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# VAT alert

## Budget 2018

October 2018

### Summary

The Chancellor of the Exchequer – Phillip Hammond – has delivered his latest Budget.

From an indirect tax perspective, we were not really expecting any major or far reaching developments. There had been a rumour circulating that he might consider implementing the Office for Tax Simplification's recommendation to reduce the UK's VAT registration threshold. However, in the end, he decided to 'park' that idea for now. The threshold is to remain where it is for at least another two years. The idea may resurface after the terms of the Brexit deal are finalised.

The Chancellor confirmed that the UK will change VAT law in relation to the use of vouchers by implementing into UK law the EU's VAT & Vouchers reforms. The new rules will come into force when the Finance Bill receives Royal assent.

The Chancellor also confirmed that the proposed 'reverse charge' for services in the construction industry will be introduced. This measure is intended to ensure that VAT due on services is collected and paid by the recipient of the service rather than the supplier.

The Chancellor has also announced changes to VAT Groups and to the eligibility criteria for suppliers of education services.

### Chancellor delivers 2018 Budget – VAT measures

In a Budget that apparently heralds the end of austerity, The Chancellor of the Exchequer has introduced a number of indirect tax measures. It is many years since the Budget revealed any major surprises. Most of the measures are trailed in advance and this year was no exception. There had been a rumour circulating that the Chancellor may grasp the opportunity to reduce the UK's VAT registration threshold (currently £85,000 – and the highest threshold by far in the EU). However, Phillip Hammond confirmed that he would actually leave the threshold where it is for at least two years. We can expect him to revisit this after the UK has left the EU.

The EU has introduced new legislation to introduce a new VAT regime for the supply of single and multi-purpose vouchers. The Chancellor announced that these measures will be introduced into UK law. The new law is designed to ensure that VAT is collected on the amount actually paid by the customer irrespective of whether payment is made by way of a voucher or otherwise. The new rules are complex and affected businesses need to familiarise themselves with the new concepts.

The Government will also introduce new legislation to ensure that VAT due from the construction industry actually makes it to the Treasury. New legislation will introduce a reverse charge – where the recipient of a service accounts for and reclaims any VAT due. There have been instances where suppliers in the sector have charged VAT to customers but have then failed to pay the VAT over to HMRC. This measure should eradicate the problem. Businesses in the construction sector will, again, need to familiarise themselves with the new rules.

Under its anti-avoidance measures, and following consultation, the Government is to amend the rules in the UK in relation to VAT groups. This follows a number of judgments from the Court of Justice. Firstly, the eligibility criteria to join or form a new VAT group is to be extended so that non-corporate entities (such as partnerships etc) can be included. Secondly, the Government is to update guidance to define what is meant by 'bought in services' to ensure that UK established businesses account for UK VAT on the receipt of services from abroad. A number of financial institutions have established UK branches of overseas business and incorporated the branch within a UK VAT group. Under current rules, the supply of many services by an overseas business to a UK VAT group of which it is a member is not liable to UK VAT under the reverse charge.

Finally, the Chancellor announced that the government is to amend UK VAT law to ensure continuity of VAT treatment for English higher education providers under the Higher Education and Research Act by enabling bodies registered with the Office for Students in the Approved (fee cap) category to exempt supplies of education. This measure means that some 'commercial' providers of education will now qualify as 'eligible' bodies and will be entitled to exempt their supplies of education. For these suppliers, this move to making 'exempt' supplies will have a detrimental impact on their ability to reclaim VAT incurred on costs and they will need to consider their VAT position going forward.

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