



VAT:alert

April 2017

Welcome to Blick Rothenberg's VAT:alert. This briefing contains timely information on VAT issues that may affect your business.

Spring Budget 2017

There were not many VAT related changes in this year's Spring Budget but there were some interesting announcements of forthcoming consultations which are summarised below.

1. Registration thresholds

Firstly, the UK's VAT Registration threshold is increased from £83,000 to £85,000 per annum, with the de-registration threshold similarly increasing from £81,000 to £83,000. Both changes are effective from 1 April 2017.

2. Mobile phone usage

Legislation is to be introduced before the summer recess to remove the VAT "use and enjoyment" provisions for mobile phone services provided to private consumers. This will bring all B2C supplies of mobile phone services (whether used or enjoyed in the EU or outside the EU) within the scope of VAT. All UK businesses providing mobile phone services to non-business customers will be effected and need to watch out for the impending changes to their VAT liability.

3. Consultation on reverse charge VAT for labour in the construction sector

HM Revenue & Customs ("HMRC") is to consult on whether the supply of labour by VAT registered sub-contractors should be accounted for under the Reverse Charge mechanism. This would mean that the recipient (i.e. normally a main contractor) would self-assess the VAT and the sub-contractor would treat its domestic supply as outside the scope of VAT. This is an attempt to reduce VAT fraud within the construction sector and is similar to other domestic reverse charge arrangements for B2B supplies of mobile phones, computer chips and certain telecoms services.

4. Consultation on split payments for imports

This is a proposal to consider alternative methods of collecting VAT when goods are supplied online by overseas traders. Currently, the VAT is collected from the customer by the delivery agent (i.e. the Royal Mail or a private delivery service provider) after the goods arrive in the UK but before they are delivered. HMRC is exploring the opportunity afforded by the advancement of technology to extract the VAT directly from the online transaction at the point of purchase – the so called split payment method. This would mean that the overseas trader only receives the net of VAT amount with 20% of the customer's online payment going directly to HMRC.

European Court rules on e-books

The European Court of Justice recently ruled that e-books (i.e. an electronically supplied service) are not entitled to the reduced rate of VAT that is applied by certain EU countries to hard copy books (i.e. printed matter which is a supply of goods).

Therefore, the UK's zero-rate will continue to apply only to printed books with electronically supplied books being subject to the standard 20% rate of VAT. This ruling underpins the infringement proceedings taken against Luxembourg and France who have sought to apply reduced rates to e-books.

However, notwithstanding the court's ruling, the European Commission is proposing that individual EU Member States should be allowed to extend the scope of reduced rate VAT to e-books. It is expected that this proposed change will be agreed by the Member States later this year which should pave the way for it to be implemented in 2018.



Changes to the flat rate scheme from 1 April 2017

HMRC has introduced a higher flat rate percentage of 16.5%. This rate will apply to any business using the flat rate that has a very low level of purchases – a so called “limited cost trader”.

In effect, where a business spends less than 2% of its taxable turnover on goods (not services) in any VAT accounting period, it will be required to apply the higher 16.5% flat rate (as opposed to one of the lower flat rate percentages that would normally apply based on the trade sector of the business).

This will affect all labour intensive businesses such as consultants, accountants, lawyers, etc., that spend very little on goods. It will make the flat rate scheme far less attractive and is likely to wipe out any VAT savings achieved by using the scheme. Businesses affected by this change need to review their individual circumstances in order to determine whether it is still beneficial to remain in the scheme or switch to a normal VAT registration.

It should be noted that the scheme is still only available to businesses with a turnover of up to £150,000 per annum and its original intention was only to provide a simplified VAT accounting regime.

If you wish to discuss anything in this article, please speak to your usual contact at Blick Rothenberg or:

Alan Pearce
Partner - VAT
Tel: +44 (0)20 7544 8884
Email: alan.pearce@blickrothenberg.com

Independent
Member of **B K R**
INTERNATIONAL

16 Great Queen Street
Covent Garden
London WC2B 5AH

Tel: +44 (0)20 7486 0111
Fax: +44 (0)20 7935 6852
email@blickrothenberg.com
www.blickrothenberg.com