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# VAT alert

## VAT and Vouchers: Finance Bill introduces significant changes

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### Summary

For many years the question of when VAT should be accounted for and by whom in relation to the issue and resale of vouchers has been problematic.

The United Kingdom has had its own legislation to deal with this but there has been no consistent approach across the EU. This has led in some cases to either non-taxation of affected supplies or to double taxation.

As part of the overall review of the EU VAT system, the EU Commission issued proposals to provide a common system for dealing with VAT and vouchers. This culminated in 2016 with the publication of the VAT and vouchers Directive which amends the Principal VAT Directive and the recently published Finance Bill 2018/19 will implement these EU changes into UK law with effect from 1 January 2019.

The draft legislation provides definitions of single purpose and multi-purpose vouchers. This new legislation appears to accelerate the point on which VAT needs to be accounted for on SPVs and significantly increase the cost of issuing MPVs. Furthermore, intermediaries of vouchers may find themselves liable to UK VAT registration if the underlying goods are physically located in the UK when the voucher is supplied.

### VAT and Vouchers: Finance Bill 2018/19 introduces EU VAT rules into UK law

With effect from 1 January 2019 new VAT law will be introduced in the UK to implement the EU's VAT Directive on vouchers. The Finance Bill 2018/19 amends the UK's VAT Act in relation to supplies of vouchers that take place on or after 1 January 2019. These changes are significant and affected businesses need to familiarise themselves with the new rules. In essence, a voucher will be defined in the legislation as "an instrument where there is an obligation to accept it as consideration, or part consideration for a supply of goods or services where the goods or services to be supplied or the identities of the potential suppliers of those goods or services are identified on or within the voucher itself or in any related documents such as marketing material or terms and conditions". A voucher for these purposes will not include money off coupons, tickets for admission to future events or tickets issued for future transport. HMRC also considers that the supply of SIM cards for telecoms services do not constitute vouchers for these purposes.

The draft legislation also provides definitions of what will constitute single-purpose and multi-purpose vouchers and details their different VAT treatment. A single-purpose voucher is defined as a voucher where, at the time of issue, the place of supply and the VAT liability of the underlying goods or services is known. Under the new regime, far more vouchers will be regarded as single purpose vouchers than is presently the case and this will mean that issuers will be required to account for VAT much earlier than previously. This is likely to have an impact on working capital. It will also mean that many issuers will no longer be able to obtain the benefit of non-redemption (ie no VAT due where a voucher is not redeemed).

A Multi-purpose voucher will be any other voucher (as defined). In these circumstances, VAT will become due when a multi-purpose voucher is redeemed. The value of the supply of the underlying goods or services will either be the amount paid by the last person in the supply chain or the face value of the voucher if that value is not known. The new rules state that the actual issue or resale of the MPV itself will no longer be treated as a supply for VAT purposes. This means a VAT invoice will not be able to be issued and input tax incurred on purchases may not be recoverable.

Lastly, the draft legislation also states that the issue, and any subsequent transfer, of a voucher is to be treated "as a supply of relevant goods or services" (ie a supply of the underlying goods or services themselves) for which the voucher can be redeemed. This has potentially worrying implications for any non-established sellers involved in a SPV supply chain. It may mean that such intermediaries have a requirement to register for VAT in any Member State (including the UK) when they sell SPVs in respect of goods located there.

**Comment – the move to a harmonised system of dealing with VAT and vouchers across the EU is welcome as it should remove distortions of competition caused by the differing treatment in Member States. However, these changes potentially have very significant adverse implications for businesses involved in either issuing or distributing vouchers. It is important that these are carefully considered now to ensure that supply chains can remain robust from a VAT standpoint.**

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