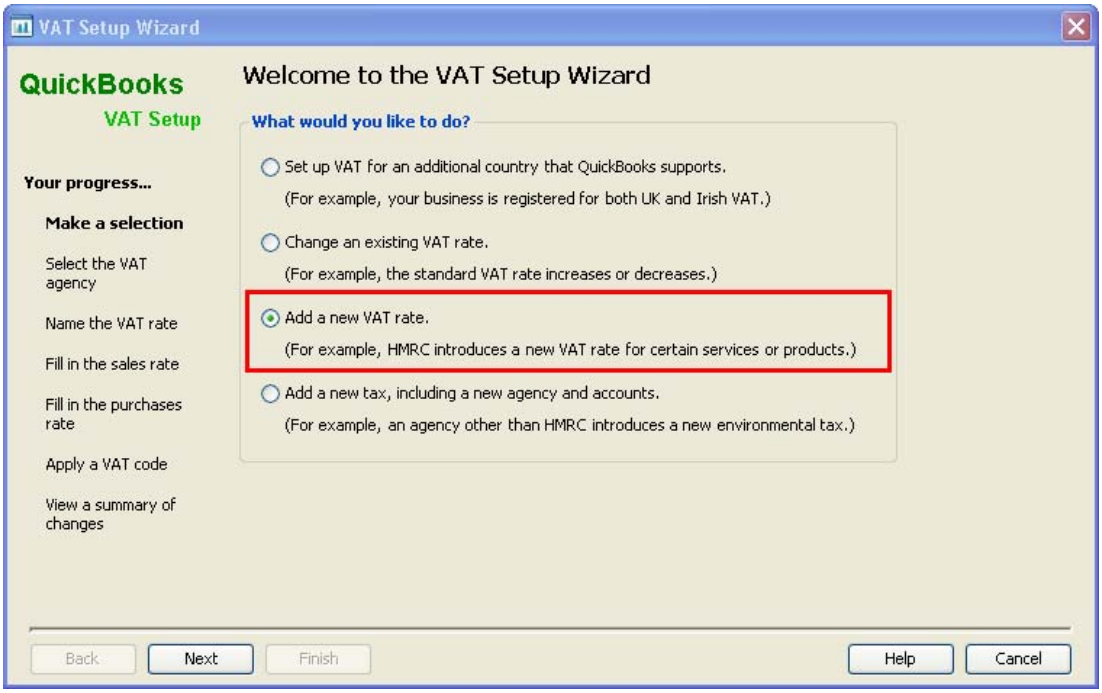
This is used for services supplied from abroad. Notice 741 refers.

From the Manage VAT screen:

1. Click Change VAT Setup.

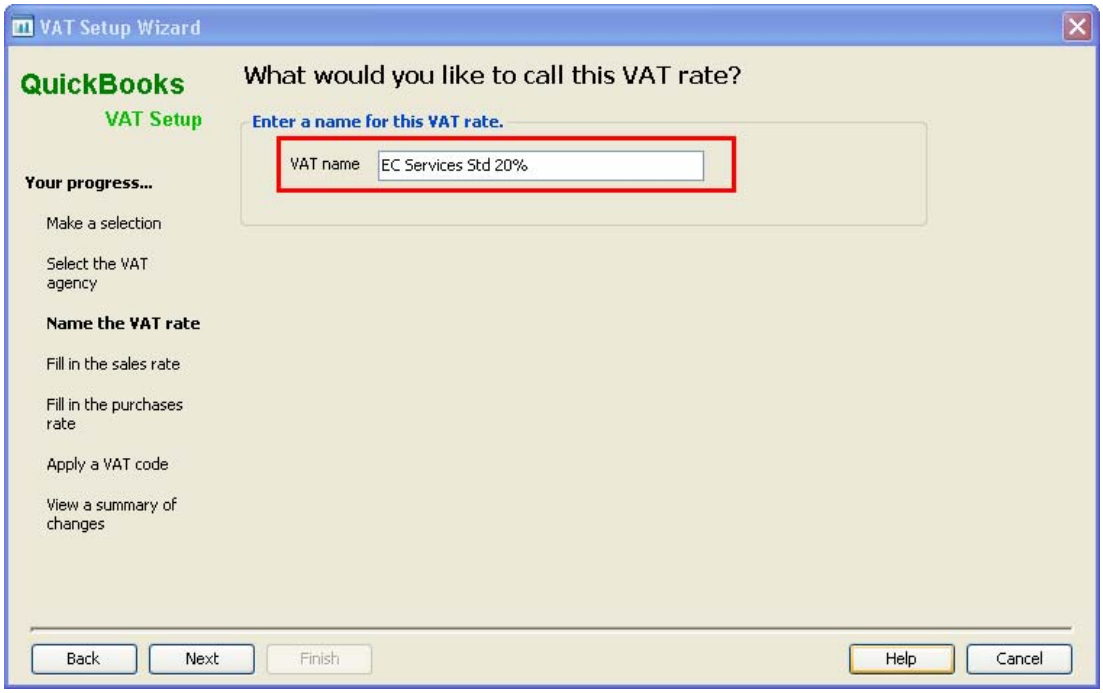


2. Select the Add a new VAT rate radio button and click Next.

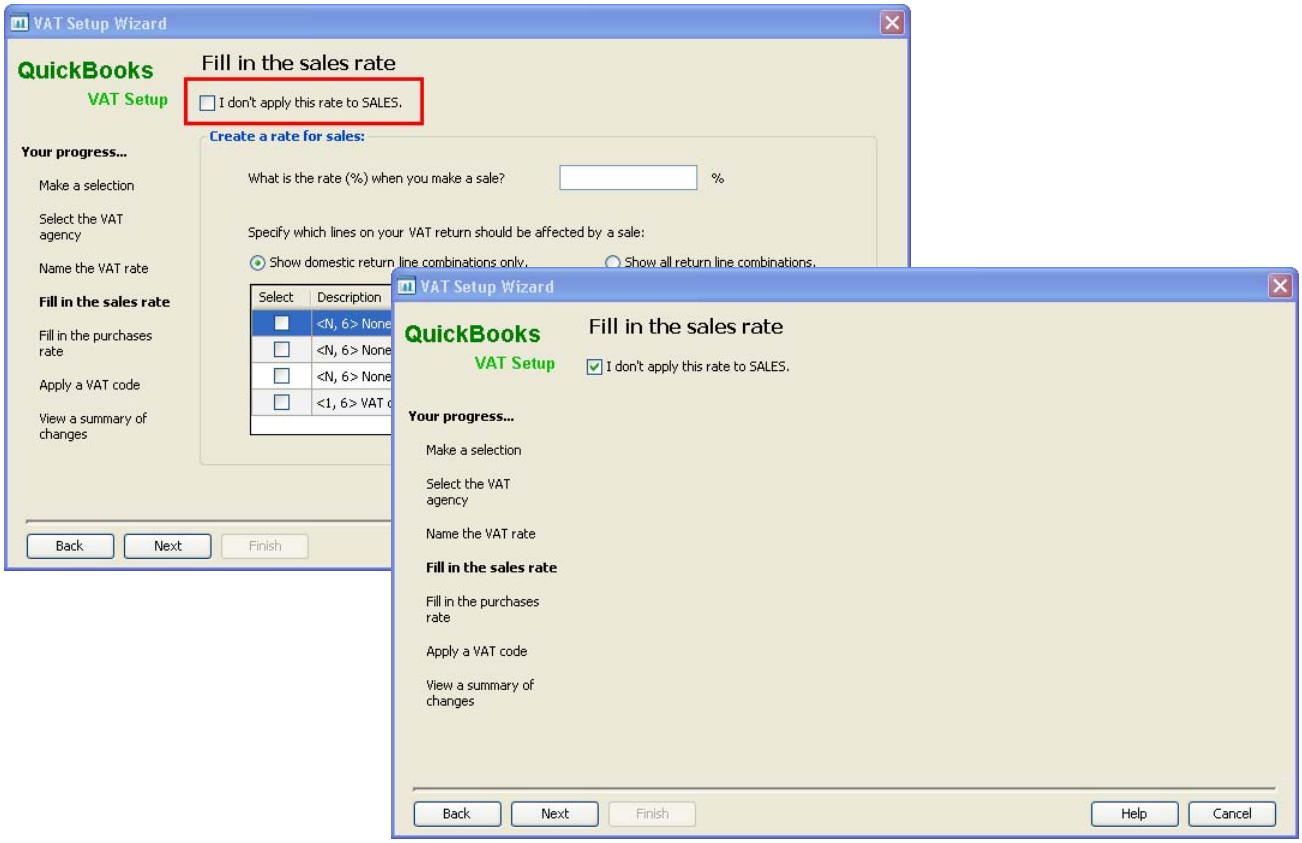


3. Check that the VAT agency is set to HMRC VAT, or select from the drop down list, and click Next

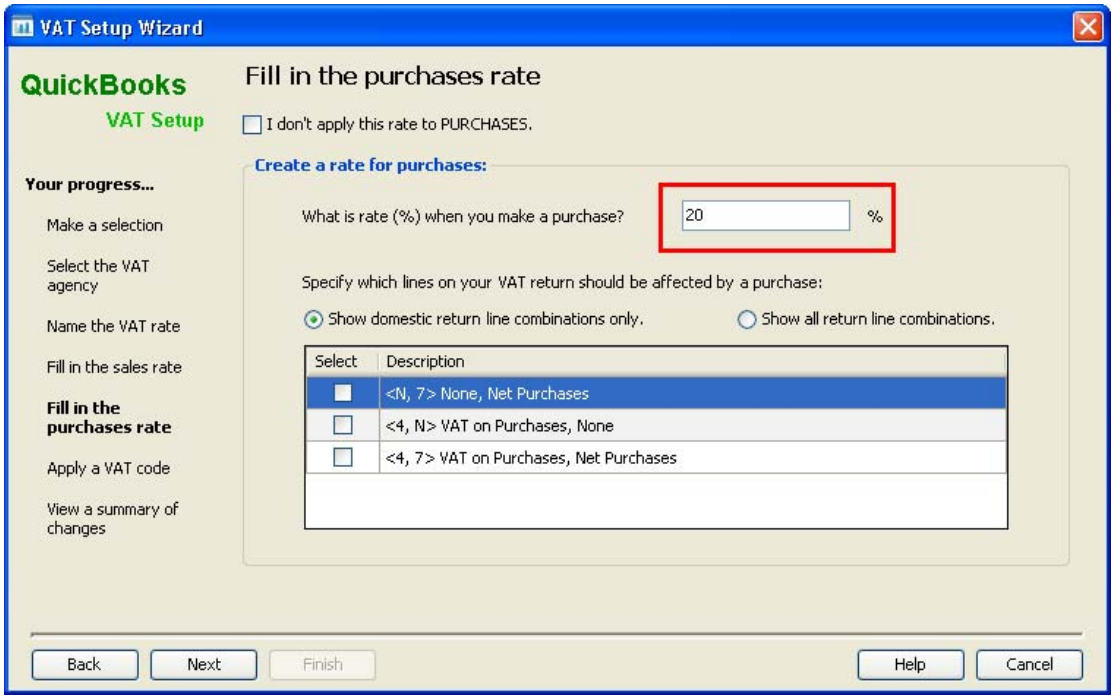
4. Enter a name for the item. The name is for your own use. Click Next



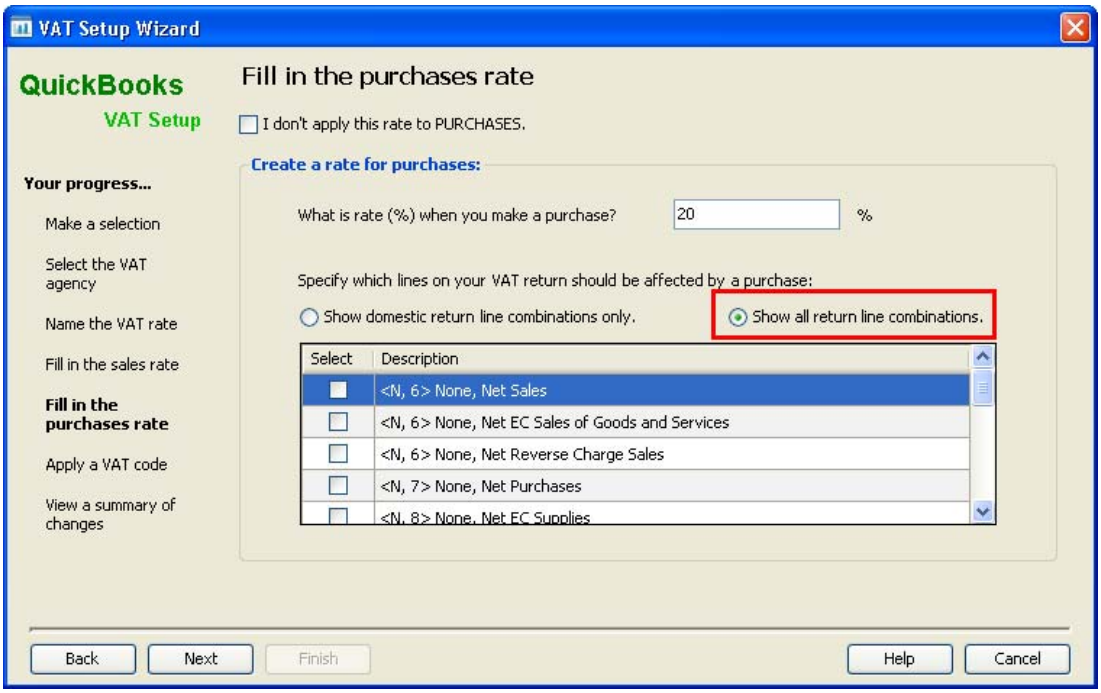
5. Click the check box I don't apply this rate to SALES. (The other fields of the screen will disappear from view) Click Next



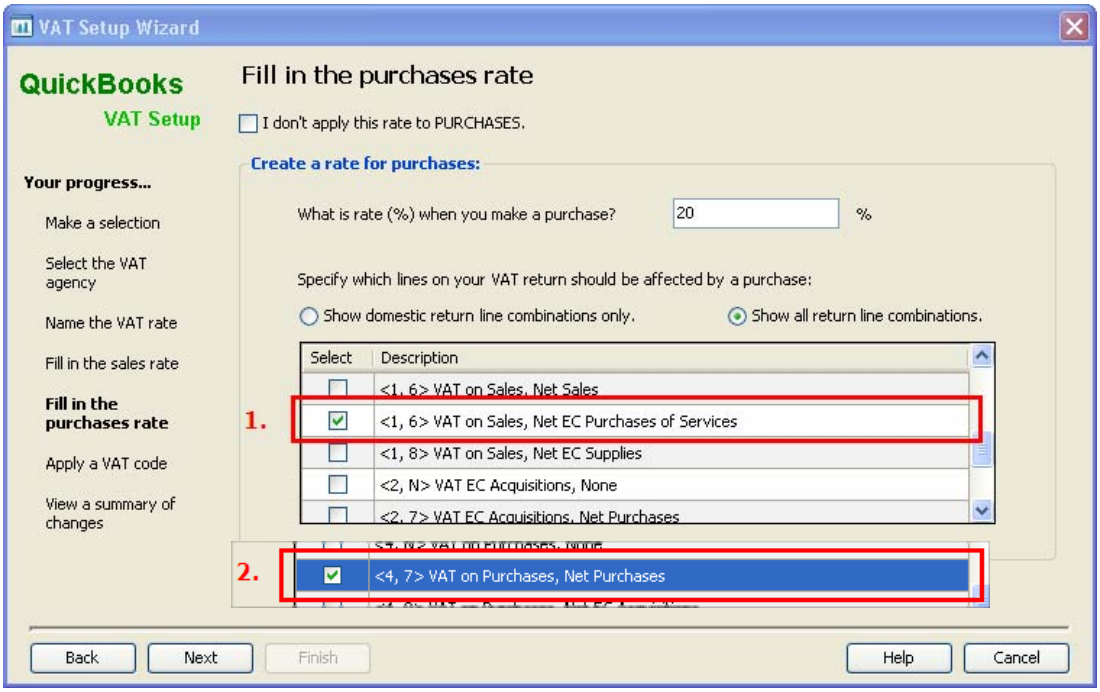
6. Enter the applicable VAT Rate % you pay on your EC purchased e.g.. 20



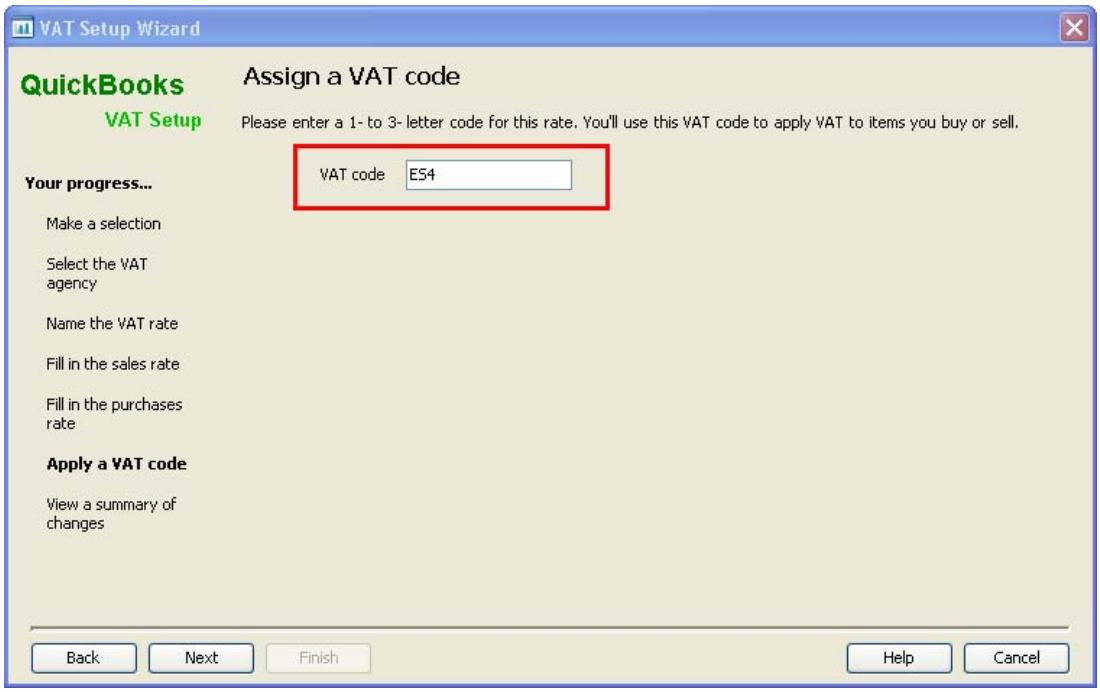
7. Select the radio button Show all return line combinations. The selection of VAT return combinations will expand to include EU transactions.



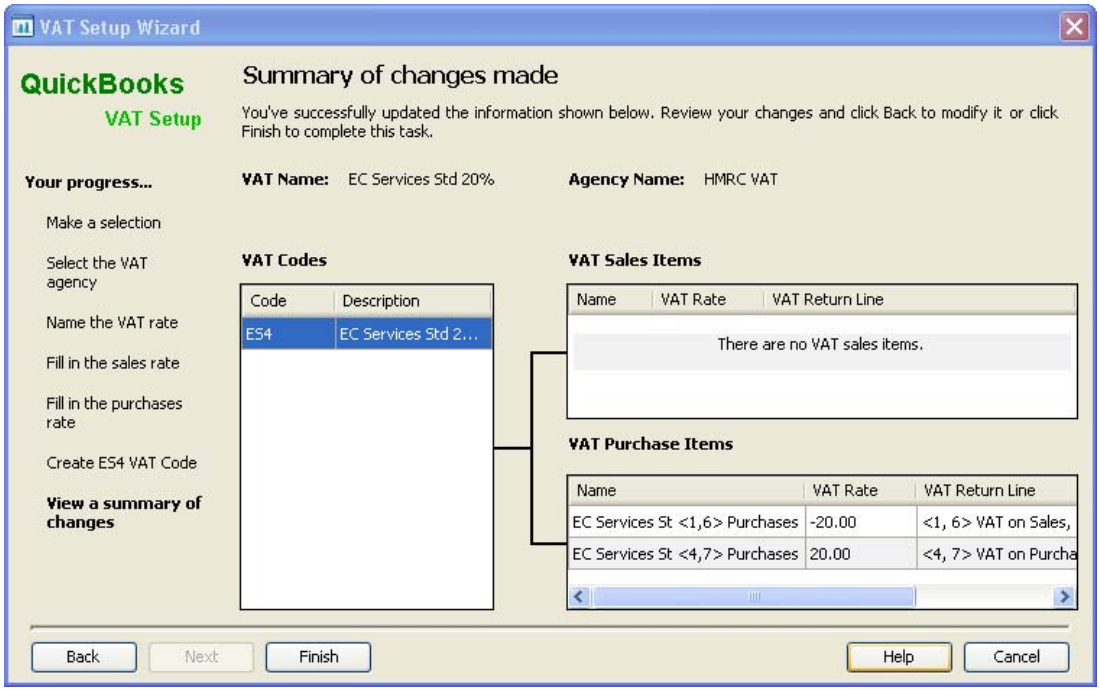
8. From the options displayed, select which VAT Return Boxes the purchases must be reported in. Refer to the table in section 3.2 above, for the applicable combination/s. Click Next



9. Enter a code, up to 3 characters, that you will recognise on a form such as an invoice. Click Next



10. A Summary of changes made is displayed. Review the changes for correctness. Click Finish.



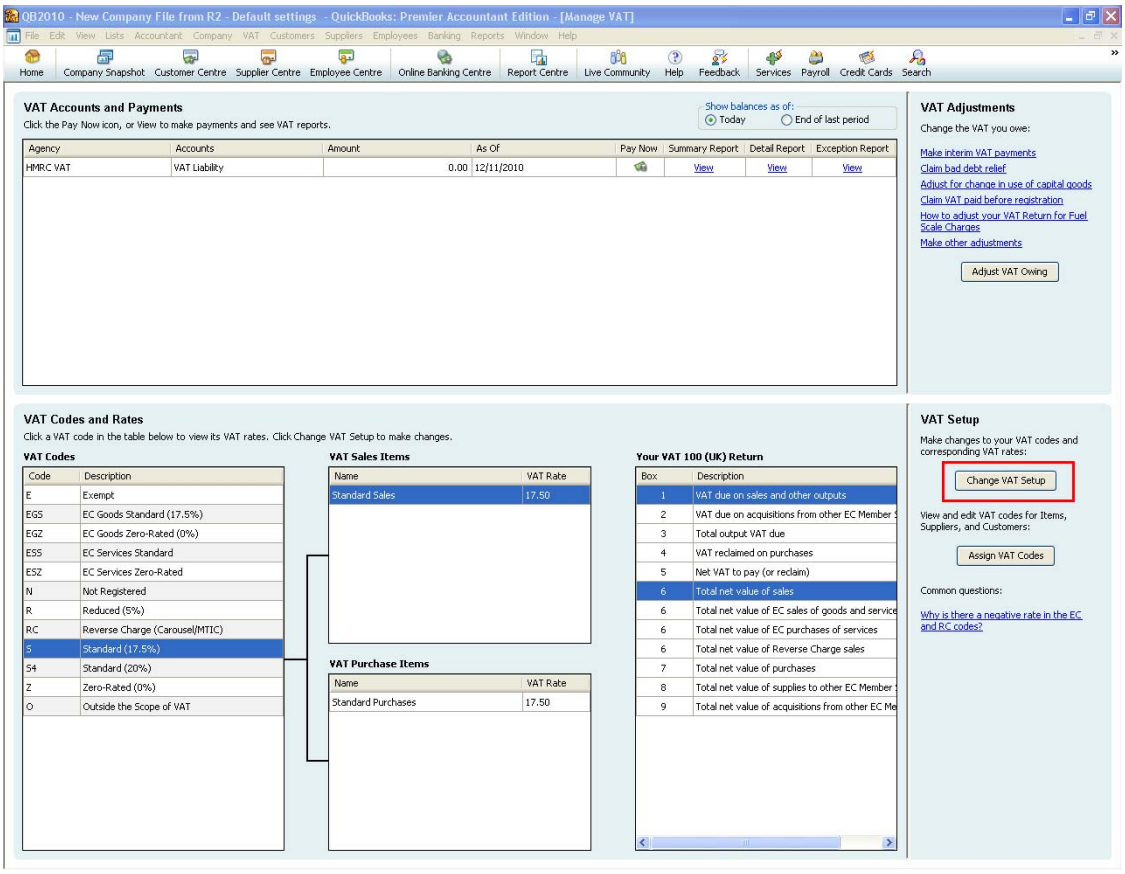
11. You will be back at the Manage VAT screen.
12. If applicable, continue to section 3.3.4, or
13. If you have finished creating all your VAT codes, please continue to section 3.4 Assign the new VAT codes.

3.3.4 Creating the new EC VAT Code – RC

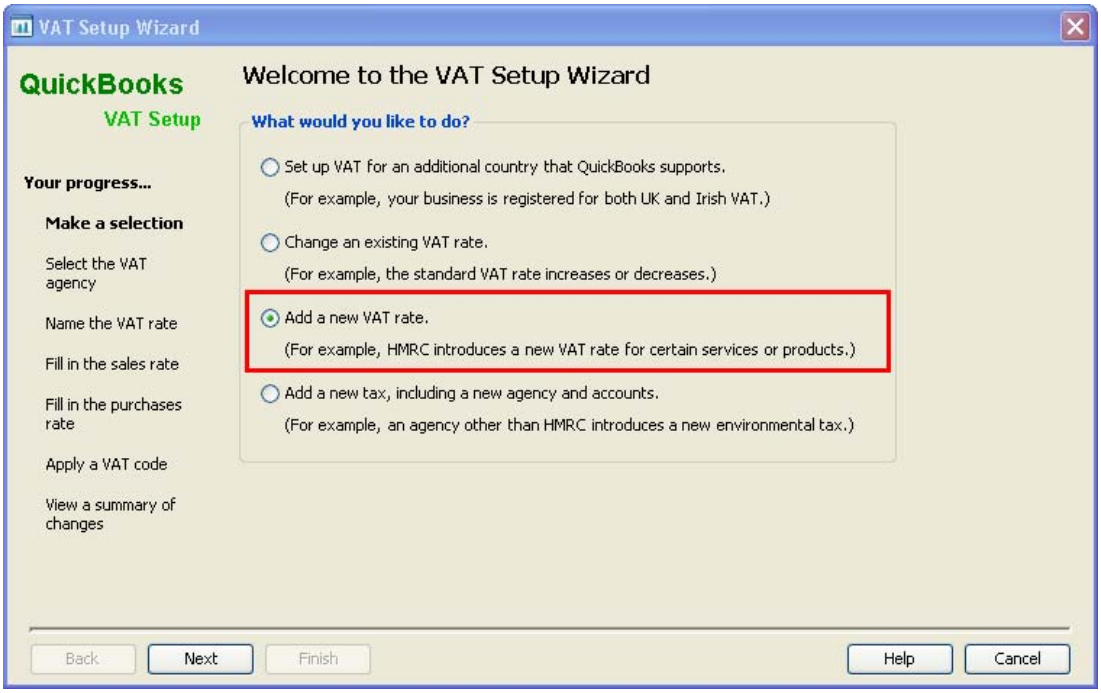
This is used for EC transactions relating to computer chips and mobile phones. Notice 735 refers.

From the Manage VAT screen:

1. Click Change VAT Setup.

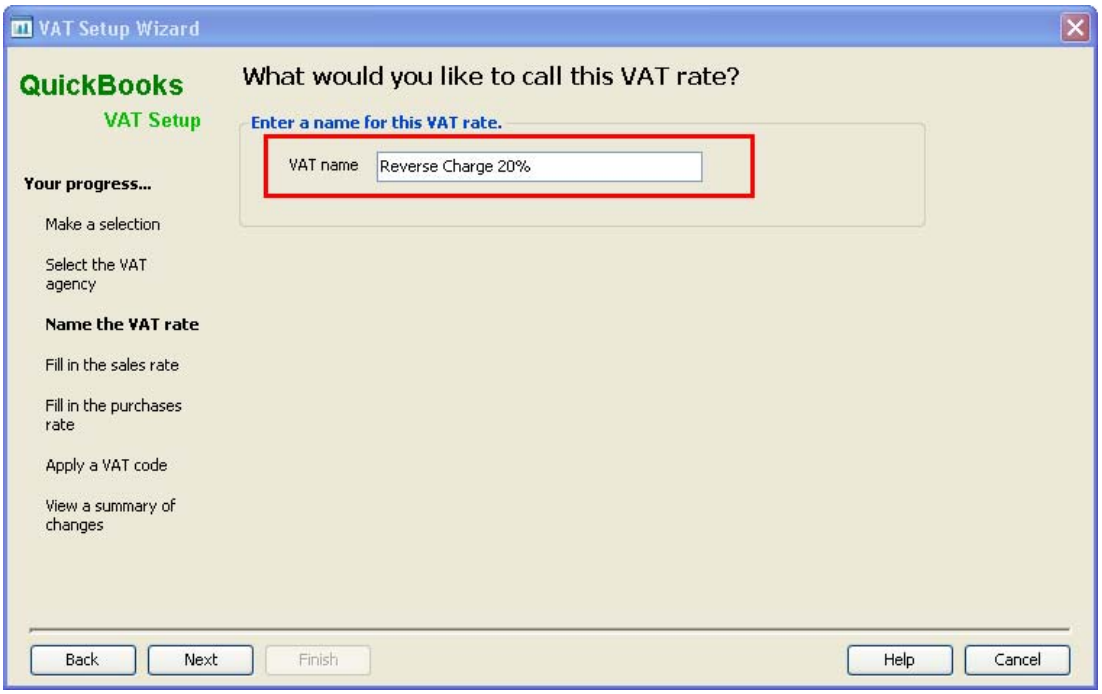


2. Select the Add a new VAT rate radio button and click Next.

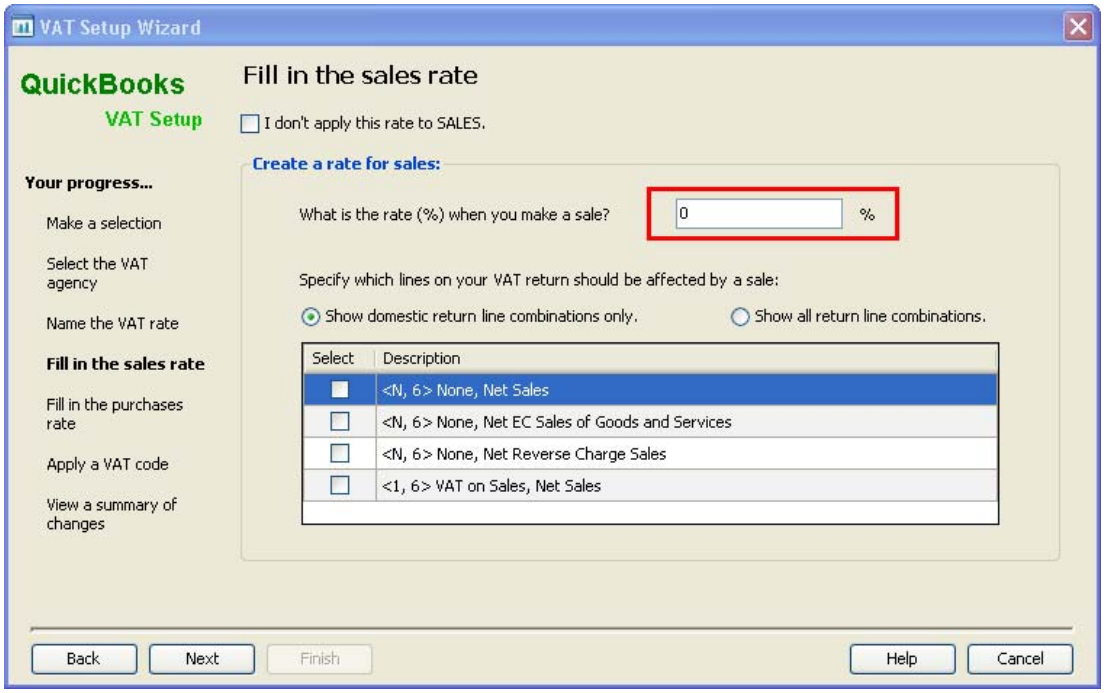


3. Check that the VAT agency is set to HMRC VAT, or select from the drop down list, and click Next.

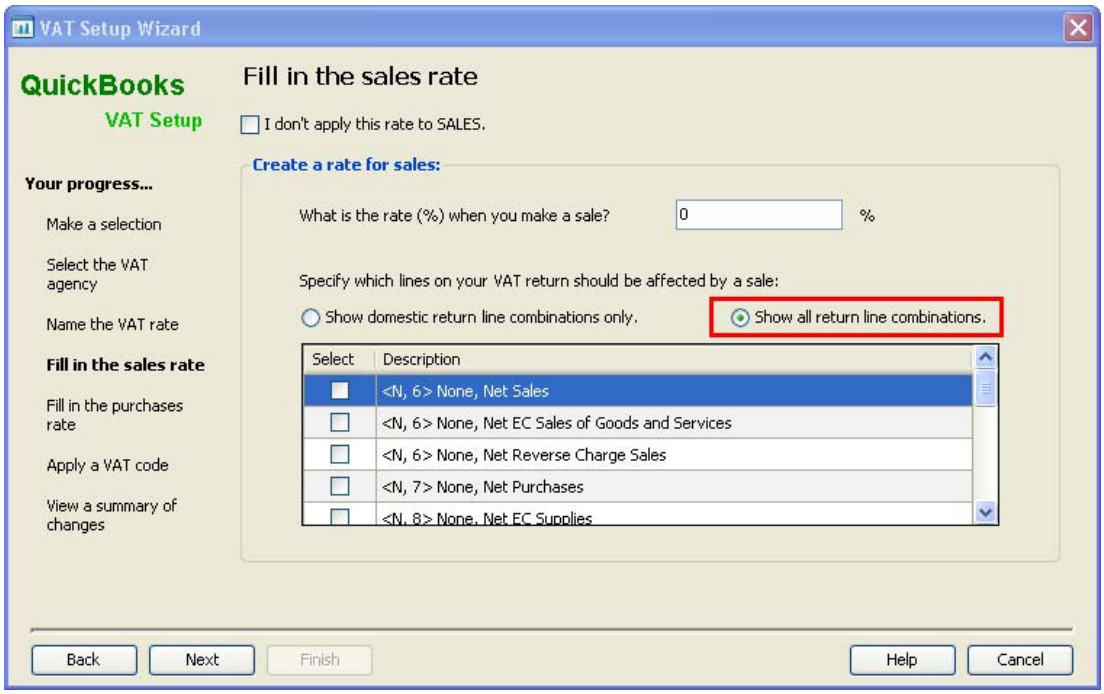
4. Enter a name for the item. The name is for your own use. Click Next.



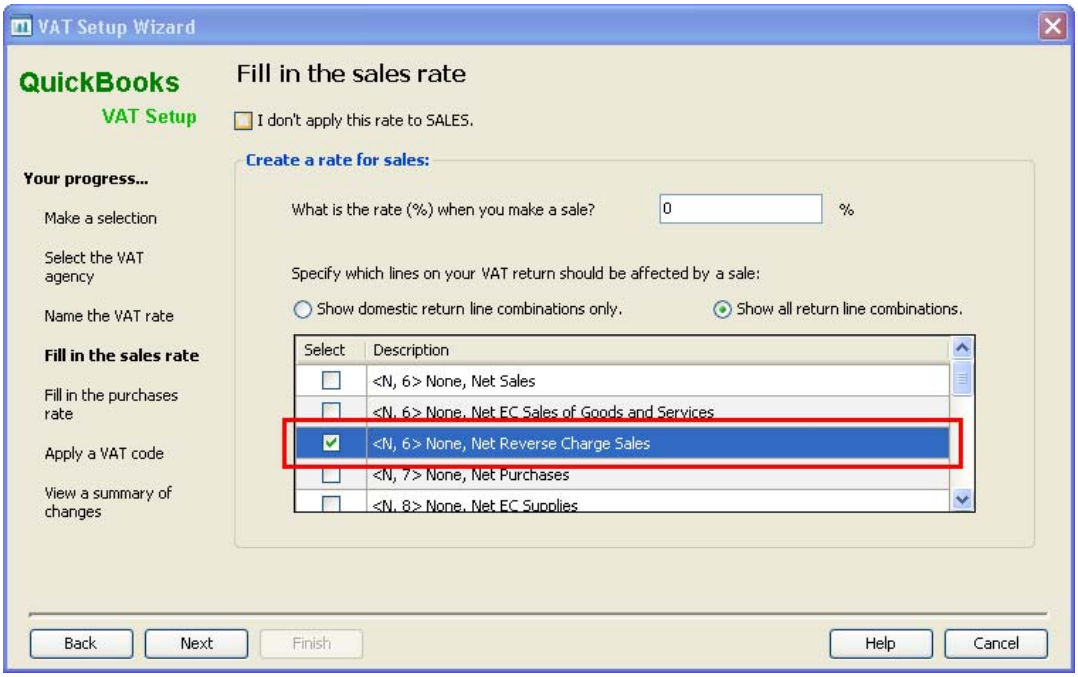
5. Enter the applicable VAT Rate % you charge on your sales e.g. 0 Click Next.



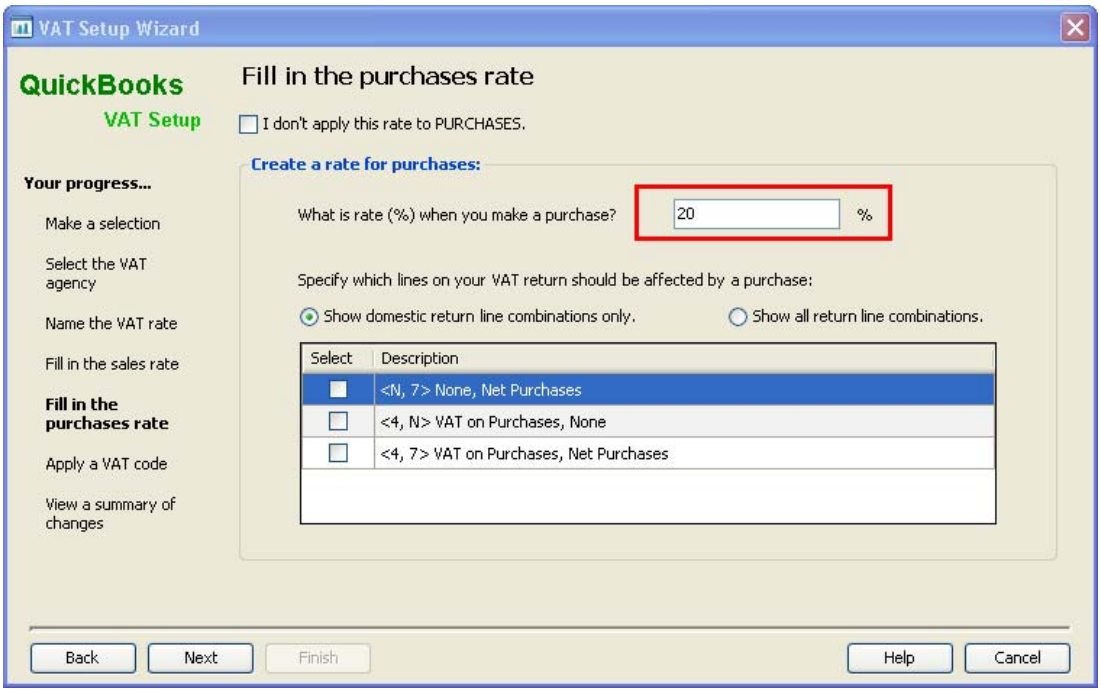
6. Select the radio button Show all return line combinations. The selection of VAT return combinations will expand to include EU transactions.



7. From the options displayed, select which VAT Return Boxes the purchases must be reported in. Refer to the table in section 3.2 above, for the applicable combination/s. Click Next.



8. Enter the applicable VAT Rate % you charge on your sales e.g. 20 Click Next.



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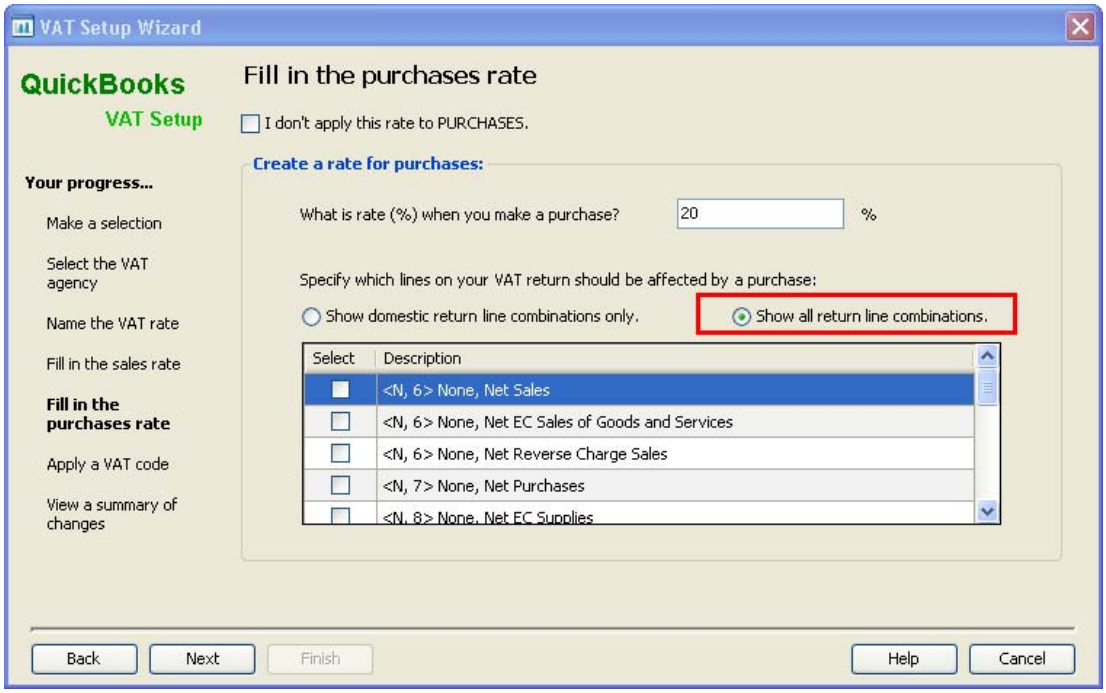

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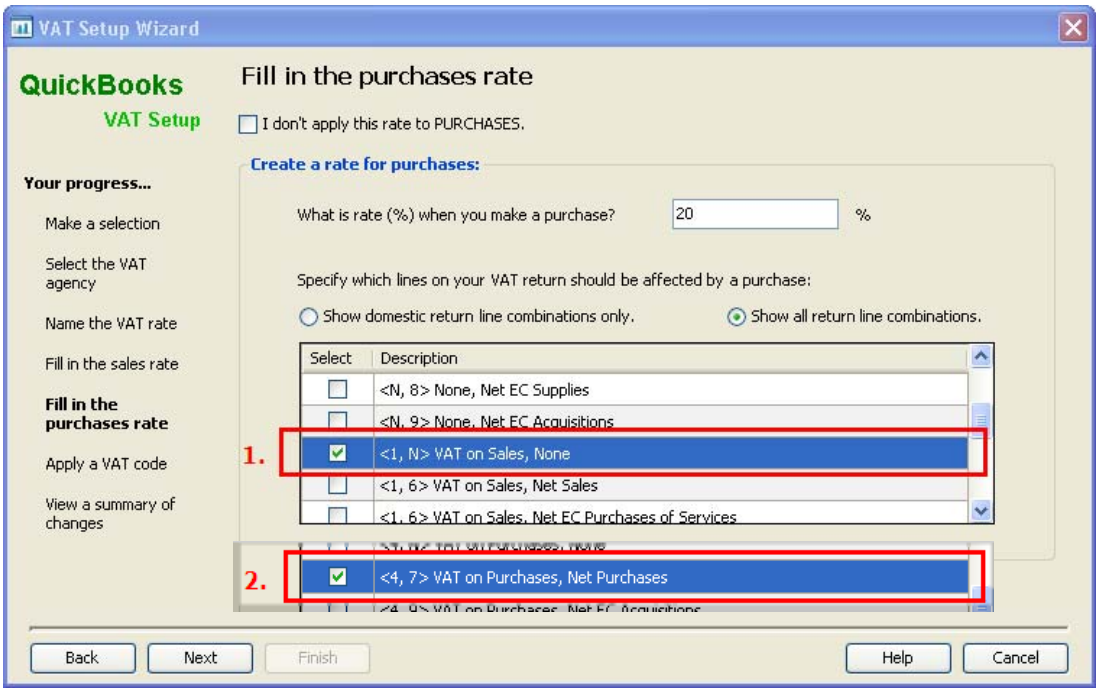

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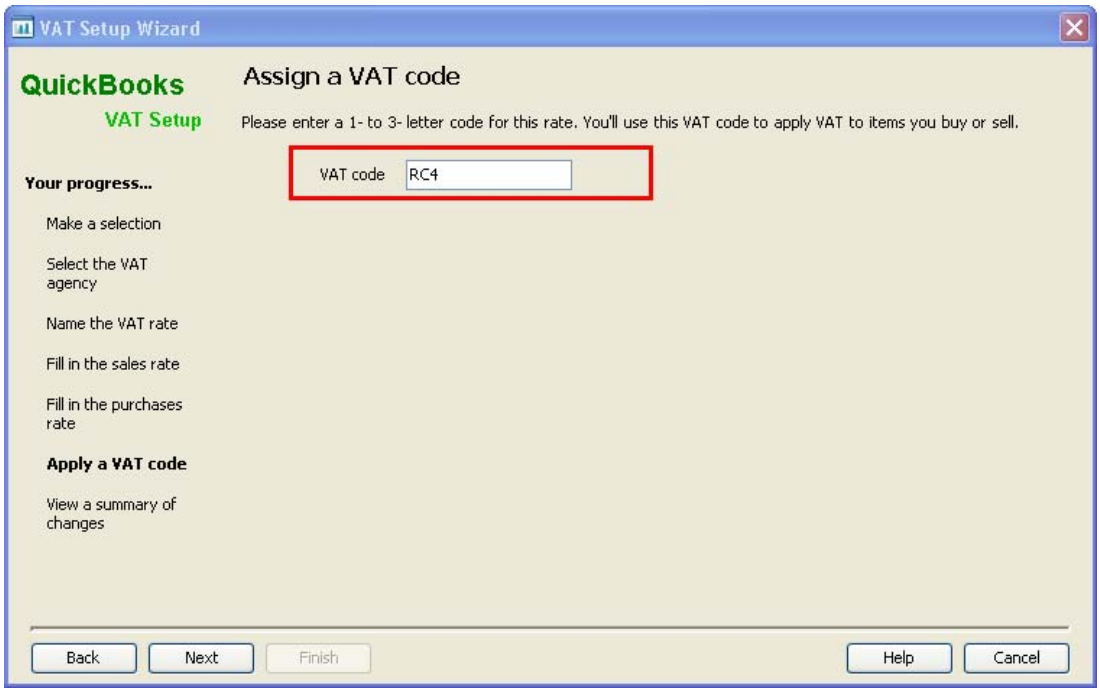

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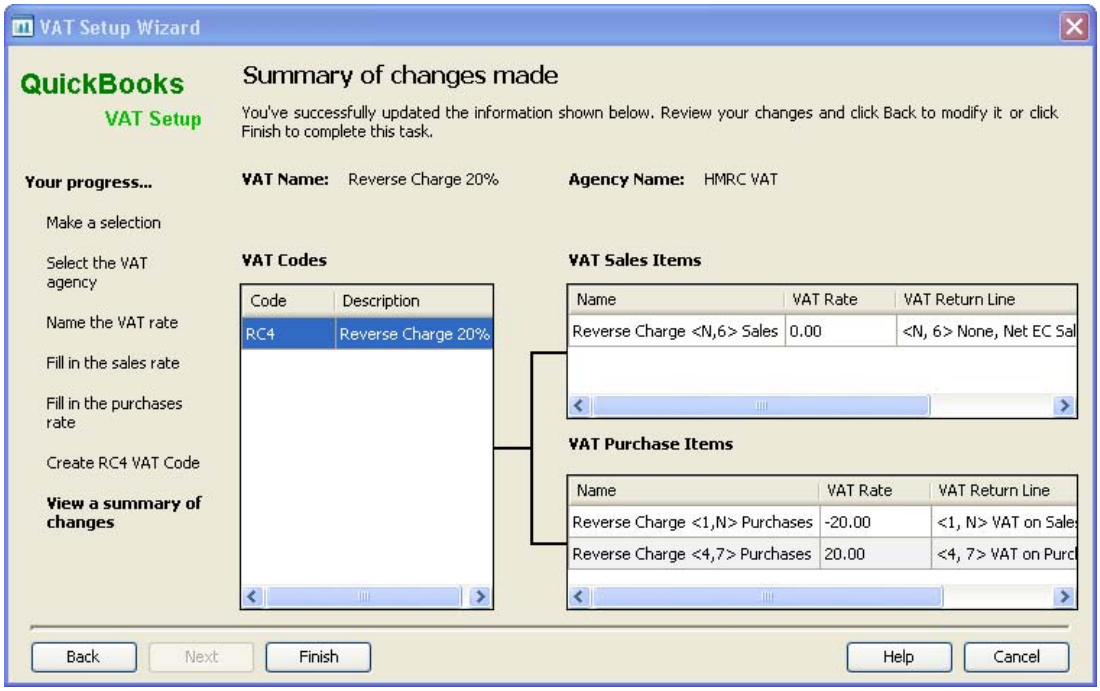


13. You will be back at the Manage VAT screen.

You will now have completed creating your new VAT Codes. You will need to assign the new VAT codes. We recommend that you only assign the VAT codes when you need to process transactions at the new 20 % rate.

3.4 Assign the new VAT codes

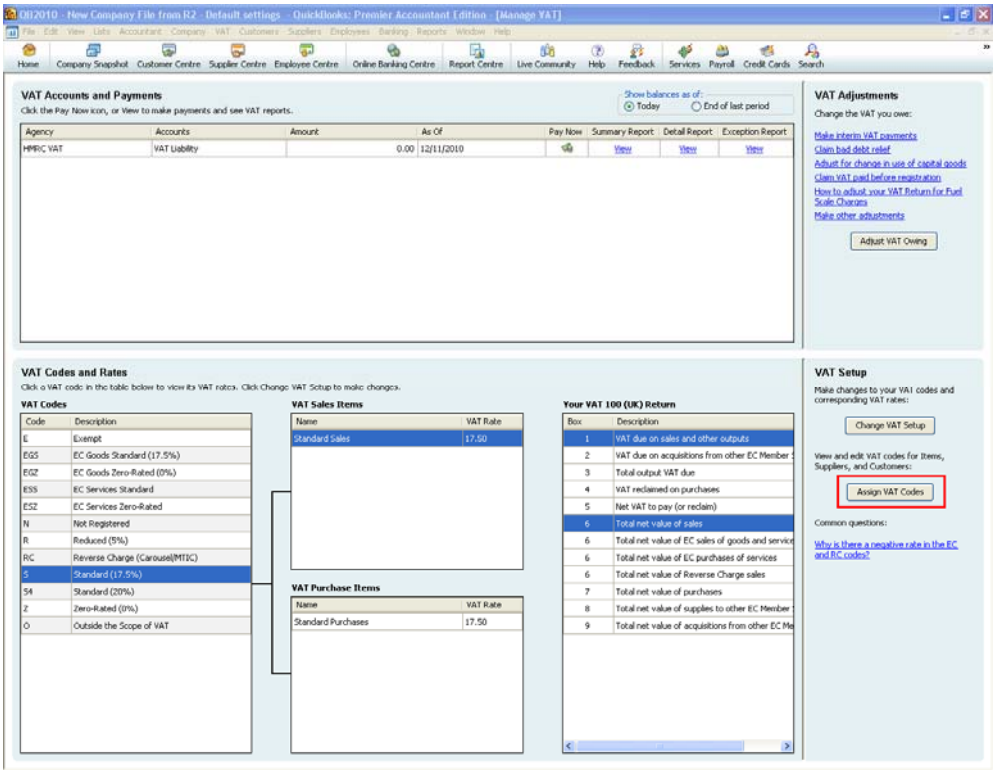
After you have created your new VAT codes, you will need to assign each new code to your sales items, purchase items, customers, suppliers and accounts. You can either do this following the creation of your new VAT code/s, or you can come back to this step later.

We recommend that you only assign the VAT codes when you need to process transactions at the new 20% rate.

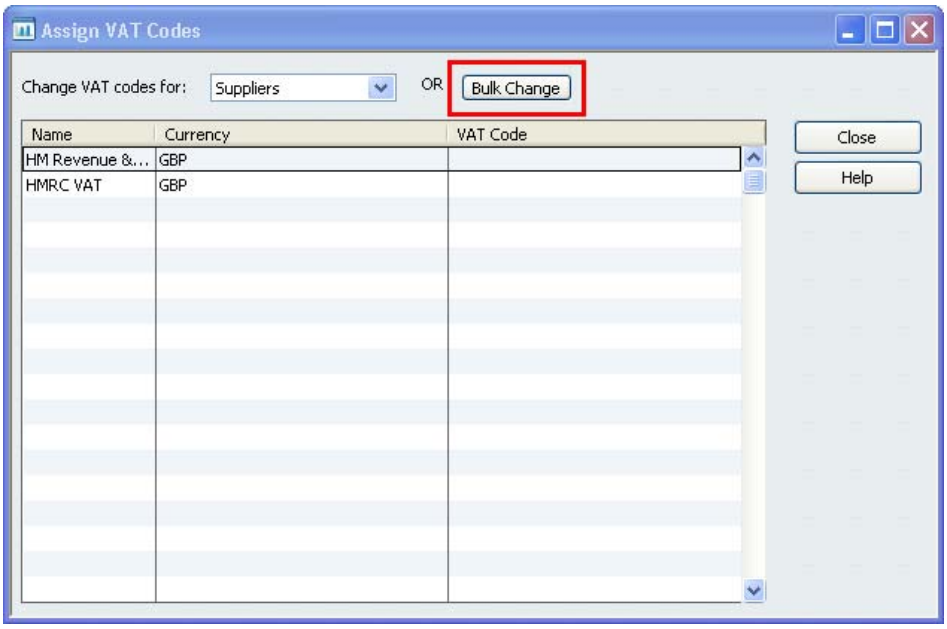
Using the check list in section 3.1, simply check each VAT code once you have assigned it. That way you'll know that you've updated them all

To access this screen go to the VAT menu and click Manage VAT.

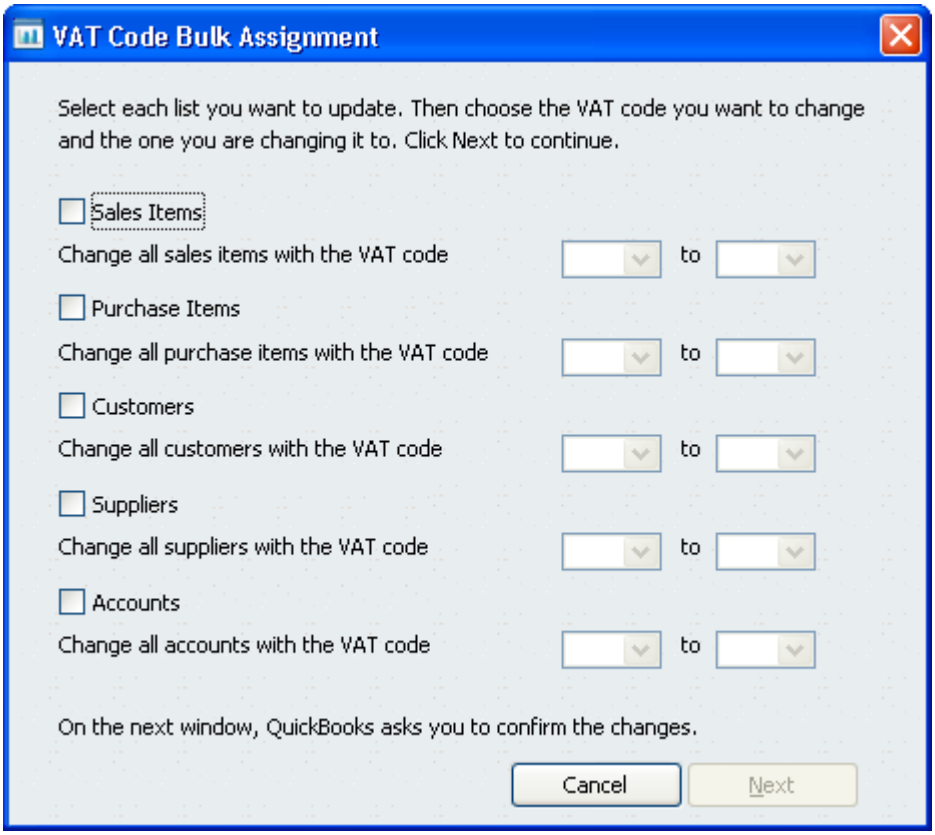
1. Click Assign VAT Codes.



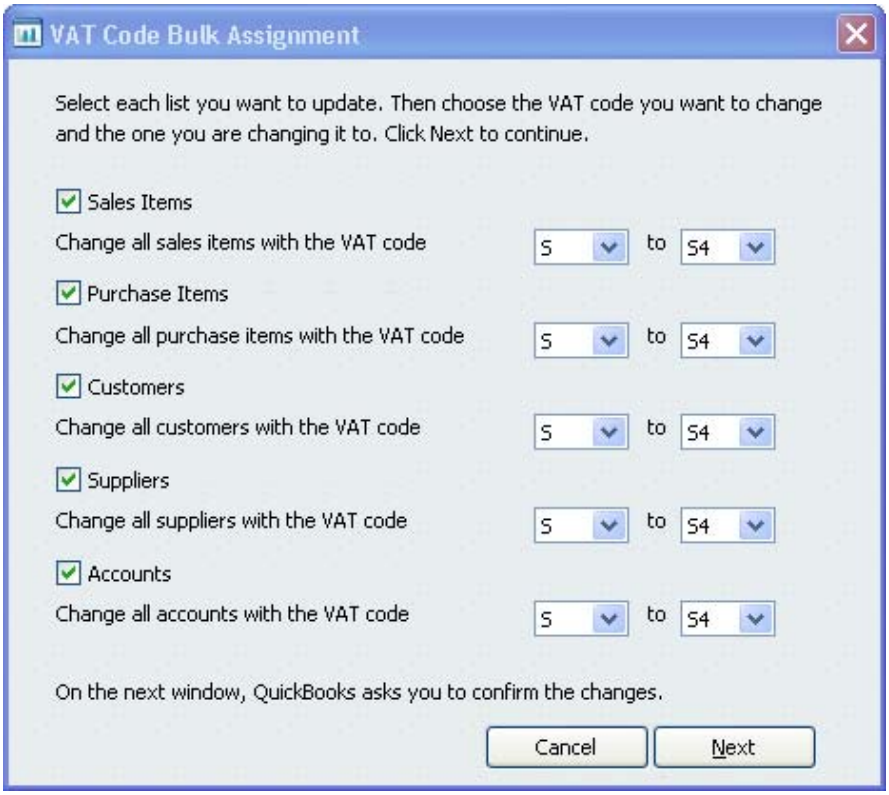
2. Click on Bulk Change.



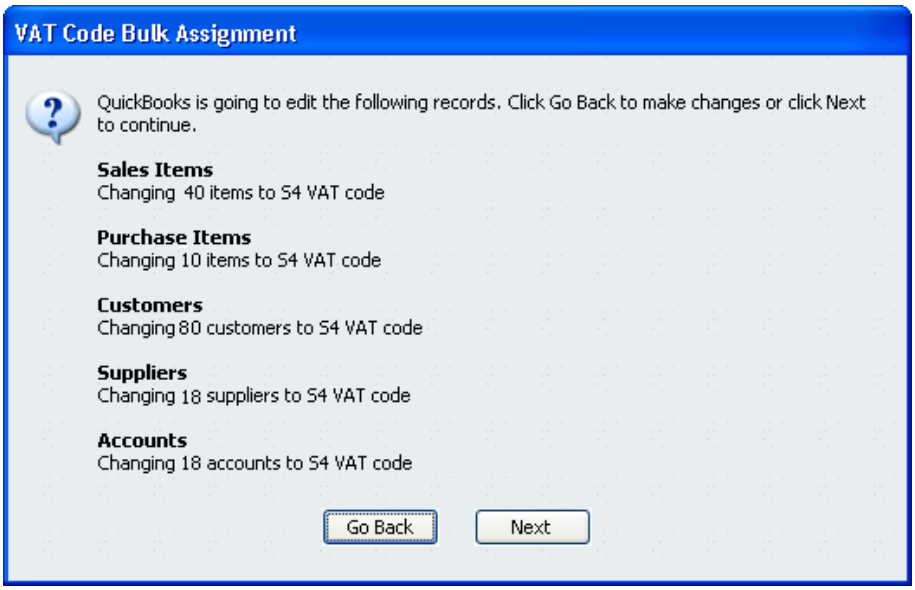
3. A message is displayed recommending a backup. Click Yes to backup your files.
4. After the backup is completed, the VAT Bulk Assignment screen is displayed.



5. Select each list that you want to change by clicking on the checkbox.
6. From the drop down list, select the VAT code to be changed from.
7. From the next drop down list, select the VAT code you are changing it to.
8. When you have finished selecting the VAT codes, your screen will look similar to the example shown (this will depend on your particular options).



9. Click Next.
10. A screen is displayed showing a summary of the changes to be completed. If any changes are required, click Go Back to return to the previous screen and correct. If the changes are correct, click Next.

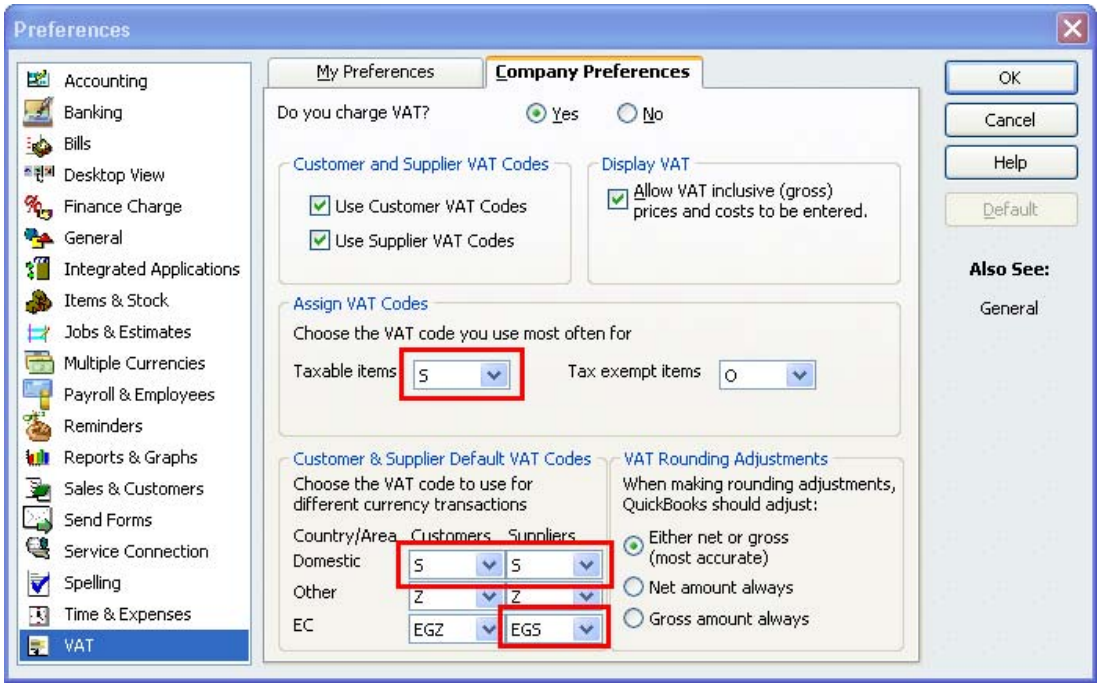


11. A summary of the changes made is displayed. Review the changes for correctness. Click OK.
12. Click Close.
13. You will return to the Manage VAT screen.
14. Repeat this process for all the new VAT codes created.

Historical invoices will not be affected, they will still use the 17.5 % VAT rate.

3.5 Update your Company Preferences

1. Go to the Edit menu and click Preferences.
2. In the Preferences window, click VAT in the list on the left.
3. Click the Company Preferences tab.
4. Update the default VAT codes where required (your new 20 % VAT code).
5. Click OK.



4 Option 2: Edit your existing Standard Rate VAT code

4.1 Checklist

Complete the following checklist of required changes:

- ❑ Update the Standard Rate VAT Code
- ❑ Modify invoices or purchases created prior to 4 January 2011
- ❑ Entering historical transactions after 4 January 2011 using the old rate of 17.5 %

Note: EC codes, items, and groups are not required for cash accounting.

4.1.1 Update the Standard Rate VAT Code

We recommend that you update your VAT rates in your previous version of QuickBooks before you upgrade your company file to QuickBooks 2008. However, if you have not done so, you can still update your VAT rates as follows.

1. Go to the **Lists** menu and click **Item List**.
2. In the Item List window, click the Type column header to sort the list by item type.
3. Scroll to the items of type VAT Item and adjust the window so that you can see both the Name and the Price columns.
4. Look for VAT Items that have "Standard" in the Name AND that have a Price of 17.5 %

There should be two of them—one for the VAT you charge on sales and the other that you pay on purchases. If you have EC VAT items (EC Purch Goods Standard and EC Purch Services Standard), make sure that you change those items to 20 % as well.

For each of these items:

a) Double-click the item in the list.
b) Change the VAT rate to the new 20 % value.
c) Click OK.

In the Item List, identify the VAT groups "EC Purch Goods 17.5 % Group" and "EC Purch Services 17.5 %", and then edit the description to change the reference from 17.5 % to 20 %.

4.1.2 Modify Invoices or Purchases created prior to 4 January 2011

Any invoices or purchases you edit will use whatever VAT rate that you have set in your company file. For example, if you changed the VAT rate to 20 %, any invoices that you edit will use a VAT rate of 20 %. Therefore, if you need to edit an invoice, bill, or other form created prior to 4 January, 2011, then you must recalculate the VAT manually.

1. Highlight the VAT field.
2. Press the Delete key.
3. Use QuickMath to calculate the total VAT: Type a plus sign (+). The VAT field will change to look like a ragged-topped strip of calculator tape.
   a) Enter the amount from the first line with a standard VAT code.
   b) Press the plus sign, and then repeat for every line with a standard VAT code.
   c) Press the equals sign to total it.
   d) Then type an asterisk (*) for multiply, then apply the correct historical VAT rate — 0.175.
   e) Press the **Enter** key to calculate the VAT amount and end QuickMath mode.
4. Remember to save the transaction when you're done.

The VAT field has now been manually recalculated.

Once you have manually recalculated the VAT, and you need to change any items or amounts on the transaction, you MUST manually recalculate the VAT again. Otherwise QuickBooks will automatically recalculate the total using the current rates on the VAT codes.

4.1.3 Entering historical transactions after 4 January 2011 using the old rate of 17.5%

A historical transaction is a bill, invoice, or other transaction that takes place in the past, before the VAT rate change on 4 January, 2011.

Entering a large number of historical transactions.

If you have many historical transactions to enter with the 17.5 % VAT rate, do the following:

First, before entering the transactions, change the VAT rate to 17.5 % in your VAT codes:

1. Go to the **Lists** menu and click **Item List**.
2. In the Item List window, click the **Type** column header to sort the list by item type.
3. Scroll to the items of type VAT Item and adjust the window so that you can see both the **Name** and the **Price** columns.
4. Look for VAT Items that have "Standard" in the Name AND that have a Price of 20.

There should be two of them—one for the VAT you charge on sales and the other that you pay on purchases.

For each of these items:

a) Double-click the item in the list.
b) Change the VAT rate to the historical value:
c) Change the **VAT Rate (%)** or **Amt** field to 17.5 %.
d) Click **OK**.

Second, enter all the necessary transactions with the 17.5 % VAT rate, using the standard business forms (invoices and so on) as you normally would.

Third, when you've finished entering the historical transactions, change the VAT rate back to 20 %.

1. Go to the **Lists** menu and click **Item List**.
2. In the Item List window, click the **Type** column header to sort the list by item type.
3. Scroll to the items of type VAT Item and adjust the window so that you can see both the **Name** and the **Price** columns.
4. Look for the two VAT Items that you edited earlier. These will be VAT Items that have "Standard" in the Name AND that have a Price of 20 %.
5. For each of these items:
6. Double-click the item in the list.
7. Change the VAT rates back to the new value:
8. Change the VAT Rate (%) or Amt field to 17.5 %.
9. Click OK.

After you change the VAT rate back to the new rate, if you need to change any items or amounts on these transactions, you MUST manually recalculate the VAT. Otherwise QuickBooks will automatically recalculate the total using the current rates on the VAT codes. For more details, click here.

Entering a small number of historical transactions.

If you only have a few historical transactions to enter, you can manually adjust the VAT amount on the transaction. Use the standard business forms (invoices and so on) as you normally would, but for each transaction:

1. Highlight the VAT field.
2. Press the **Delete** key.
3. Use QuickMath to calculate the total VAT:
    a) Type a plus sign (+). The VAT field will change to look like a ragged-topped strip of calculator tape.
    b) Enter the amount from the first line with a standard VAT code.
    c) Press the plus sign, and then repeat for every line with a standard VAT code.
    d) Press the equals sign to total it.
    e) Then type an asterisk (*) for multiply, then apply the correct historical VAT rate — 0.175.
    f) Press the **Enter** key to calculate the VAT amount and end QuickMath mode.
4. Remember to save the transaction when you're done.

Once you have manually recalculated the VAT, and you need to change any items or amounts on the transaction, you MUST manually recalculate the VAT again. Otherwise QuickBooks will automatically recalculate the total using the current rates on the VAT codes. For more details, click here.