VAT Tax Update

June 2009

VAT News

In the 2009 Budget, aside from the usual housekeeping such as the increase in the VAT registration and deregistration thresholds and changes in fuel scale charges, formal VAT related announcements will come into effect on 1 January 2010. All of the measures have been trailed previously but the change is considerable and this update highlights the main points and the actions required in order for businesses to be ready for next year.

VAT Rate Change

The Chancellor confirmed that the standard VAT rate would return to 17.5% on 1 January. Experts have estimated the cost for UK businesses of reinstating this rate will run to more than £850m, a figure that dwarfs the Treasury impact assessment of £125m. Whilst the reduction in the VAT rate for a year was welcome, any change in the rate creates numerous accounting and systems issues for businesses, particularly those in the retail sector. The return to the 17.5% rate is in the middle of many businesses' holiday period and the complex anti forestalling provisions enacted will do nothing to ease the administrative burden.

International Services

The impact of the remainder of the changes, both positive and negative, will be felt by those businesses involved in international services. The 2009 Budget formally announced the EC wide implementation of the measures known as 'The VAT Package'. A summary of the main changes are:

Place of supply of services

The place of supply determines whether a business is required to account for UK VAT on its supplies or whether charges can be made outside the scope of UK VAT. On supplies made cross border, VAT, if applicable is only due in one country. The current basic rule is that the place of supply of services is deemed to be where the supplier is based, with exceptions (i.e. consultancy, marketing, etc.) that allow this to be shifted to where the recipient of the service is based. From 1 January 2010, the new basic rule for supplies of services to businesses overseas will be that VAT is due in the place where the recipient of the services is established and it is the recipient that must account for the VAT due. For supplies to non-business recipients the place of supply remains where the supplier is established.

This change is welcome as it should reduce many businesses' need to reclaim non-UK VAT or register elsewhere in the EU. In terms of when a business should self account for UK VAT on receipt of such services, the rules have been amended to when the service is completed or, if earlier, when it is paid for. For continuous supplies that are not subject to billing or payment periods, the tax point will be 31 December each year. These changes may require changes to accounting systems for those affected, to ensure that this VAT is picked up correctly in the completion of VAT returns.

Extension of EC Sales Lists (ESL) to services

Currently, businesses trading with other EU Member States only need to file ESLs in respect of intra-EU supplies of goods. This new measure introduces a requirement for UK businesses that supply services in other EU countries to supply quarterly ESLs. The services included will only be those on which the customer is required to account for VAT and the recipient's VAT number and the total value of the services supplied will need to be recorded. ESLs for the supply of goods will be required to be submitted monthly and the time limit available for submission is to be reduced from six weeks to 14 or 21 days. These new measures will require considerable accounting system changes to identify EU supplies of services from non-EU supplies and to separate out those supplies that need to be identified on the declarations.

Recovery of VAT incurred in other EU countries

When a business incurs VAT in other EU countries in the course of its business it is possible to make a claim for repayment of this VAT. The current procedure is based on sending paper claims to the relevant overseas authority, which are then processed over anything from six to 12 months.

The new regime will allow businesses established in one Member State, but incurring VAT in other EU countries, to submit a claim to recover that VAT electronically, to their own tax authorities rather than direct to the Member State where the VAT was incurred. The country making the refund will have four months to make a repayment and will be obliged to pay interest if this deadline is not met.

In short, these changes are broadly welcome but they require forward planning by businesses in terms of ascertaining the impact on accounting systems and administration. We would urge that consideration be given to the impact well in advance of 1 January in order to make any transition as smooth as possible.

If you have any VAT matters you wish to discuss further, please contact Jackie Richmond, VAT Director at jrichmond@menzies.co.uk.