



Response from ICAS

VAT and Vouchers

23 February 2018

About ICAS

1. The following submission has been prepared by the ICAS Tax Board. The Board, with its five technical committees, is responsible for putting forward the views of the ICAS tax community, which consists of Chartered Accountants and ICAS Tax Professionals working across the UK and beyond, and it does this with the active input and support of over 60 committee members. The Institute of Chartered Accountants of Scotland ('ICAS') is the world's oldest professional body of accountants and we represent over 21,000 members working across the UK and internationally. Our members work in all fields, predominantly across the private and not for profit sectors.

General Comments

2. ICAS welcomes the opportunity to comment on the HMRC consultation 'VAT and Vouchers' published on 1 December 2017.
3. We are broadly supportive of the proposals. Having the same rules in all EU member states from 1 January 2019 will be helpful to retailers and others who issue vouchers in multiple EU jurisdictions.

Specific questions

Definition of a voucher

Q1. These new rules do not include transport and admission tickets, postage stamps, or the electronic products and payment mechanisms referred to above. Does this cause any difficulty to your business or organisation?

Q2. These new rules do not include on-line credits and telephone SIM cards. Does this raise any concerns for your business or organisation?

Q3. Will applying the new definition of a voucher increase the administrative burdens or cost for your business? Please provide details of both one-off and ongoing costs.

4. In general, the definition of a voucher under the new proposals appears to be straightforward, with little change required from a UK perspective. Of the items listed in Question 1, we would expect that businesses supplying transport tickets would be unlikely to have significant involvement with the world of vouchers.
5. There could be concerns around where the dividing line falls for the items noted in Question 2, for example, between prepaid telecom services versus a credit linked to a mobile phone to facilitate payment for an open-ended list of items including goods from a vending machine/maps/games/music files. However, this may be best addressed with clear guidance, prompt rulings from HMRC and a lenient approach to any inadvertent errors in the early days of the new regime.

Single Purpose Vouchers – SPVs

Q4. Are there any concerns over the wider definition of an SPV that you wish to bring to our attention?

Q5. Are there any concerns over the taxation of SPVs that you wish to bring to our attention?

Q6. Will applying the new rules for SPVs increase the administrative burdens or cost for your business? Please provide details of both one-off and ongoing costs.

6. There is unlikely to be significant confusion in applying the rules. One of the advantages of the proposals is that they simplify some aspects of the voucher regime. However, there will be cost issues for some businesses.
7. VAT is accounted for when SPVs are issued rather than on redemption. Widening the definition of SPVs therefore means that some vouchers which were previously MPVs will now become SPVs. This will affect the timing of accounting for VAT and will also mean that the retailer will account for VAT even where vouchers are ultimately not redeemed.

8. This will have an adverse impact on some businesses where there is a high level of non-redemption. We have been told of an example where a business has a non-redemption rate of 40% so will be accounting for VAT on 'non-supplies'.
9. Would it be possible to provide for a 'cut-off' for non-redeemed time-limited vouchers ie when they expired could the output VAT be recovered, where this could be tracked?
10. There will be a one-off cost for all businesses arising from the need to review vouchers which are currently provided to check whether they are affected by the change.

Multi-Purpose Vouchers – MPVs

Q7. Are there any concerns over the valuation of goods and services, provided in respect of MPVs when they are redeemed, that you wish to bring to our attention?

Q8. Will applying the new rules for MPVs increase the administrative burdens or cost for your business? Please provide details of both one-off and ongoing costs.

11. In a straightforward case the approach suggested for MPVs, ie accounting for VAT on the consideration paid for the voucher by the last purchaser or, where this is not known, the value indicated on the voucher, seems logical.
12. However, there may be issues where intermediaries are involved between the retailer and the last purchaser meaning that the retailer will account for VAT in respect of the face value of the voucher, which will often be higher than the actual consideration it received. This might occur, for example, where an intermediary purchases vouchers, with a face value of £1,000, for £925 from a retailer and sells them on to an employer for £955. The employer gives the vouchers to an employee who redeems them with the retailer for standard rated goods. The retailer will not know what the employer paid for the voucher so will account for VAT using the face value.
13. The wording of the new article 73a of the VAT directive reads: "the taxable amount of the supply of goods or services provided in respect of a multi-purpose voucher shall be equal to the consideration paid for the voucher or, in the absence of information on that consideration, the monetary value indicated on the multi-purpose voucher itself or in the related documentation, less the amount of VAT relating to the goods or services supplied."
14. It would be useful if HMRC could clarify how the credit for VAT relating to the goods or services supplied will operate.

SPV intermediaries

Q9. Are there any concerns over the position of intermediaries that you wish to bring to our attention?

Q10. Do you agree that the existing rules in section 47 of the VAT Act 1994 are sufficient to accommodate the requirements of the Directive?

15. We agree that s47 VATA 1994 is sufficient to accommodate the requirements of the Directive.

MPV intermediaries

Q11. Some distributors may wish to change from a buy/sell arrangement to an agency arrangement. This would allow them to charge commission and deduct VAT under normal rules. It would also allow the price paid by the final buyer to be identified. Do you think that the new rules for the treatment of intermediaries will lead to you changing your business model in the way described above?

Q12. Are there any concerns over the position of intermediaries transferring MPVs that you wish to bring to our attention?

Q13. Will applying the new rules for the treatment of intermediaries increase the administrative burdens or cost for your business? Please provide details of both one-off and ongoing costs.

16. See our comments in response to Q7 above.
17. It seems likely that some distributors will wish to change from a buy/sell arrangement to an agency arrangement to ensure that they retain the ability to reclaim input VAT. This will probably involve one-off costs. However, this is likely to be acceptable in view of the long-term benefits of creating a simpler, uniform vouchers' regime. The old idea of the supply of the right inherent in the voucher and the supply of the goods/services being separate transactions was less intuitive than what is now proposed.

Part payments

Q14. Will applying these rules for part payments increase the administrative burdens or cost for your business? Please provide details of both one-off and ongoing costs.

18. For SPVs and MPVs where the redeemed goods/services exceed the value of the voucher, the customer pays the rest by cash/card and a further supply takes place between the provider of the goods/services and the recipient. We doubt that this would be problematic.
19. For partly used vouchers business systems will need to deal with the remaining balance but that is already the case so again should not be problematic.

Retail Schemes

Q15. Will applying the rules for vouchers to your retail scheme increase the administrative burdens or cost for your business? Please provide details of both one-off and ongoing costs.

20. Key to addressing any issues in the retail schemes is provision of good, timely guidance, prompt response to queries by HMRC, and a light touch on any inadvertent errors at the outset.

Vouchers issued before 1 January 2019

Q16. Will retaining Schedule 10A for vouchers issued before 1 January 2019 create any difficulty for your business or organisation?

21. Implementation from 1 January 2019 is likely to be welcome as it gives businesses almost a year to prepare for the change, especially MPV distributors who are likely to wish to change their business model.
22. However, there could be transitional problems where vouchers are issued before 1 January 2019 but redeemed afterwards. The issue date may not always be easy to ascertain from the voucher. Some vouchers do not show an issue date (particularly non-expiring paper vouchers). Some electronic vouchers are valid until the later of two dates, for example, a voucher could be valid until the later of two years from the issue date or two years from the date of the last transaction: a high value pre-January 2019 voucher of this type could remain usable for a long time.
23. It may therefore be difficult, and could impose administrative burdens in some cases, to track pre-January 2019 vouchers to ensure the correct treatment is applied.

Vouchers issued after 1 January 2019

Q17. Are there any concerns over timing that you wish to bring to our attention?

24. See our comments on Q16.