VAT on vouchers explained

Voucher definition

The current UK VAT legislation defines a face value voucher as follows: *"face-value voucher" means a token, stamp or voucher (whether in physical or electronic form) that represents a right to receive goods or services to the value of an amount stated on it or recorded in it.*

Single or Multi-purpose voucher?

From May 2012, the concept of a single purpose voucher ("SPV") was introduced into UK legislation. This affects all SPV's whether credit, retailer or other types of voucher.

Under current UK VAT legislation, a single purpose face value voucher is one that carries the right to receive goods or services of one type, which are subject to a single rate of VAT.

As an example, a prepaid telephone card that can only be used for making telephone calls in the UK would fall under the scope of an SPV (as all calls would be liable to UK VAT), however, a retailer voucher that could be redeemed at a store that sells goods at different VAT rates (e.g. a children's t-shirt (zero rated) and an item of furniture (standard rated)) would not fall under the definition of an SPV. If it was redeemable for different types of goods liable at the same rate (e.g. furniture and adult clothing) it would also not be an SPV.

The previous rules disregarded the supply of face value vouchers when issued and VAT was brought to account on redemption. However, under the current rules, if a voucher is an SPV then VAT due on the SPV must be brought to account on issue.

Where an SPV is sold, both initially by the issuer and then by retailers or distributors, it is treated as a supply of the goods or services for which it can be redeemed. This applies whether the voucher is issued by the person from whom it can be redeemed or by a third party.

Example

A telecommunications company produces vouchers that entitle the holder to £10 worth of telephone calls which can only be made in the UK. It sells the voucher to a distributor for £8 and the distributor sells the voucher to a retailer for £9 the retailer then sells the voucher to the final consumer for £10.

The telecommunications company sells the voucher to a distributor for £8 and accounts for VAT on £8 as output tax. The distributor recovers the VAT as input tax and sells the voucher on to a retailer for £9 and accounts for VAT on £9 as output tax. The retailer recovers VAT as input tax and sells the voucher to the final consumer for £10 accounting for output tax on £10.

On redemption no VAT is due as VAT has already been brought to account on issue.

In reality, the vast majority of face value vouchers do not meet the current UK defintiOn of an SPV and as such will be defined as a Multi-Purpose Voucher (MPV).

EU directive on the VAT treatment of vouchers

In June 2016, the EU Council adopted a Directive outlining the VAT treatment of vouchers issued with effect from 1 January 2019 (on the basis that there is no current EU wide legislation covering vouchers). Legislation to comply with the Directive must be adopted by Member States by 31 December 2018 and must come into force on 1 January 2019 – the legislation will apply to vouchers issued after 31 December 2018.

The EU Directive also introduces the concept of an SPV and MPV (similar to current UK legislation), however the EU's definition of an SPV is different to that in the UK legislation.

Under the EU Directive, an SPV is one where the place of supply, the underlying supply of goods or services and the VAT due on those goods or services is known at the point of issue.

Therefore any voucher which does not satisfy the above criteria will be an MPV under EU legislation.

The EU directive also details the treatment through the supply chain. For an SPV, VAT will be due on each transfer of the SPV through the chain of supply, and VAT will also be due on any separate supply, for consideration, of intermediary services or of distribution or promotion of a SPV. The exact mechanism detailing the separate supplies of intermediary services will likely be addressed when the Directive is transposed into national law by each Member State.

The redemption of an SPV will not be regarded as an independent transaction, but the supplier of the redemption goods or services is regarded as having supplied those goods or services to the issuer of the voucher.

For MPV's VAT will only be due on redemption and the taxable amount for VAT purposes will be:

(a) if the redeemer knows how much was paid by the final consumer for the voucher, that amount (net of any amount of VAT due on the supply); or

(b) if the redeemer does not know how much was paid for the voucher, the face value (net of any amount of VAT due on the supply), and proportionally the same where the voucher is partly redeemed for goods or services.

The transfer of MPVs through the supply chain will not be taxable (in a similar way to the current UK treatment of a credit voucher), but VAT is due on any separate supply, for consideration, of intermediary services or of distribution or promotion of a MPV. The exact mechanism detailing the separate supplies of intermediary services will likely be addressed when the Directive is transposed into national law by each Member State.

It remain to be seen if or how the UK's departure from the EU will impact the adoption of the Directive, however, early indications from Treasury/HMRC are that the UK will adopt this VAT treatment.

Multi-Purpose Vouchers – current UK VAT rules

For MPVs the current UK VAT treatment of face value vouchers has not materially altered since 2003 and the following rules apply:

Retailer vouchers

These are face value vouchers where the voucher can be redeemed by the issuer (or a third party).

The consideration for the issue of a retailer voucher is disregarded except to the extent that it exceeds the face value. VAT is accounted for at the time the voucher is redeemed for goods or services on the value for which the voucher was initially sold.

Any supplies of a retailer voucher, following the first supply by the issuer are not disregarded and are taxable on issue. This is explained further below.

Credit vouchers

A credit voucher is defined as a face value voucher that is issued by a person who cannot redeem the voucher for goods or services themselves. Instead, they undertake to give complete or partial reimbursement to the person who does redeem the vouchers for goods and services.

Consideration for all supplies of credit vouchers is disregarded for VAT purposes except to the extent that it exceeds the face value. The redeemer of the voucher accounts for VAT at the time the voucher is redeemed for goods or services. However, to qualify for this treatment, the redeemer must account for VAT on the full face value of the voucher.

VAT implications for voucher providers Retailer vouchers

Whenever a retailer voucher is sold to a company which is VAT registered, the voucher provider should issue an invoice which shows the amount of VAT charged, which is included in the sale price of the vouchers. VAT should normally be charged at the standard rate (20%) unless it is known that the voucher can be redeemed for zero-rated or reduced-rated goods, or unless the retailer has, and is prepared to disclose, a composite rate (This will likely be the case on the basis that the vouchers are MPVs).

Many retailers have an agreed 'composite rate' with HMRC which averages out the range of standard-rated, reduced-rated and zero-rated goods that the retailer sells. These rates can be passed through the supply chain, if the voucher provider states its composite rate on a VAT invoice when supplying vouchers.

However, retailers still do not have to account for this VAT until the voucher has been redeemed.

Therefore some issuers are producing documents which serve as VAT invoices for their customers but which do not lead to VAT being accounted for through the accounts system for the issuer of the vouchers.

Example

A retailer sells its own vouchers to an intermediary. The total face value of the vouchers is £10,000 and the vouchers are sold for £9,500.

The retailer should issue an invoice for £9,500 (inclusive of VAT) and the VAT should be accounted for on the net value of £9,500 at 20%, or at a composite rate if this is stated. In short, the customer pays £9,500, inclusive of VAT. So based on 20% VAT, net purchase value would be £7,916.67, with VAT of £1,583.33. The issuer should state the following on the invoice "the issuer of the vouchers will account for tax under the face value voucher provisions in Schedule 10A VAT Act 1994."

VAT implications for third party intermediaries

When an intermediary purchases retailer vouchers, it can recover the VAT as input tax, subject to normal VAT rules and at the rate shown on the invoice. The tax point is the date on the invoice and the intermediary can recover VAT as at this date. When the intermediary sells the vouchers on to a corporate customer, it should raise a VAT invoice for the amount at which the vouchers are sold – in other words, including any margin set by the intermediary. VAT should be set at the same rate as that provided by the issuer. This means that if the retailer has a composite rate, this flows through to the onward sale of the voucher. If the intermediary is selling on to another supplier, then they must provide a full VAT invoice, inclusive of VAT at the **amount the voucher is sold for.**

Example

The intermediary buys retailer vouchers with a face value of £10,000 for £9,500. It can recover the VAT as input tax on the £9,500 (inc VAT) at the composite rate if stated by the retailer, or at 20% if no composite rate is stated. It then sells all the vouchers to a corporate customer for £10,000 (inc VAT). At this stage the intermediary should issue a VAT invoice for £10,000 (inc of VAT). If the composite rate is known, it should be stated on the invoice.

VAT implications for corporate customers

There has been a recent Court of Appeal ("CA") decision in the case of **Associated Newspapers Ltd ("ANL")** which has significant VAT implications for businesses (such as corporate customers) who purchase vouchers.

The CA has ruled that ANL was entitled to recover any VAT which it incurred on retailer vouchers which it purchased as part of a business promotion scheme. The CA also held that no output VAT would be due when the vouchers were awarded to readers who subscribed for its newspapers during the business promotion as this was "strictly business related purposes."

However, the CA drew a distinction between the VAT treatment of a corporate customer purchasing vouchers directly from retailers as opposed to through intermediaries. In this respect the CA held that ANL did not, in fact, incur any VAT on the purchase of the vouchers directly from retailers, and therefore could not recover input tax on the cost of the vouchers. In contrast, the CA held that ANL did incur VAT when purchasing vouchers through intermediaries.

Following this case, where vouchers are purchased from intermediaries then the VAT incurred by a corporate customer, on vouchers to be given away for business purposes, is recoverable and there is no corresponding output tax charge.

However, this is not the case when vouchers are purchased directly from the retailer. In such circumstances no VAT is incurred on the purchase of the vouchers and so there is no VAT to reclaim.

It should be noted that HMRC is seeking leave to appeal the ANL decision to the Supreme Court.

Corporate customers – Salary sacrifice

Where a corporate customer purchases a voucher directly from a voucher provider as part of a salary sacrifice scheme the corporate customer can look to recover the input tax, subject to normal VAT rules. Output tax is then due on the consideration received from employees. The employer also has to account for income tax and National Insurance Contributions at the appropriate level. For more information see the leaflet *The Voucher Association's guide to Tax and National Insurance on Voucher Incentive Schemes.*

Frequently asked questions

Corporate customers/intermediaries

- ***I thought that corporate customers didn't have to pay VAT when purchasing vouchers directly from the voucher provider?***
  See Associated Newspapers case noted above. Following this decision the full cost of the vouchers will be a cost to the corporate customer, unless it purchases the vouchers from an intermediary in which case it will be able to recover the VAT element as input tax if it hold a "Schedule 10A invoice".

- ***What happens if I receive a retrospective discount from a voucher provider or intermediary?***
  Your supplier should issue a VAT credit note at the VAT rate which was disclosed at the time the original invoice was issued.

- ***As an intermediary, can I ask the voucher provider for its non-redemption rate, and claim back the VAT on vouchers that I sold to a customer even though they were not redeemed?***
  No. HMRC treats the supply of vouchers from a third party intermediary as a 'business service'. This means that the sale is still subject to VAT, regardless of whether the end recipient redeemed the vouchers or not.

- ***Do these rules apply for electronic gift cards?***
  Yes. Any sale or purchase of an electronic gift card should be subject to the same VAT rules as a paper voucher.

- ***What happens if my voucher supplier does not tell me its composite rate?***
  It is at the discretion of the voucher retailer to disclose its composite rate. If the issuer chooses not to do so, then the standard rate (20%) will apply. However, the majority of suppliers are happy to disclose this information and the UKGCVA advises that customers call suppliers and ask for their composite rate.

- ***What if the voucher does not fit the description of the credit voucher or retailer voucher?***
  Face value vouchers that are not defined as either credit vouchers or retailer vouchers fall to be classified as other kinds of vouchers. All other kinds of voucher are subject to VAT on their sale. For example, if a high street retailer sells gift vouchers to an intermediate supplier, the onward sale of the vouchers by the intermediate supplier is subject to VAT.

- ***Why are all the voucher providers treating this issue differently?***
  More often than not, it is because some voucher providers supply credit vouchers and some supply retailer vouchers. Moreover, there are mixed messages between the policy makers and the local HMRC offices, which have resulted in some confusion. The 2019 EU changes should hopefully provide clarity across the EU.

- ***What happens if the redeemer does not account for VAT correctly?***
  The current UK legislation allows HMRC to disapply the provisions and collect VAT from the issuer where the redeemer fails to account for VAT. HMRC has, however, stated that this will only be enforced in the case of deliberate tax avoidance, rather than in normal commercial circumstances, including insolvency of the redeemer.