

The VAT Update

Course book



...market leaders for VAT training

Course book

This document contains the text of the PowerPoint displays that are used during the presentation of the course

The VAT Update

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Session 1: Brexit and international considerations

Exporting goods

Exports to the EU in 2021 – what is the VAT treatment?

- Sales to EU countries become exports
- UK VAT registered businesses can still **zero rate** these supplies subject to the following...
 - The goods leave the UK within three months of the time of supply
 - Evidence of export is retained
- The time of supply for exports is the earlier of...
 - Goods sent or collected
 - Full payment is received

Evidence required to zero rate exports

- Evidence of all exports must be kept to prove the time of supply
- Must be obtained within 3 months of the time of supply
- **Official evidence or commercial evidence supported by supplementary evidence**

Official evidence	Supplementary evidence	
Produced by customs systems... <ul style="list-style-type: none"> • C88 • GDM (Goods Departed Message) 	<ul style="list-style-type: none"> • Order • Sales contract • Inter-company correspondence • Copy of export sales invoice • Advice note 	<ul style="list-style-type: none"> • Consignment note • Packing list • Insurance and freight charges • Evidence of payment / receipt of the goods
Commercial evidence		
Describes the physical movement... <ul style="list-style-type: none"> • Sea/air waybills • Bills of lading 		



What information must be shown on export evidence?

- For official, commercial or supplementary you need the following details:
 - The supplier
 - The consignor if different
 - The customer
 - The goods
 - An accurate value
 - The export destination
 - The mode and route of transport
- The evidence required for indirect exports is greater than for direct exports

Question 1

A UK business sells bespoke goods to a French customer on 12 January 2021 – full payment is made on 8 February 2021

Due to production delays, the French customer does not receive the goods until 20 May 2021

Can the UK company zero rate the supply?



Importing goods

Importing goods from the EU in 2021 – how do you account for VAT?

- Imports are zero rated by the supplier but import VAT is charged by HMRC (not the supplier) at the point of import
- **Import VAT** is charged at 20% or the rate appropriate to the goods
- It is charged on the value of the goods including customs duty and incidental costs
- Payment of import VAT can be delayed – to do this there are two options available
 - Deferment account
 - Postponed VAT Accounting - NEW

Deferral of import VAT – Postponed VAT Accounting (PVA)

- Allows import VAT to be accounted for on the VAT return
 - You do not need to be authorised
 - Goods imported must be for your use
 - Applies to goods from anywhere in the world – not just the EU
- Use of PVA is notified on the customs declaration with an entry G in box 47e method of payment
 - No C79 VAT certificate will be issued for PVA
 - An online Monthly Postponed Import VAT Statement (MPIVS) will act as evidence
- VAT is declared as an output and input on the same VAT return
 - Avoids the need to pay and reclaim VAT
 - Normal rules for VAT recovery apply



How to apply postponed VAT accounting

- Customer in the UK buys goods from a supplier outside the UK
- Calculate VAT on the invoiced amount
- Include VAT of £200 in box 1 and 4 of the VAT return
- Also include supply in box 7 – total value of purchases (ex VAT)

Importing goods with a value up to £135

- From 1 January 2021, Low Value Consignment Relief was removed and for goods up to £135
 - The point at which VAT is collected moves from the point of importation to the point of sale
 - UK supply VAT, rather than import VAT will be due on such consignments
- Applies to both B2B and B2C supplies
 - If VAT registered customer supplies VAT number they will apply reverse charge
- For goods sent from overseas and sold directly to UK consumers, overseas supplier will be required to register and account for UK VAT
- This will also impact online marketplaces (OMPs)...



Online marketplaces (OMPs) in 2021

- Since 1 January 2021 OMPs are responsible for charging and accounting for VAT on sales of goods owned by an overseas seller to the UK and sold through their site
 - If the consignment value is less than £135 *or*
 - If the goods (any value) are in the UK at the point of sale
- Exceptions exist
 - The final customer is UK VAT registered and the goods are outside the UK at time of sale – customer reverse charge
 - Goods in UK at time of sale and customer is VAT registered- overseas seller invoices and charges VAT as will be UK VAT registered

Call off stock

Call-off stock in 2021...

- In January 2020 there was a change to call-off stock...
 - An EU business could account for call-off stock as if a single transaction if customer calls off within 12 months
 - Removes need to register in destination member state
- Simplification no longer applies - the supply is now an export not an EU sale
 - UK supplier must obtain a VAT number in the member state where the call-off stock is held
 - Import VAT and duty may be due
 - Fiscal representative may be required in all members states where stock is held



Distance selling

How have B2C sales to the EU changed?

- Distance selling thresholds and rules no longer available to UK businesses (only apply to EU members)
- Since 1 January 2021 sales from the UK to consumers in the EU are zero-rated for UK VAT as exports
 - The customer will be liable to import VAT and customs duties (possibly at the border)
 - likely to cause problems for customer
- GB businesses will have access to an Import One Stop Shop (IOSS) from **1 July 2021**
 - Part of the EU VAT e-commerce package replacing distance selling for EU member states
 - An extension of the MOSS scheme (*more later*)

What is the Import One Stop Shop (IOSS)?

- From 1st July 2021 EU exemption for imports with values not exceeding €22 removed and all imports into the EU are subject to VAT
- IOSS introduced to facilitate and simplify distance sales of goods to EU consumers with value less than €150
- Simplifies process for the buyer – VAT charged at point of sale by the supplier
- Goods must be dispatched from outside the EU
- Requires UK business to register in a member state
 - Each member state has an online IOSS portal



How the IOSS works...

- UK supplier charges and collects VAT at point of sale
- Must charge the VAT rate applicable in the customer's country
- No import VAT or customs duty payable by customer
- Supplier will label goods showing IOSS ID number
 - Includes less detailed customs declaration
- IOSS ID verified in country of destination – goods can then continue to customer
- Supplier declares VAT on IOSS return and pays to appropriate member state via their IOSS portal
 - All IOSS supplies to EU countries on one return

IOSS – Other considerations

- Registering
 - If supplier is established in the EU they must register in that EU member state
 - If not established in the EU you can choose which EU member state to register for IOSS in
- Valuing goods - €150 limit is the price of the goods
 - Excludes incidental costs such as insurance and transport not included in price
 - Excludes other separately itemised costs such as licence fees
 - Includes other taxes or charges charged by the customs authority



VAT administrative forms in 2021...

- EC Sales lists
 - The EC Sales list is **not** required for sales of goods or services from GB to the EU from 1 January 2021
 - Still required in NI
- Intrastat
 - Intrastat arrival form continues to be required for goods imported to GB from the EU in 2021 - arrivals threshold of €1.5m for calendar year
 - Dispatches form not required for exports to the EU
 - Intrastat still required for NI traders until at least 2025

International services

Supplies of services with the EU in 2021

- The place of supply rules do not change in relation to B2B supplies of services
- They do not change for *most* B2C supplies of services
- General rules...
 - B2B - place of supply is where the customer belongs
 - B2C – place of supply is where the supplier belongs
- There are exceptions to the general rules



B2B services – what is the general rule?

The place of supply is where the **customer** belongs

UK customer, EU or non-EU supplier
The place of supply is the UK.
VAT is accounted for in the UK
and the UK customer applies
the reverse charge



Reverse charge procedure – recap...

- The overseas supplier does not charge VAT on their invoice
- The customer calculates VAT at 20% on the invoiced amount
- VAT is added to box 1 and box 4 of the VAT return
- The invoiced amount is added to box 6 and 7 of the VAT return

B2B services – what is the general rule?

The place of supply is where the **customer** belongs

UK supplier, customer outside the EU
Outside the scope of UK VAT – no VAT due – consider any domestic tax requirements

UK supplier, customer in the EU
Outside the scope of UK VAT – VAT accounted for in Germany – reverse charge applies



B2C services – what is the general rule?

- The place of supply is where the **supplier** belongs
- *But there are notable exceptions*

UK supplier, EU or non-EU customer
The place of supply is the UK - VAT is accounted for in the UK and the UK supplier charges UK VAT





Question 2

Can you name any intangible services?

What are intangible supplies?

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Where is the place of supply for intangible services?

- B2C intangible supplies – place of supply is where the customer belongs and outside the scope of UK VAT
- Exception was previously just when customer was based outside the EU – now extends to EU customers (from 1st Jan 2021)

Other intangible supplies follow the general rule



VAT MOSS scheme in 2021...

- Non-union VAT MOSS scheme is now available to UK suppliers of electronic services
- UK traders can register in just **one EU member state** rather than all member states in which services are supplied
- From 1 July 2021, MOSS will be extended and become a OSS (One Stop Shop) and will cover all B2C supplies of services where the place of supply is deemed to be in the EU
 - E.g. Admission to cultural, educational, sporting events, transport hire, valuation

EU commission press release "Modernising VAT for cross-border e-commerce" – September 2020

EU VAT refund scheme

Can you use the EU VAT refund scheme in 2021?

- VAT on expenses occurred in the EU is still reclaimable but you can no longer use the EU VAT refund system
- Each member state has its own process for refunding VAT to businesses outside the EU – these are detailed in the European Commission website



The VAT return in 2021 – summary of key international changes

VAT due on sales and other outputs	1	←	Includes... • EU sales - will be exports in 2021 – so zero rated • Imports – reverse charge on PVA
VAT due on acquisitions from other EC Member States	2		
Total VAT due	3		
VAT reclaimed on purchases and other inputs	4	←	Includes... • Input VAT on reverse charge PVA
Net VAT to be paid to HMRC or reclaimed by you	5		
Total value of sales and other outputs excluding VAT	6		Not used unless dispatches to EU from NI (4 years)
Total value of purchases and other inputs excluding VAT	7		
Total value of all supplies of goods excluding VAT to other EC member states	8	←	
Total value of all acquisitions of goods excluding VAT from other EC member states	9	←	Not used unless arrivals to NI from EU (4 years)



Session 2: Recent changes and relevant issues

UK VAT number checker

Checking VAT numbers

- The VIES EU system for checking the validity of VAT numbers is no longer available for use by UK VAT registered businesses
- HMRC has launched an online UK VAT number checker service
 - www.tax.service.gov.uk/check-vat-number/enter-vat-details
- Service provides...
 - Real time check on validity of UK VAT numbers
 - Name and address of relevant taxpayer

VAT payment deferral

- Deferral applied to payments falling due between 20 March 2020 and 30 June 2020
- All UK businesses were eligible and no application needed
- Payments could be delayed until 31 March 2021
- Generally deferral of one quarter's VAT payments due - 7 April, 7 May or 7 June (or monthly payments due on those dates)
- Also applied to annual accounting advanced payments and payments on account
 - I.e. POA due 31 March, 30 April, 31 May, 30 June
- Businesses are required to file VAT returns as normal



VAT payment deferral – when is payment due?

- Any VAT liabilities deferred are due for payment by 31 March 2021
- **New Scheme available** - opt-in to make interest free instalment payments over a longer period up to 31 March 2022
 - Online VAT deferral new payment scheme went live 23rd Feb 2021
 - Scheme closes 21st June 2021
 - Can spread payments with 2 or 11 instalments
 - Payments can start from March 2021
 - Requires you to set up a direct debit and you must submit any outstanding returns from the last 4 years
 - Online scheme cannot be accessed by your agent

E-publications

Question 3

What is the VAT liability of...

- A printed copy of The Times
- A subscription to the digital publication of The Times



E-publications now zero rated

- Zero rating for e-publications brought forward from December 2020 to 1 May 2021 in response to COVID lockdown measures
- Aimed to support literacy and reading
- Cannot apply to publications which are wholly or predominantly advertising, audio or video content

E-publications

- Books
- Newspapers
- Magazines
- Brochures
- Leaflets
- Academic journals and periodicals

Temporary reduced rate for hospitality

What is the reduced rate for the hospitality sector?

- Temporary reduced rate of 5% was introduced for hospitality sector
- Applied from 15 July 2020 until 31 March 2021 – **now extended to the end of September**
 - Then 12.5% for 6 months
 - Back to 20% from April 2022
- Rate applies to...
 - Food and drink
 - Overnight accommodation – hotels etc
 - Admission fees to tourist attractions



Question 4

A couple go to the pub and buy a meal consisting of...

	Standard rated (20%)	Reduced rated (5%)
Fish and chips		
A pint of lager		
A ham and cheese sandwich		
A packet of crisps		
A lemonade		

Which items are standard rated and which are reduced rated?

Question 5

Another couple go to a licensed takeaway and buy the same items...

	Standard rated (20%)	Reduced rated (5%)
Fish and chips		
A pint of lager		
A ham and cheese sandwich		
A packet of crisps		
A lemonade		

Which items are standard rated and which are reduced rated?



VAT on electric and low emission vehicles

Question 6

- Can you reclaim input VAT on the purchase of an electric car?
- Can you claim input VAT on electricity used to charge the car?

Reclaiming VAT on purchase of electric cars?

- VAT incurred on the purchase of new electric or hybrid vehicles is subject to the same “block” as traditionally fuelled vehicles- HMRC Notice 700/64
- So generally cannot be recovered unless car is
 - Stock in trade of a motor manufacturer or dealer
 - Intended for use as a taxi, driving instructor vehicle or for self drive hire
 - Used exclusively for purpose of business and not available for private use eg pool car
- The rules apply to outright purchase, hire and lease purchase and contract hire
 - 50% reclaim available on long term lease agreements



Reclaiming VAT for electric cars

- Business pays employees a mileage allowance
 - Input VAT recoverable at 4p per mile as per HMRC advisory fuel rate table - www.gov.uk/guidance/advisory-fuel-rates
- Input tax for charging your electric vehicle can be claimed if all of the following apply:
 - Trader is a sole proprietor
 - Charges electric vehicle at home
 - Electric vehicle is used for business purposes
- Recovery is only on the business use amount - apportionment based on mileage records - usual input tax rules apply
- A sole proprietor can recover the input tax for charging an electric vehicle for business use at other places

- If a business provides charging points at the place of business and vehicle is used for both business and private use...
 - Input VAT can be claimed by business but the employee is required to keep detailed mileage records
 - Reclaim of input tax is based on apportionment, or
 - Business can claim all input tax and account for output on deemed supply
- If an employee charges a vehicle used for business trips at home
 - No recovery of input tax as supply is to the employee



Expenses related to home working

Working from home and VAT recovery

- Recovery of VAT on expenses related to home working are subject to normal rules...
 - Input VAT can be claimed on goods and services for use in your business which are supported by a valid VAT invoice
 - If the purchase is also available for private use, only the proportion of VAT related to business can be reclaimed
- Such purchases may be made by employees on behalf of the business provided...
 - They are properly authorised
 - Supported by the appropriate VAT invoice


VAT invoice requirements

- Invoice value **exceeds £250** (inclusive of VAT)
 - Full VAT invoice required
 - Typical expenditure may include office furniture, computers, printers, phones etc
- Invoice value **less than £250** (retailers invoices)
 - A simplified invoice is sufficient
 - Typical expenditure could include stationery, office supplies, printers etc



VAT invoices – recap...

- Supplier's name, address and VAT reg. number
- Invoice number
- Customer's name and address
- Tax point
- Date of issue
- Description of goods or services
- Unit price
- Net amounts
- Amounts of VAT
- Gross amounts
- Rate of VAT

 XYZ Ltd 31 Shepherds Avenue South Cerney GL6 1AZ		ABC Limited 14 Farnborough Drive, Cheadle, SK13 2NG		
		VAT reg 315 4664 63 Sales invoice no 31456		
		Tax point 31.1.20	Invoice date 19.2.20	
Quantity	Description and Price	Net Amount £	VAT Rate %	VAT Amount £
15	Tables @ £200	3,000.00		
50	Chairs @ £40	2,000.00		
Cash discount of 5% if paid within 30 days		5,000.00	20	1,000.00
		VAT	1,000.00	
		TOTAL	6,000.00	



Question 7

An employee submits this invoice to her company, XYZ Ltd with her monthly expense claim.

Can this invoice be used by XYZ Ltd to reclaim VAT?

TAX INVOICE 57

From **HB ELECTRICALS** Date 08/02/2020
4 HAYWORTH ROAD
CROSBY, L22 4AN

To **Elaine Smith**
1 Park Road, Liverpool
L22 4AN

VAT Regd Number
618 5377 19

Quantity	Description	Unit Price	Amount
1x	4gb USB Memory Stick	£24	24 00
2x	Wireless keyboard	£19.99	39 98
1x	28" Widescreen monitor	£180	180 00
			+ VAT

CROXLEY Sub Total **243 98**
TERMS _____ V.A.T. @ **20** %/
Delete and complete as applicable. TOTAL **292 78**



Making Tax Digital

Implementation of Making Tax Digital

- MTD became mandatory for businesses with taxable turnover above £85,000 from April 2019
- Implementation of digital links was delayed until 1 April 2021
 - Your first VAT return period starting on or after 1 April 2021 will require full digital links to be in place
- MTD will be extended to all VAT registered businesses from 1 April 2022
- Quarterly income tax reporting from April 2023

HMRC Corporate Report “Building a trusted, modern tax administration system” – July 2020

Digital links

- Digital links require that any transfer of transactional data entered into a software package is done without manual intervention
- Therefore, no copying and pasting of data will be allowed
- Software used must be linked digitally
 - Creating a digital audit trail from the source accounting software to the VAT return
 - Only specific adjustments such as for partial exemption or margin schemes can operate outside the digital framework



Digital links – conditions for extension

- Implementation of digital records and submission are unaffected and businesses should already have these in place
- Formal application to HMRC to be made as soon as possible
- Applications considered on a case by case basis
- Applicants will have to explain why they cannot meet the deadline and set out plans for implementation
- Application must also include...
 - Detail of systems that cannot be digitally linked
 - Details of controls in place over manually transferred data

VAT reverse charge for the construction industry

Overview of the new reverse charge for the construction industry

- Applies to B2B construction supplies from 1 March 2021
- Customer accounts for supplier's output VAT
- Key conditions
 - Supply for VAT consists of construction services and materials
 - It is at standard or reduced rate VAT
 - Between UK VAT registered supplier and customers
 - Supplier and customer are registered for CIS
 - Customer intends to make an ongoing supply of construction services to another party
 - Supplier and customer are not connected



What services are included?

- Construction, alteration, extensions, demolition or dismantling buildings or structures
- Construction, alteration, extensions, demolition or dismantling forming part of land
- Pipelines, water mains wells, sewers etc
- Installing heating, lighting, air conditioning, ventilation etc
- Internal cleaning in course of construction
- Painting or decorating surfaces of a structure
- Services forming an integral part of the above

When does the reverse charge not apply?

- Reverse charge does not apply to the following
 - Supplies of VAT exempt building and construction services
 - Supplies not covered by CIS unless linked to such a supply
 - Supplies of staff/workers
- Reverse charge does not apply to the following customers
 - Non VAT registered
 - End-user – not making onward supply
 - Intermediary suppliers who are connected such as a landlord



Question 8

A school awards a contract to a double-glazing company to replace all the windows in the school gymnasium

Should the double-glazing company apply the domestic reverse charge?



Question 9

Europcar Group UK Ltd 2020

- Hire car with child seat - single or mixed supply?
- HMRC argued that it was a single supply and should all be standard rated

What do you think the decision was?

HMRC briefs, changes to guidance and tribunal rulings

- Opera house production costs: partial exemption and the allocation of residual input tax
 - Upper Tribunal allowed HMRC appeal that costs of production are only indirectly linked to catering outputs
 - HMRC v Royal Opera Covent Garden Foundation 2020
- Partial exemption: hire purchase
 - New method for attributing overheads to taxable and exempt supplies in HP transactions
 - Effectively treating the taxable supply as the amount financed and the exempt as the interest charged
 - HMRC Brief 8/20 based on CJEU decision in *Volkswagen Financial Services*



Danske Bank – place of establishment

- Extended the principle established in the earlier Skandia case concerning recharges of costs to a branch
 - Head office in Denmark supplied services to its branch in Sweden – which were governed to be subject to the reverse charge
 - Head office was in a VAT group in Denmark and had a Swedish branch - the CJEU applied the Skandia principle and ruled that the Danish head office and its Danish branches were a single taxable person and separate from the Swedish branch
 - Sweden applies a “local establishment approach” while other member states and the UK apply a whole entity approach
 - The case is important in highlighting the different approach Member states take to VAT groupings
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Pertemps – VAT and salary sacrifice scheme

- The case:
 - Liability to account for VAT in relation to the operation of a salary sacrifice scheme for temporary workers
 - The workers agreed to forego a proportion of salary in return for the payment of expenses by Pertemps
 - The ruling:
 - The First-tier Tax Tribunal allowed Pertemps’ appeal against HMRC’s ruling and HMRC appealed that decision to the Upper Tribunal
 - The Upper Tribunal has found against HMRC
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Melford Capital General Partner Ltd – VAT on investment fund costs

- The case:
 - Concerns the recovery of input tax by a VAT group on costs incurred setting up and maintaining an investment fund
 - HMRC disallowed claim for input VAT on the basis that most of the activities carried on by the appellant were not to be regarded for VAT purposes as economic activities
 - Melford challenged that view - argued that the UK VAT group (of which they were a member) was a fully taxable entity which only made taxable supplies of management services
- The ruling:
 - The FTT agreed with Melford and allowed its appeal

Marks and Spencer – Dine in for £10

- The case:
 - Relating to Marks & Spencer Plc (M&S) business promotion scheme known as “Dine in for £10 with free wine”
 - M&S claimed that the £10 paid by each customer under the scheme should only be apportioned
 - Accordingly there should be no VAT to pay in relation to the ‘free’ supply of wine
 - HMRC took the opposite view



Question 10

What do you think the decision was?

- Wine is free – no VAT to pay
- Wine is part of the £10 price – VAT is payable

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