

VAT ON VOUCHERS EXPLAINED

UK Gift Card & Voucher Association

VOUCHER DEFINITION

The UK VAT legislation defines a face value voucher as follows: "face-value voucher" means a token, stamp or voucher (whether in physical or electronic form) that represents a right to receive goods or services to the value of an amount stated on it or recorded in it.

RECENT CHANGES TO THE VAT TREATMENT OF FACE VALUE VOUCHERS

SINGLE OR MULTI PURPOSE VOUCHER?

From May 2012, the concept of a single purpose voucher ("SPV") was introduced into UK legislation. This affects all SPV's whether credit, retailer or other types of voucher.

Under current UK VAT legislation a single purpose face value voucher is one that carries the right to receive goods or services of one type which are subject to a single rate of VAT.

As an example a prepaid telephone card that can only be used for making telephone calls in the UK would fall under the scope of an SPV (as all calls would be liable to UK VAT), however a retailer voucher that could be redeemed at a store that sells goods at different VAT rates (for example a children's t-shirt (zero rated) or an item of furniture (standard rated)) would not fall under the definition of an SPV. If it was redeemable for different types of goods liable at the same rate (e.g. furniture and clothes) it would also not be an SPV.

The previous rules disregarded the supply of face value vouchers when issued and VAT was brought to account on redemption. However, under the new rules, if a voucher is an SPV then VAT due on the SPV must be brought to account on issue.

Where an SPV is sold both initially and by retailers or distributors, it is treated as a supply of the goods or services for which it can be redeemed. This applies whether the voucher is issued by the person from whom it can be redeemed or by a third party.

Example

A telecommunications company produces vouchers that entitle the holder to £10 worth of telephone calls which can only be made in the UK. It sells the voucher to a distributor for £8 and the distributor sells the voucher to a retailer for £9 the retailer then sells the voucher to the final consumer for £10.

The telecommunications company sells the voucher to a distributor for £8 and accounts for VAT on the £8. The distributor recovers the input tax and sells the voucher to a retailer for £9 and accounts for VAT on £9. The retailer recovers the input tax and sells the voucher to the final consumer for £10 and accounts for output tax on £10.

On redemption, no VAT is due as VAT has already been brought to account on issue.

In reality, the vast majority of face value vouchers will not meet the current UK definition of an SPV and as such will be defined as a Multi Purpose Voucher (MPV).

EU DIRECTIVE ON THE VAT TREATMENT OF VOUCHERS

In 2012, the EU commission published a proposal for changes to the VAT treatment of vouchers (on the basis that there is no current EU wide legislation covering vouchers).

The EU Draft Directive also introduced the concept of an SPV and MPV (as per current UK legislation), however the EU's current proposed definition of an SPV is different to that in the current UK legislation.

Under the draft EU directive, an SPV is one where the redeemer, the VAT rate and the place of supply is known at the point of issue. Any voucher that can be redeemed by more than one party is an MPV under EU legislation as is any voucher which can be redeemed for goods of more than one rate or in more than one country. The concept of a retailer and credit voucher is not present in the EU proposals.

The EU commission is also currently looking to agree the process of how VAT will be accounted for throughout the supply chain.

Once the EU directive is approved and an implementation date confirmed, the UK legislation will need to be further amended to take into account the EU revised VAT treatment of vouchers throughout the supply chain.

MULTI PURPOSE VOUCHERS – CURRENT UK VAT RULES

For MPVs the current UK VAT treatment of face value vouchers has not materially altered since 2003 and the following rules apply:

RETAILER VOUCHERS

These are face value vouchers where the voucher can be redeemed by the issuer (or a third party).

The consideration for the issue of a retailer voucher is disregarded except to the extent that it exceeds the face value. VAT is accounted for at the time the voucher is redeemed for goods or services on the value for which the voucher was initially sold.

Any supplies of a retailer voucher, following the first supply by the issuer, are not disregarded and are taxable on issue. This is explained further below.

CREDIT VOUCHERS

A credit voucher is defined as a face value voucher that is issued by a person who cannot redeem the voucher for goods or services themselves. Instead, they undertake to give complete or partial reimbursement to the person who does redeem the vouchers for goods and services.

Consideration for all supplies of credit vouchers is disregarded for VAT purposes except to the extent that it exceeds the face value. The redeemer of the voucher accounts for VAT at the time the voucher is redeemed for goods or services. However, to qualify for this treatment, the redeemer must account for VAT on the full face value of the voucher.

VAT IMPLICATIONS FOR VOUCHER PROVIDERS RETAILER VOUCHERS

Whenever a retailer voucher is sold to a company which is VAT registered, the voucher provider should issue an invoice which shows the amount of VAT charged, which is included in the sale price of the vouchers. VAT should normally be charged at the standard rate (20%) unless it is known that the voucher can be redeemed for zero-rated or reduced-rated goods, or unless the retailer has, and is prepared to disclose, a composite rate (This will likely be the case on the basis that the vouchers are MPVs). Many retailers have an agreed 'composite rate' with HMRC which averages out the range of standard-rated, reduced-rated and zero-rated goods that the retailer sells. These rates can be passed through the supply chain, if the voucher provider states its composite rate on a VAT invoice when supplying vouchers.

However, retailers still do not have to account for this VAT until the voucher has been redeemed. Therefore some issuers are producing documents which serve as VAT invoices for their customers but which do not lead to VAT being accounted for through the accounts system for the issuer of the vouchers.

Example

A retailer sells its own vouchers to a VAT registered business customer. The total face value of the vouchers is £10,000 and the vouchers are sold for £9,500.

The retailer should issue an invoice for £9,500 (inclusive of VAT) and the VAT should be accounted for on the net value of £9,500 at 20% or at a composite rate if this is stated. In short, the customer pays £9,500, inclusive of VAT. So based on 20% VAT, net purchase value would be £7,916.67, with VAT of £1,583.33. The issuer should state the following on the invoice "the issuer of the vouchers will account for tax under the face value voucher provisions in Schedule 10A VAT Act 1994."

VAT IMPLICATIONS FOR THIRD PARTIES

VAT IMPLICATIONS FOR THIRD PARTY INTERMEDIARIES

When the intermediary purchases the vouchers, it can recover the VAT as Input Tax, subject to normal VAT rules and at the rate shown on the invoice. The tax point is the date on the invoice and the intermediary can recover VAT as at this date. When the intermediary sells the vouchers on to a corporate customer, it should raise a VAT invoice for the amount at which the vouchers are sold – in other words, including any margin set by the intermediary. VAT should be set at the same rate as that provided by the issuer. This means that if the retailer has a composite rate, this flows through to the onward sale of the voucher. If the intermediary is selling onto another supplier, then they must provide a full VAT invoice, inclusive of VAT at the amount the voucher is sold for.

Example

The intermediary buys retailer vouchers with a face value of £10,000 for £9,500. It can recover the VAT as Input Tax on the £9,500 at the composite rate if stated by the retailer, or at 20% if no composite rate is stated. It then sells all the vouchers to a corporate customer for £10,000. At this stage the intermediary should issue a VAT invoice for £10,000 (inclusive of VAT). If the composite rate is known, it should be stated on the invoice.

VAT IMPLICATIONS FOR CORPORATE CUSTOMERS

Where a corporate customer purchases a voucher as a gift for an employee, customer or client, it can recover the Input Tax, subject to normal VAT rules. If the recipient is an employee, the employer will also have to account for income tax and National Insurance Contributions at the appropriate level. For more information see the leaflet *The Voucher Association's guide to Tax and National Insurance on Voucher Incentive Schemes*. However, HMRC now treats the purchase of vouchers as a service rather than goods, meaning that the £50 business gifts exemption does not apply.

Therefore, the corporate customer will have to account for Output Tax, when the voucher is disposed of – i.e. if the corporate customer gives it to a member of staff, a client or a customer. This will be equal to the Input Tax on the sum at which the voucher was sold to them.

Example

The corporate customer buys vouchers with a face value of £10,000 from the intermediary for £10,000. It will recover Input Tax on £10,000, but also have to account for Output Tax on the same sum, i.e. £10,000, when they are disposed of.

If the corporate customer buys vouchers with a face value of £10,000 directly from the voucher issuer for a sum of £9,500, they will receive an invoice showing VAT for £9,500 (inclusive of VAT). The VAT paid can be recovered through Input Tax and the corporate customer has to account for Output Tax on the same sum – £9,500. Therefore VAT is paid on this purchase.

RECENT CASE LAW CONCERNING CORPORATE CUSTOMERS

There has been a recent tribunal decision in the case of *Associated Newspapers Ltd* which has significant positive implications for businesses (such as corporate customers) who purchase vouchers and give them away for business purposes.

In such circumstances, as discussed above HMRC has historically required VAT to be accounted for on the vouchers given away but in this case the Tribunal has ruled that there is no output VAT due, provided the vouchers are given away for business purposes.

This decision could have positive implications for UKGCVA members and corporate customers – reducing the VAT cost going forwards, but also opening up the possibility of recovering VAT overpaid over the last 4 years.

Members should be aware that as a First Tier Tribunal decision, this is not a binding precedent and HMRC's response to this decision is awaited.

FREQUENTLY ASKED QUESTIONS

CORPORATE CUSTOMERS/INTERMEDIARIES

I thought that corporate customers didn't have to pay VAT when purchasing vouchers directly from the voucher provider?

When purchasing vouchers, corporate customers can recover any VAT element as Input Tax. However, HMRC has stated quite clearly that corporates must pay an equal and opposite amount of Output Tax when the voucher is disposed of. Tax experts believe that this Output Tax charge is unenforceable and has the potential to be challenged. See *Associated Newspapers* case noted previously.

What happens if I receive a retrospective discount from a voucher provider or intermediary?

Your supplier should issue a VAT credit note at the VAT rate which was disclosed at the time the original invoice was issued.

As an intermediary, can I ask the voucher provider for its non-redemption rate, and claim back the VAT on vouchers that I sold to a customer even though they were not redeemed?

No. HMRC now treats the supply of vouchers from a third party intermediary as a 'business service.' This means that the sale is still subject to VAT, regardless of whether the end recipient redeemed the vouchers or not.

Do these rules apply for electronic gift cards?

Yes. Any sale or purchase of an electronic gift card should be subject to the same VAT rules as a paper voucher.

What happens if my voucher supplier does not tell me its composite rate?

It is at the discretion of the voucher retailer to disclose its composite rate. If the issuer chooses not to do so, then the standard rate (20%) will apply. However, the majority of suppliers are happy to disclose this information and the UKGCVA advises that customers call suppliers and ask for their composite rate.

What if the voucher does not fit the description of the credit voucher or retailer voucher?

Face value vouchers that are not defined as either credit vouchers or retailer vouchers, fall to be classified as other kinds of vouchers. All other kinds of voucher are subject to VAT on their sale. For example, if a high street retailer sells gift vouchers to an intermediate supplier, the onward sale of the vouchers by the intermediate supplier is subject to VAT.

Why are all the voucher providers treating this issue differently?

More often than not, it is because some voucher providers supply credit vouchers and some supply retailer vouchers. Secondly, the legislation was brought in with immediate effect, so the industry has taken some time to adjust and become compliant. Moreover, there are mixed messages between the policy makers and the local HMRC offices, which have resulted in some confusion. The UKGCVA is also working to ensure, where possible, uniformity of practice amongst the voucher providers who are members.

What happens if the redeemer does not account for VAT correctly?

The legislation allows HMRC to disapply the provisions and collect VAT from the issuer where the redeemer fails to account for VAT. HMRC has, however, stated that this will only be enforced in the case of deliberate tax avoidance, rather than in normal commercial circumstances, including insolvency of the redeemer.

ABOUT THE UK GIFT CARD & VOUCHER ASSOCIATION (UKGCVA)

T: 0870 241 6445 | **E:** info@ukgcva.co.uk

The UK Gift Card & Voucher Association was founded in 1996 to promote and represent the interests of UK voucher providers.

The UK Gift Card & Voucher Association has a broad range of aims and objectives:

- To represent the interests of the gift card and voucher industry
- To promote the concept of gift cards and vouchers
- To enhance the standing and raise the profile of the gift card and voucher industry
- To maintain and promote communication between members
- To improve awareness of market developments within the gift card and voucher business
- To address consumer and legal issues relating to the gift card and voucher industry
- To enhance members' knowledge of issues relating to the production, distribution and redemption of gift cards and vouchers, and to establish standards of best practice
- To provide consolidated industry market data to full members
- To promote the UKGCVA as the representative body in areas where the Association has an interest
- To communicate the views and opinions of the UKGCVA to any relevant government department, public authority or other body
- To co-operate with any other organised body or company in furtherance of the general interests of the gift card and voucher industry

The UK Gift Card & Voucher Association does not aim to influence individual member companies to adopt a majority or general view in any aspect of business practice. The integrity of member companies is a basic premise and remains the responsibility of each participating representative. The UK Gift Card & Voucher Association may not represent the views of specific member companies.