

VAT and Vouchers from 1 January 2019

New Voucher legislation (Sch 10B, VATA 1994) was introduced in the UK with effect from 1 January 2019. As such the following fact sheet and VAT rules apply to vouchers issued on or after 1 January 2019.

Vouchers issued prior to 1 January 2019 (but still in circulation) are grandfathered such that they are not impacted by the new rules and will instead be treated in line with the previous legislation, Sch 10A VATA 1994. Please refer to the previous fact sheet for guidance on the applicable VAT treatment.

Voucher definition

For vouchers issued on or after 1 January 2019 the following definition will apply:

(1) 'voucher' means an instrument where there is an obligation to accept it as consideration or part consideration for a supply of goods or services and where the goods or services to be supplied or the identities of their potential suppliers are either indicated on the instrument itself or in related documentation, including the terms and conditions of use of such instrument.

Single or Multi-purpose voucher?

Single Purpose Voucher: From 1 January 2019

A Single Purpose Voucher ('SPV') is defined as follows:

- 'single-purpose voucher' means a voucher where the place of supply of the goods or services to which the voucher relates, and the VAT rate due on those goods or services, are known at the time of issue of the voucher'.

As an example, if a retailer only has stores in the UK and sells items subject to a single rate of VAT (e.g. 20%), then if it was to issue a face value voucher this would in principle fall within the definition of a SPV.

If a voucher is a SPV then any VAT due on the SPV must be brought to account at the time it is issued and on each subsequent transfer of the voucher for consideration.

The issue and any subsequent transfer of a SPV is treated as the supply of the underlying goods or services for which it can be redeemed. This applies whether the voucher is initially issued by the person from whom it can be redeemed or by a third party.

For completeness, if the issuer and redeemer are different people, there is no supply by the redeemer to the user of the voucher at the point of redemption. Instead, the redeemer is deemed to have made a supply of the underlying goods/services to the original issuer of the SPV. The redeemer will charge VAT on this supply to the issuer at the relevant rate and the issuer will be entitled to recover this VAT subject to the normal rules. The redeemer will also be entitled to recover any associated input VAT based on its deemed supply to the issuer, subject to the normal rules.

Example

Retailer A produces vouchers that entitle the holder to £10 worth of goods which are all subject to VAT at 20% (e.g. adults clothing) and the voucher can only be used in the UK. It sells the voucher to a distributor for £8 and the distributor sells the voucher to a Retailer B for £9 who then sells the voucher to the final consumer for £10.

The retailer sells the voucher to a distributor for £8 and accounts for output VAT of £1.33. The distributor recovers the VAT as input tax and sells the voucher on to a different retailer for £9 and accounts for output VAT of £1.50. Retailer B recovers the VAT as input tax and sells the voucher to the final consumer for £10 accounting for output VAT of £1.67.

On redemption no VAT is due as VAT has already been brought to account at the time of issue and on each subsequent transfer of the SPV.

Multi-Purpose Vouchers From 1 January 2019

An MPV is defined as follows:

'multi-purpose voucher' means a voucher, other than a single-purpose voucher.

Therefore, if the place of supply is not known, and/or there is more than one VAT rate applicable to the goods/services that be obtained using the voucher, then the voucher will fall within the definition of a MPV.

VAT implications for voucher providers

The issue and subsequent transfer of a MPV is disregarded for the purposes of UK VAT and, therefore, no VAT is chargeable on the issue or subsequent sale/transfer of a MPV.

On this basis, the issue and transfer of a MPV does not constitute a taxable supply for VAT purposes which may in turn impact a taxpayers right to recover input VAT on any costs associated with the supply of the vouchers.

The redeemer of a MPV must bring output VAT to account at the time that a voucher is redeemed. Output VAT is due based on the nature of goods/services obtained from using the voucher and the amount is based on the face value of the voucher or alternatively, if the final purchase price paid for the voucher is known, output VAT can be accounted for based on this final price.

In order to utilise the final price it is important to note that a redeemer must be able to clearly evidence the final amount that was paid and identify the specific voucher (which was sold at that price) at the point of redemption.

VAT implications for third party intermediaries

When an intermediary purchases a MPV, they are not be charged VAT by the issuer/seller and, therefore, there is no input VAT to be recovered.

Similarly, on the subsequent sale/transfer of the MPV by the intermediary to its customers (both corporate and individuals), no VAT should be charged on the supply. Therefore, where an intermediary operates a buy/sell model, no VAT is either recoverable or chargeable by it in respect of the vouchers.

Given that the activity of the intermediary (i.e. selling vouchers as principal) is not subject to VAT, it is likely that it will not be entitled to recover all or, a proportion, of the VAT which it incurs on related costs.

HMRC has released VAT information Sheet 09/18 which provides guidance on the VAT treatment of vouchers from 1 January 2019 together with some potential supply models which may provide intermediaries with a right to recover input VAT (e.g. the 'Service fee model' found in Model 4b of the Information Sheet). We recommend that affected businesses consult this document and take further advice in respect of this issue.

VAT implications for corporate customers

VAT is no longer chargeable on the sale of MPVs, it follows that corporate customers will not be entitled to recover any VAT on the purchase of MPVs.

Corporate customers – Salary sacrifice

Where a corporate customer purchases a voucher directly from a voucher provider as part of a salary sacrifice scheme the VAT treatment will depend whether the vouchers constitute SPVs or MPVs.

In respect of SPVs the corporate customer will be entitled to recover the input tax charged on its purchase on the basis that it will then, sell the voucher to an employee and charge output VAT at the appropriate rate.

In respect of MPVs, VAT is not charged on the purchase of the voucher (such that no VAT is recoverable by the corporate customer) and no VAT is chargeable by the customer on the sale of the MPV to the employee.

The employer also has to account for income tax and National Insurance Contributions as appropriate.

Frequently asked questions

General

Do these rules apply for electronic gift cards?

Yes. Provided it meets the criteria in the legislation, any sale or purchase of an electronic gift card should be subject to the same VAT rules as a paper voucher.

Retailer

How will I be able to prove the final price that has been paid by the end customer?

HMRC has not confirmed the steps which must be taken and the evidence that must be obtained in order to prove the final price paid.

As such, we encourage affected businesses to take further advice in this area and take steps to document their individual positions and obtain as much supporting documentation (e.g. contracts, customer sales statements, redemption analysis etc) as possible in order to support their position.

In addition, it is important to note that HMRC may require businesses to be able to identify specific vouchers at the point of redemption, i.e. such that at the point of redemption a business is able to identify the voucher and the final amount paid for it. This may be onerous and/or not possible for many businesses.

What if the vouchers are part of a salary sacrifice scheme?

In respect of SPVs the corporate customer will be entitled to recover the input tax charged on its purchase on the basis that it will then, sell the voucher to an employee and charge output VAT at the appropriate rate.

In respect of MPVs, VAT is not charged on the purchase of the voucher (such that no VAT is recoverable by the corporate customer) and no VAT is chargeable by the customer on the sale of the MPV to the employee.

In respect of the redemption of an MPV obtained through a salary sacrifice scheme, we note that the final price paid may be difficult to determine. Therefore as noted above, if there is no way to identify and prove the price paid by the final purchaser, then output VAT should be accounted for, at the point of redemption, based on the face value of the voucher.

What happens if I issue a voucher for free, and then this is later sold for consideration?

This is an area which requires clarification by HMRC. The issue of a voucher for no consideration constitutes a discount voucher.

However, if this discount voucher met the MPV criteria (except for the consideration paid) and it was then sold for consideration it is not clear whether the VAT treatment would change (and be treated like an MPV) or whether it should continue to be treated as a discount voucher right the way through the supply chain.

As such, we recommend that further advice is sought by affected businesses.

In relation to the service fee model (i.e. Model 4b of HMRC VAT Information Sheet 09/18), what services would be sufficient to be considered as a service? HMRC will not indicate what they consider these services to constitute and, therefore, we recommend that businesses take steps to support the provision of the services (e.g. contractually etc) and seek further advice as required.

Intermediary

Do I still account for my income in relation to the sale of vouchers on my VAT return, and am I required to prepare an EC Sales List?

MPVs are disregarded for UK VAT purposes. Therefore the issue/sale of a MPV should not be reported on your UK VAT return. However, the issue/sale of an SPV is a VATable supply and therefore should be accounted for on your UK VAT return.

In addition to this, there is no requirement to submit an EC Sales List if you buy and sell MPVs from/to other EU Member States.

If I only buy and sell MPV's, is there any way for me to mitigate the restriction on input VAT recovery?

There are steps which intermediaries can take to mitigate the potential input VAT restriction. We recommend that affected businesses seek further advice and consult HMRC's guidance (HMRC Information Sheet 09/18), as this document includes a number of potential supply models and some of these, in HMRC's view, provide intermediaries with an entitlement to recover input VAT

If I buy and sell both MPVs and SPVs can I recover my input VAT?

The buy/sell of MPVs does not, in HMRC's view, provide an entitlement to recovery input VAT on associated costs. Conversely, the supply of a SPV is a taxable supply (assuming not for exempt goods/services) and as such, provides an entitlement to recover input VAT.

On this basis, it is likely that HMRC would consider that a business which buys and sells both MPVs and SPVs, would only be entitled to recover a proportion of the input VAT it incurs. We recommend that affected businesses take further advice in order to establish their entitlement to input VAT recovery.