

VAT Package

There are a number of changes to VAT and cross border transactions that take effect from the 1 January 2010 that are commonly known as the VAT package.

The basic rule for **services** supplied by one business to another is changing from where the supplier belongs to the place where the customer belongs; i.e. the place of consumption.

In summary these are

- Most sales to businesses in other EU countries will not be subject to VAT.
- Purchases from EU countries will be subject to the reverse charge mechanism.
- It will be easier to recover VAT incurred in another EU country.
- Sales/purchases to/from non VAT registered businesses/individuals are unchanged.
- Procedures for purchases from outside the EU are extended.
- The new rules apply to **services only**.

International VAT Indicator

Where sales of services are made to businesses in other EU countries or purchases of services from outside the UK then VAT Indicator W should be used unless the service falls within the exceptions

Selling services

Most services sold to EU business customers will not be subject to UK VAT. Instead the EU customer will be able to self account for VAT on its domestic VAT return. This is known as the reverse charge.

There will still be some exceptions to this basic rule, such as land related transactions, which will continue to be taxed where the land is located.

EC Sales Lists

Where we provide reverse chargeable services to VAT registered EU business customers we are required to report such transactions on EC Sales Lists.

Where sales are made a copy of the invoice should be sent to the Chief Accountant's Team.

The invoice must include the VAT registration number, including the country identifier, of the customer. The customer must provide these details otherwise VAT should be charged.

Buying Services

The majority of services purchased from outside the UK will be subject to the reverse charge in the UK. It will be necessary to account for the reverse charge in accordance with the date the service was performed.

Reverse Charge Mechanism

Where the supplier does not charge VAT, as the place of supply is now another EU country, the purchaser must account for VAT on these services using the 'reverse charge' mechanism.

This means that we simultaneously account for both output tax (as if for a sale) and input tax (as if VAT was charged) on the service. The reverse charge does not apply to exempt or zero - rated services.

Directorates only need to use the new W VAT Indicator and the Chief Accountant's Team will make the necessary entries on the VAT return from summary reports for this VAT Indicator.

The time of supply for services falling within the reverse charge changes to the earlier of the date on which the services are completed or the payment made.

It is important to process invoices as soon as they are received as penalties can be levied if the transaction is not included in the correct VAT return.

Exceptions

- Services relating to land will continue to be supplied where the land is situated.
- Cultural, artistic, sporting, scientific, educational, entertainment and similar services will continue to be supplied where the services are physically performed (although this will change from 1 January 2011 with the exception of admission to events).
- Short term hire of means of transport, such as a car hire, will be supplied where the transport is put at the disposal of the customer.

Refunds of VAT incurred in other EU Member States

From the 1 January 2010 the rules for making a reclaim where VAT is incurred in another member state, such as when members of staff have attended conferences or training events, have altered. In future an electronic claim can be submitted to HMRC to seek a refund.

Repayment of VAT is permitted on the basis of what is eligible for credit under the VAT system of the country in which the VAT was incurred. This may not be the same as for UK VAT.

Where significant sums of VAT have been incurred in other member states details of the circumstances and copies of invoices can be sent to the Chief Accountant's Team so that a reclaim can be processed.

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