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VAT: Vouchers Workshop New rules - 1 January 2019

January 2018



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Agenda

- Timeline of changes
- Key concepts
- SPV's
- MPV's
- Other Considerations
- Consultation

Timeline of changes

Proposed changes were announced in 2017 Budget – next steps:



Key Concepts

New definition of a voucher will be introduced into EU Law:

For the purposes of this Directive, the following definitions shall 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;*
- (2) 'single-purpose voucher' means a voucher where the place of supply of the goods or services to which the voucher relates, and the VAT due on those goods or services, are known at the time of issue of the voucher;*
- (3) 'multi-purpose voucher' means a voucher, other than a single-purpose voucher.*

Key Concepts

What does the new legislation cover?

- Vouchers where the underlying goods or services could be supplied at either standard, reduced or zero VAT rates, or VAT exempt;
- It does not impact on the VAT treatment of discount vouchers, (inc money-off coupons), transport tickets, admission tickets to cinemas and museums, postage stamps or similar.
- Vouchers provided free at issue and transfer are outside these new rules. However a voucher will be covered by these new rules if:
 - A person receives a voucher as a reward, or as part of a remuneration package, and
 - The person providing the voucher has previously purchased it from another party.
- The use of any electronic money, for example prepaid currency cards, credit cards or on-line payment systems, to pay for actual or digital goods or services does not fall within the description of a voucher in the Directive.
- Similarly, online credits and telephone SIM cards are not considered to be vouchers because they are not instruments described in the Directive.

Single Purpose Voucher

Current Position

Current UK Definition

Right to receive goods or services of one type which are subject to a single rate of VAT

Issues to Consider

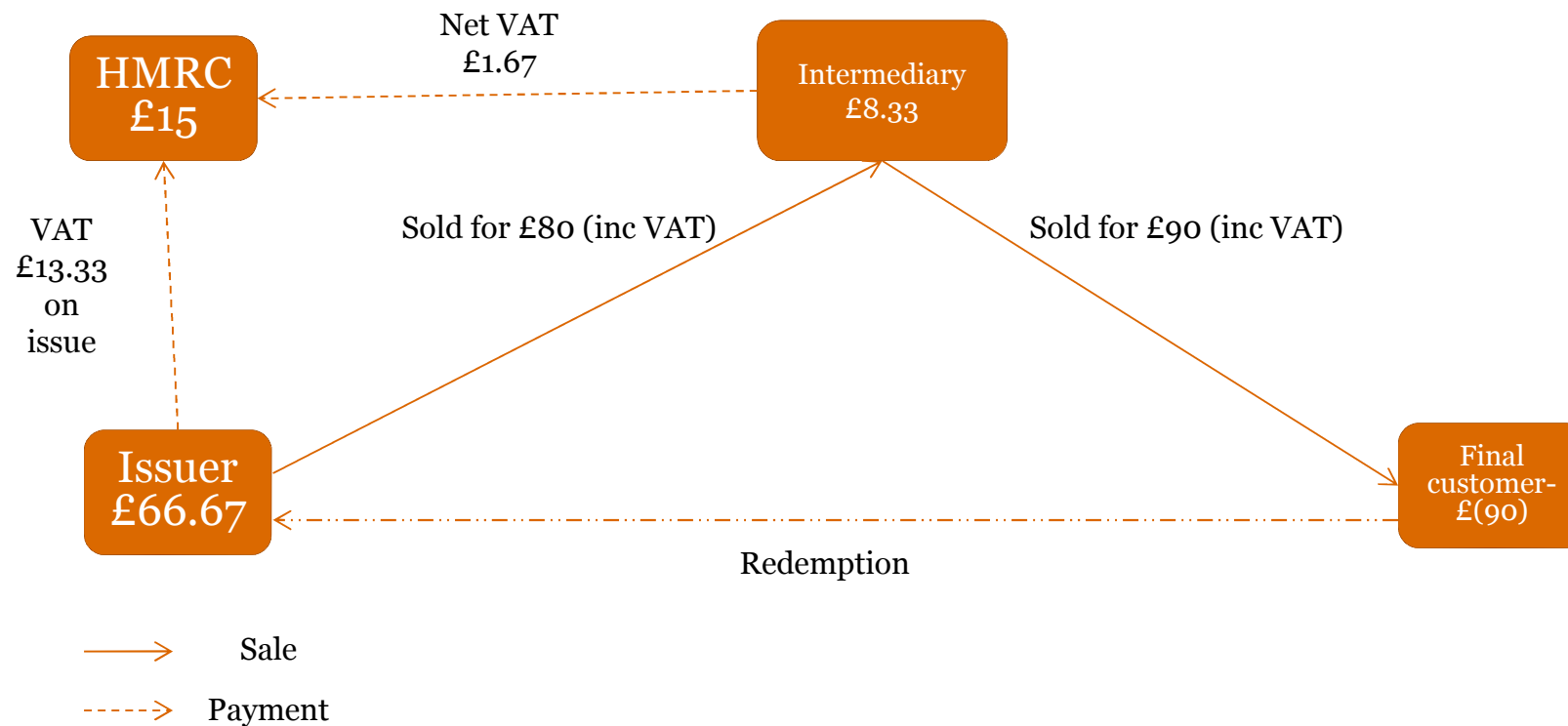
- VAT accounted for upfront – at point of issue
- VAT accounted for at each stage of the supply chain
- Input tax recovery subject to normal rules
- VAT accounted for on the amount paid by final consumer
- No VAT relief for breakage

SPV – Principal Model

Sold via intermediary – face value or discount

Assume VAT rate = 20%

Face Value = £100

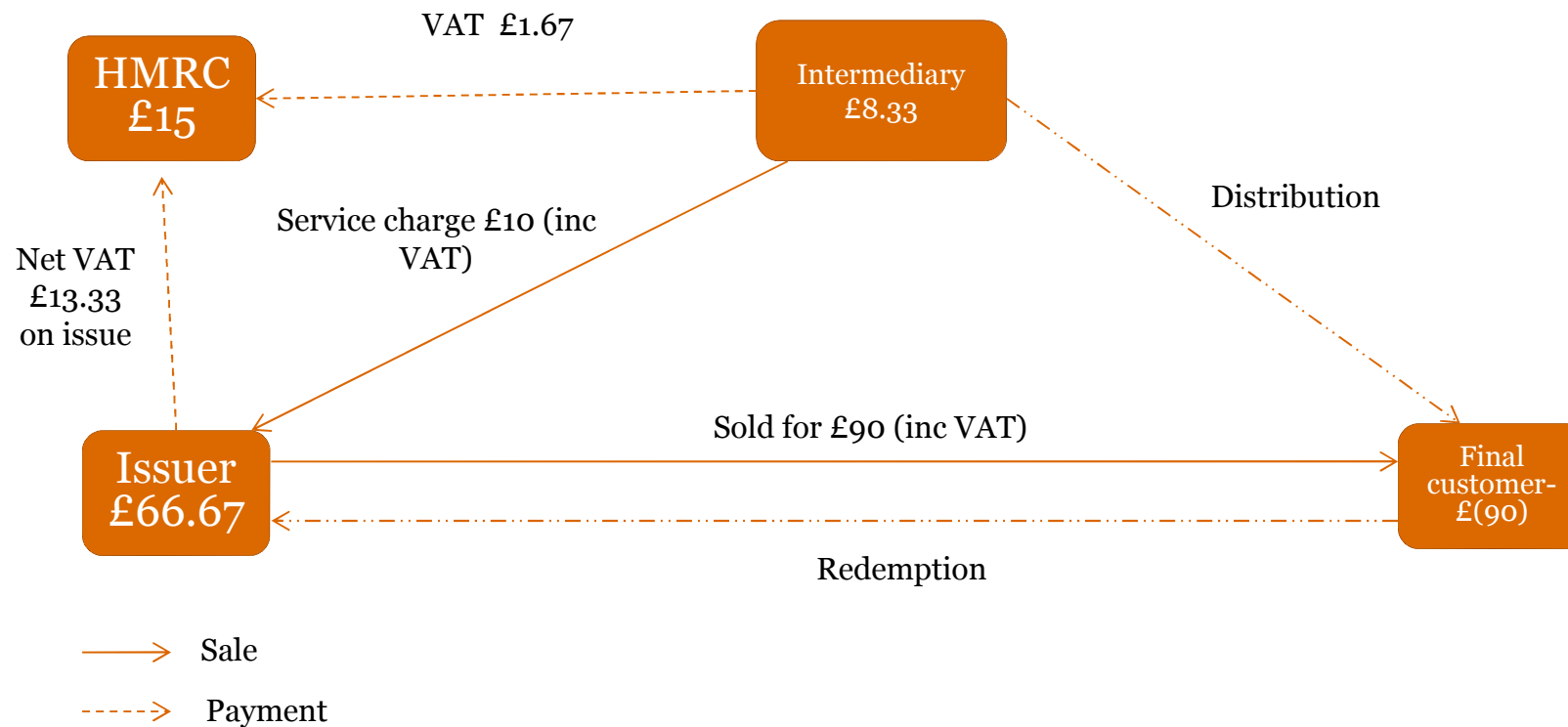


SPV – Disclosed Agent Model

Sold via intermediary – face value or discount

Assume VAT rate = 20%

Face Value = £100



Changes to SPV

New EU Definition

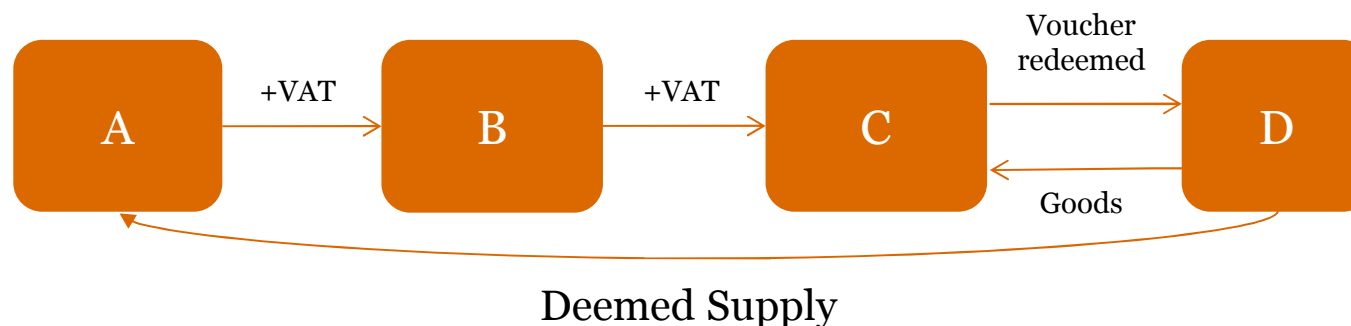
- A voucher “*where the place of supply of the goods and services to which the voucher relates, and the VAT due on those goods or services, are known at the time of issue*”

VAT Impact

- Core VAT treatment unchanged
- Broader definition
- Deemed supply
- Grandfathering
- Cross border – EU compliance

Deemed Supply - SPV

- Broader definition give rise to a deemed supply
- A supplies B and B supplies C, who redeems the voucher buying goods from D. A charges B VAT and B charges C VAT. D charges A VAT, when A pays them. This will be when D hands A an invoice for the vouchers it has redeemed. If C needs a tax invoice, this should be provided by B.



Multiple Purpose Vouchers - MPV

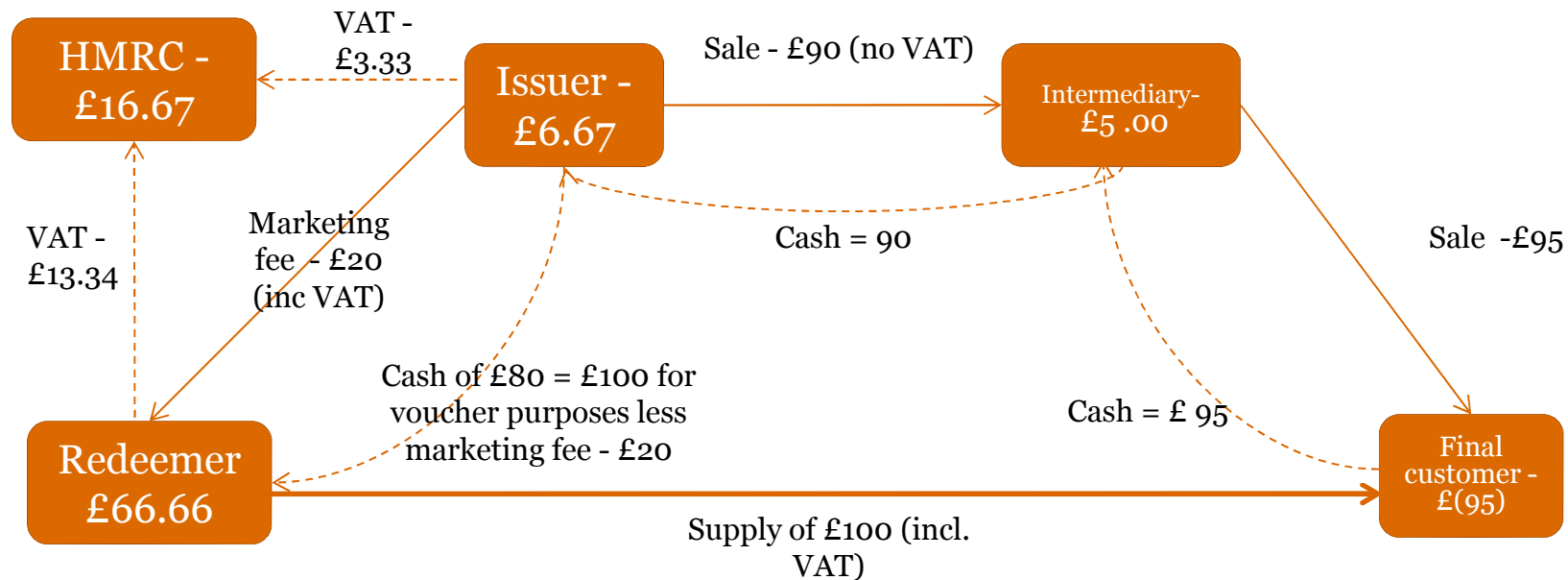
Current UK Definitions

<p>Current Position Two main types of vouchers in the UK:</p> <ul style="list-style-type: none"> - Credit vouchers - Retailer vouchers <p>The position in the UK is complicated by evolving UK case law and a lack of harmonisation across the EU.</p> <p>This can result in unintended VAT consequences on certain transactions.</p>	<p>Credit Voucher Face value voucher where the issuer is not the redeemer and the voucher can be redeemed in exchange for goods or services carrying different rates of VAT.</p> <p>Issues</p> <ul style="list-style-type: none"> • VAT on face value irrespective of amount paid by received by retailer; • No VAT in the supply chain; <p>Considerations</p> <ul style="list-style-type: none"> • Agency arrangement vs buy/sell • Marketing fees 	<p>Retailer Voucher Face value voucher where the issuer can also be the redeemer and the voucher can be redeemed in exchange for goods or services carrying different rates of VAT.</p> <p>Issues</p> <ul style="list-style-type: none"> • VAT charged through the supply chain • Input VAT deduction • Appropriate VAT rate <p>Considerations</p> <ul style="list-style-type: none"> • <i>Associated Newspapers</i> • <i>Findmypast.com</i> • <i>Nagle & Anor</i>
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Credit voucher sold at discount – current UK rules

Sold to final consumer via intermediary at a discount

Assume VAT rate = 20%



- Sale
- - - - -> Payment

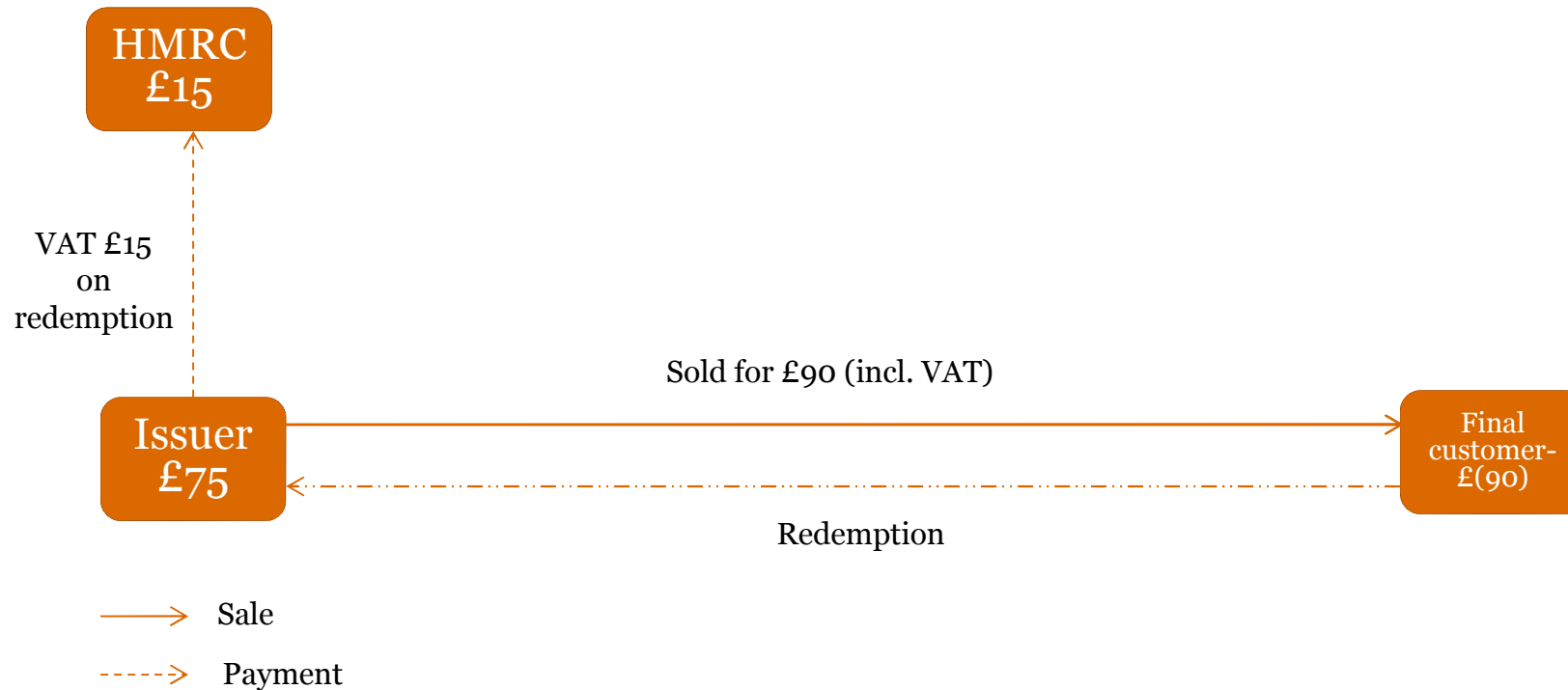
HMRC collects VAT on the Face Value which is **more than** price paid by the final consumer.

MPV – Retailer Voucher

Sold direct to consumer – Face Value or Discount

Assume VAT rate = 20%

Face Value = £100

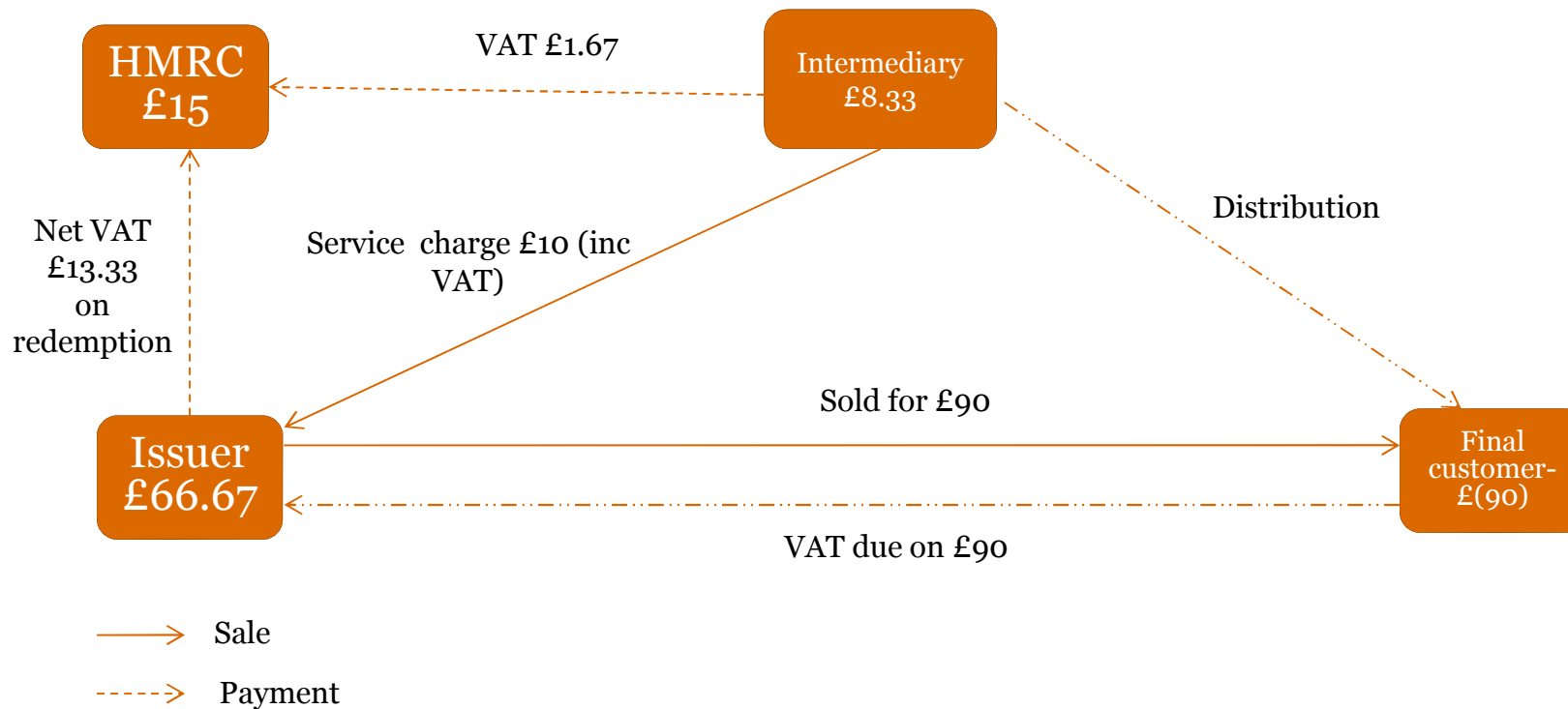


MPV – Retailer Voucher

Disclosed Agent Model – Sold at Face Value or Discount

Assume VAT rate = 20%

Face Value = £100

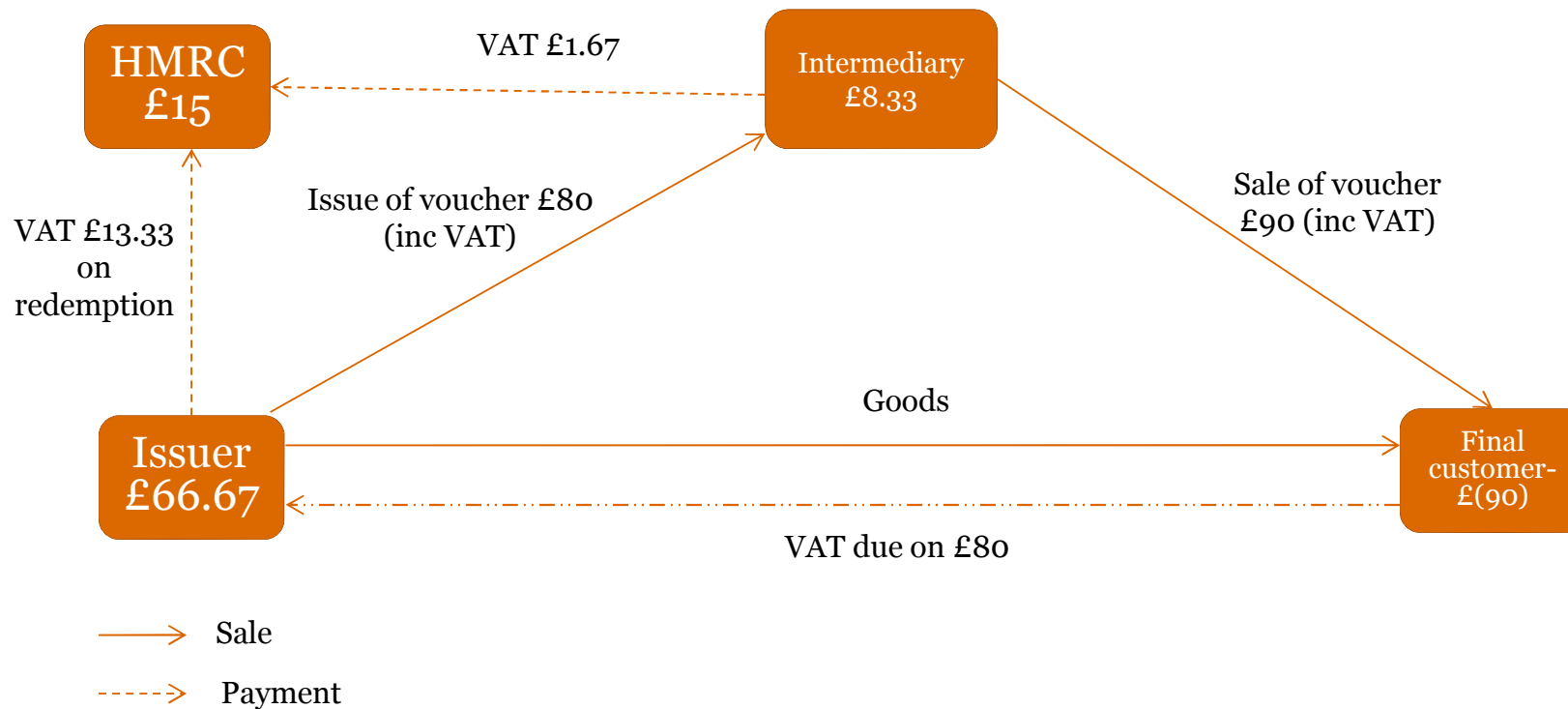


MPV – Retailer Voucher

Principal Model – Sold at Face Value or Discount

Assume VAT rate = 20%

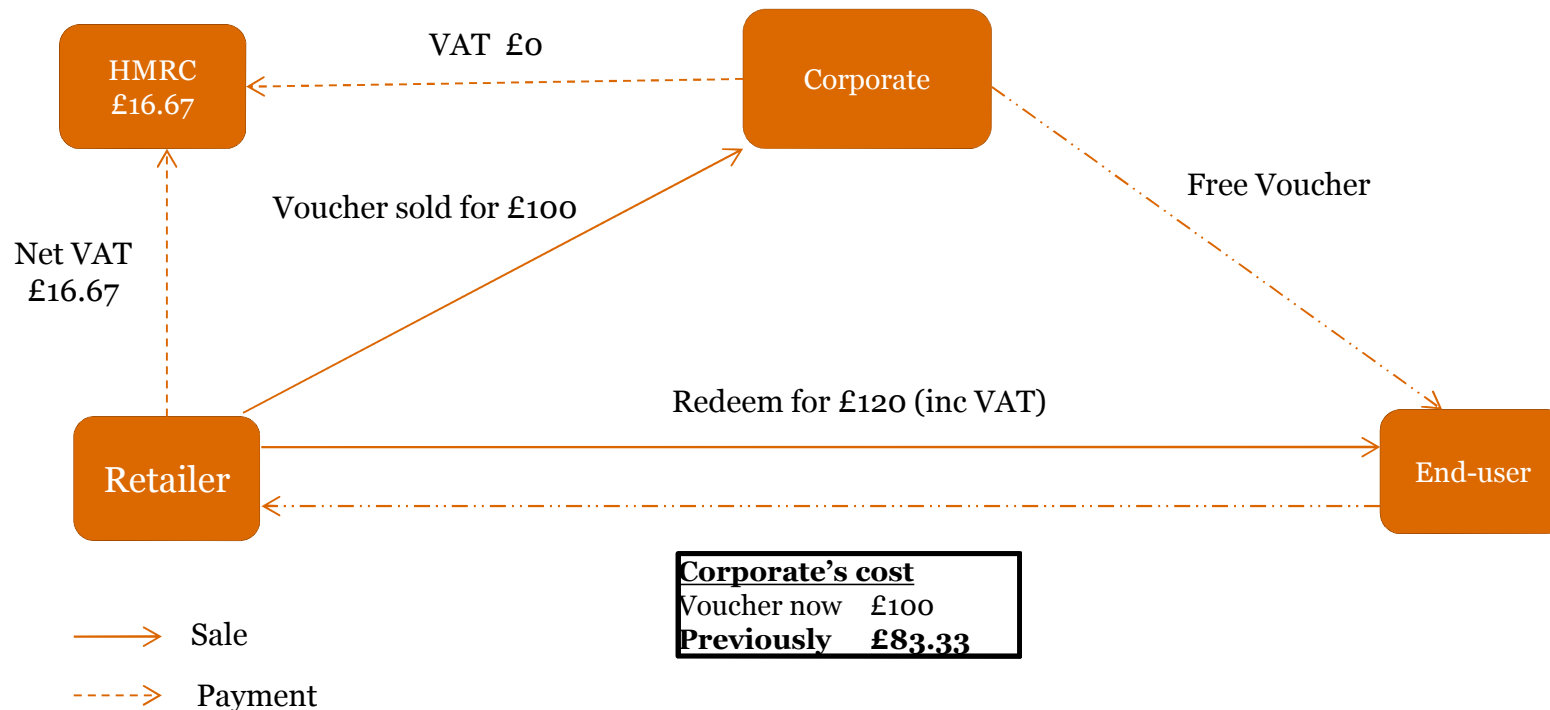
Face Value = £100



MPV – Current Position

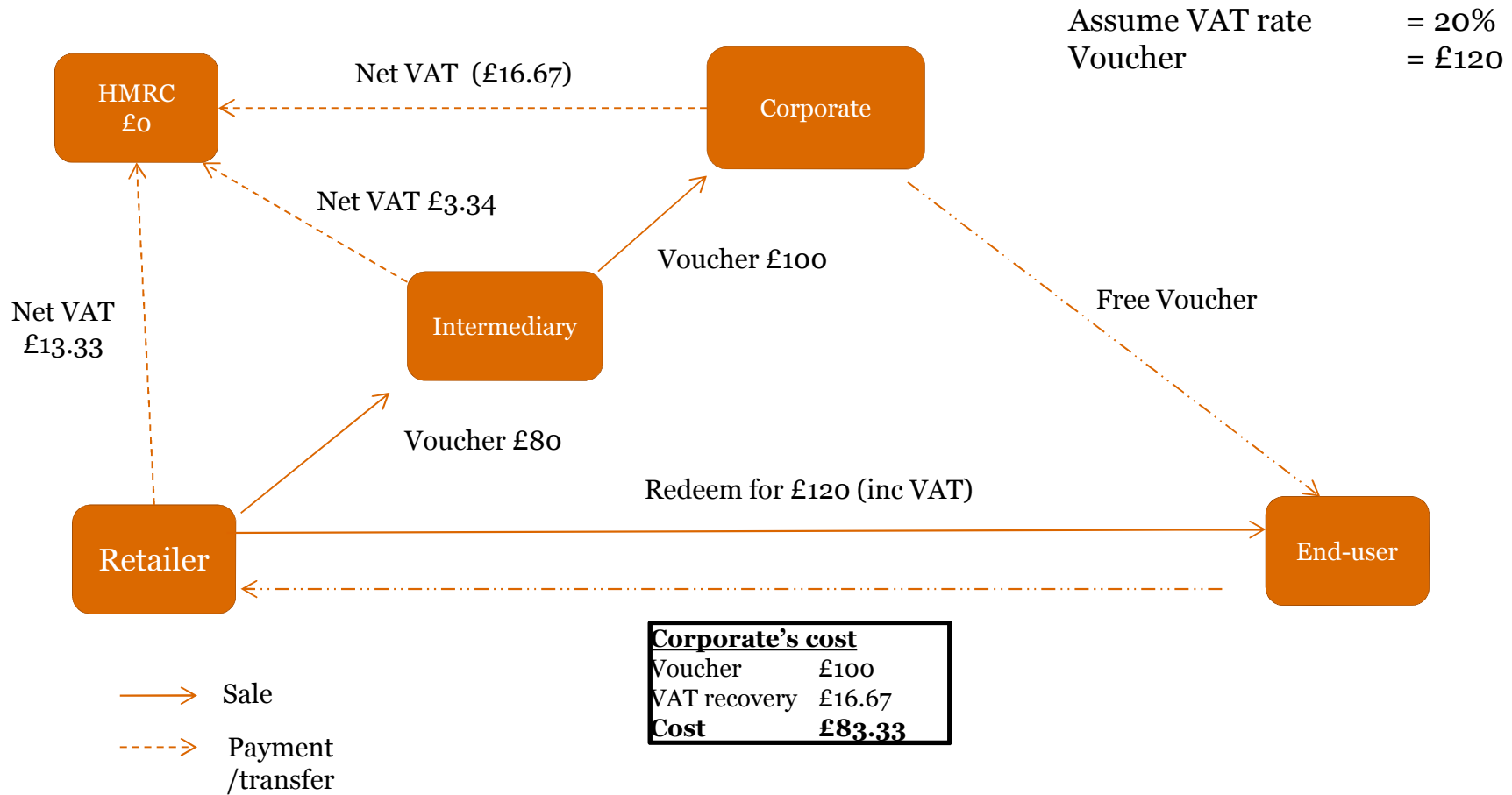
Associated News – Acquire from Retailer

Assume VAT rate = 20%
 Voucher = £120



MPV – Current Position

Associated News – Acquire from Intermediary



Changes to MPV

New EU Definition

- *a voucher which is not a single purpose voucher.* These are effectively gift vouchers, where a payment has been made but the exact nature of what is to be provided is not known at the time of payment.

Comments

- Similar to the current ‘UK credit voucher’
- No VAT in the supply chain
- VAT is due on redemption
- Amount of VAT is either amount the last **purchaser** paid or, if that is not known, the face-value

MPV - Key Impacts

- No input VAT deduction through the chain
- Increases cost to corporate customers
- Reduces redeemer's margin
- Increases intermediaries margin in a buy/sell model
- However, VAT cost may require intermediaries to change model
- Business vs. non-business activities
- Breakage
- Grandfathering
- Implementation across EU still gives uncertainty (e.g. breakage etc)
- Who is the “purchaser”?
- Free vouchers and electronically supplied services

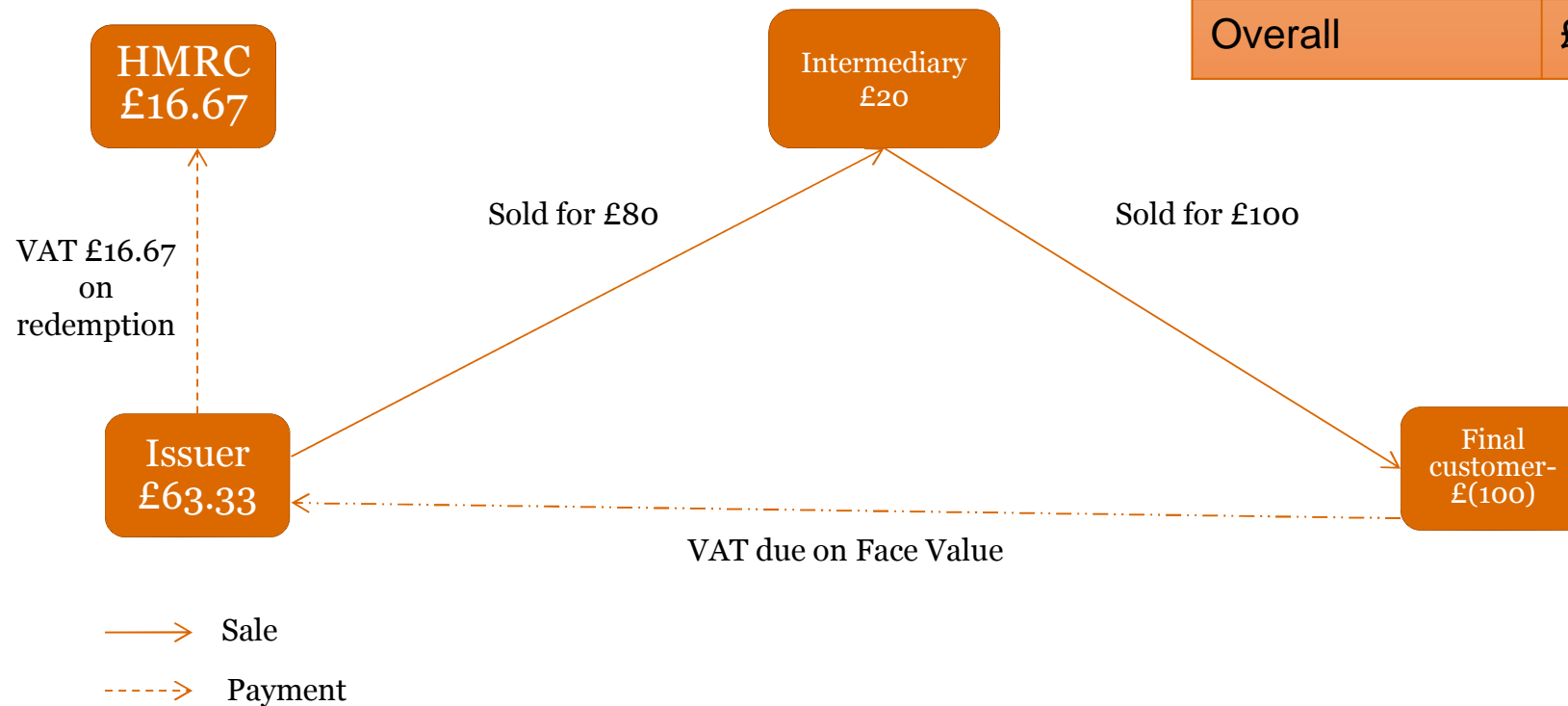
MPV

Principal Model – Sold at Face Value

Assume VAT rate = 20%

Face Value = £100

Old Scheme	
Issuer	£66.67
Intermediary	£16.66
Overall	£83.33

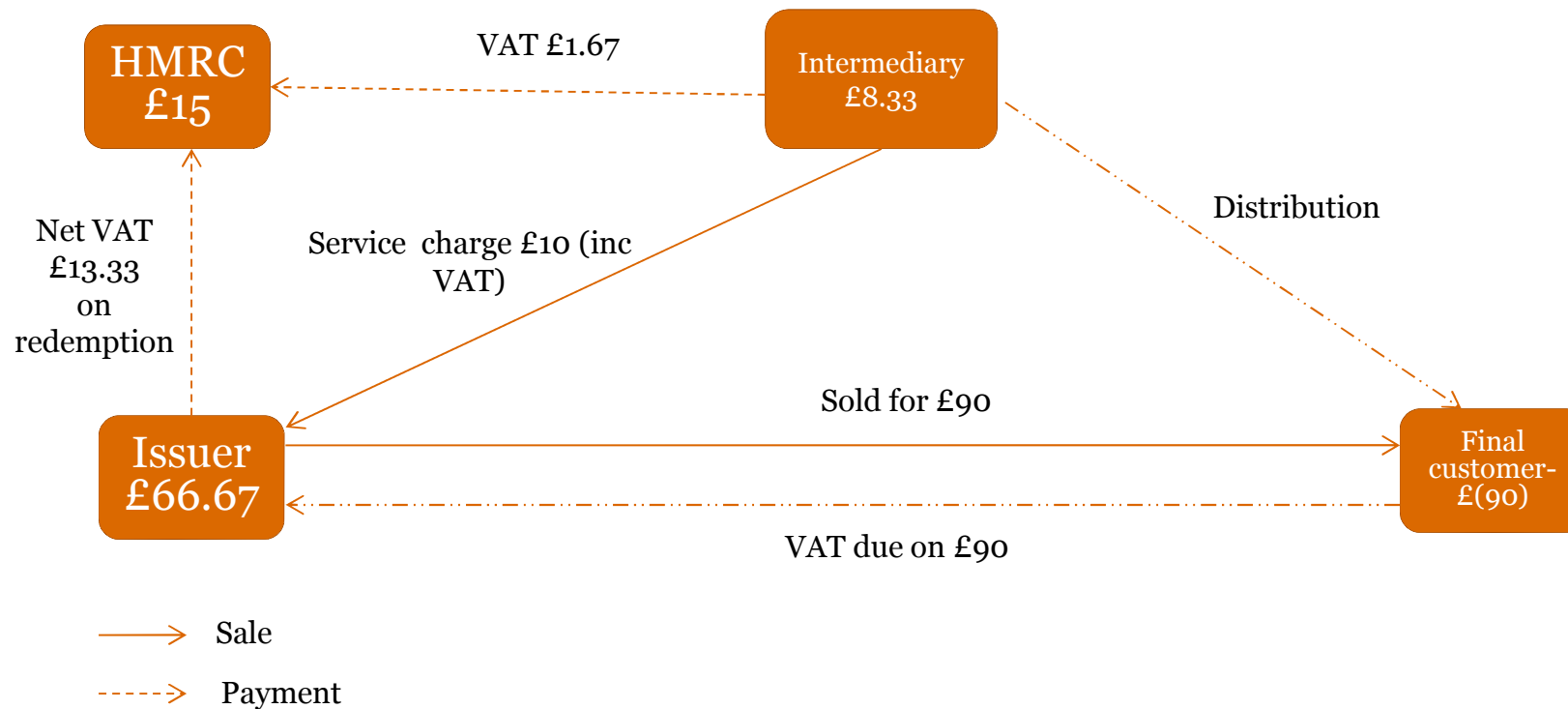


MPV

Disclosed Agent Model – Sold at Face Value or Discount

Assume VAT rate = 20%

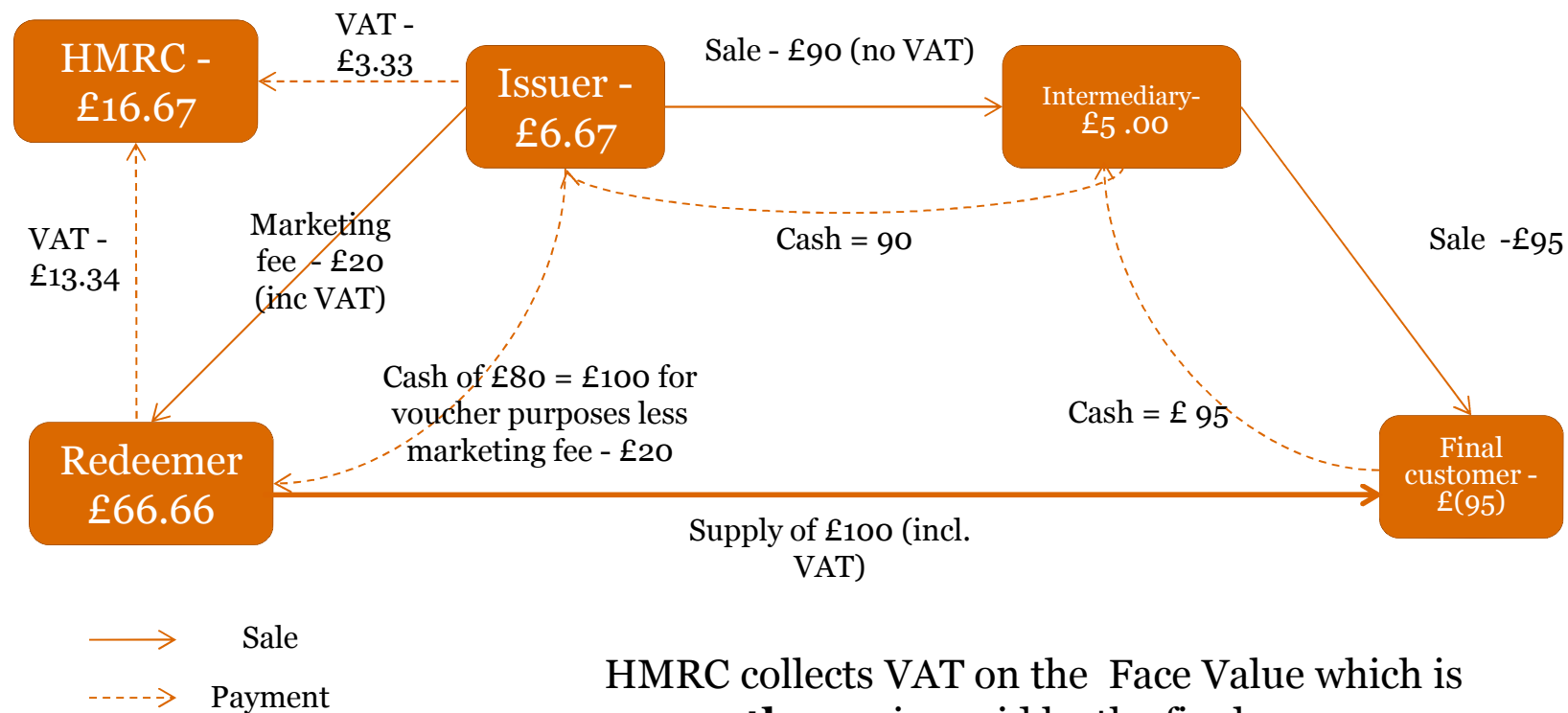
Face Value = £100



MPV

Separate Issuer and Redeemer

Assume VAT rate = 20%



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