

Are you prepared for the new VAT package?

On the 1st of January 2010, the new EU VAT package will come into effect in each of the member countries and as a result all businesses will need to be compliant with these changes. The VAT package will bring significant changes to key areas of VAT legislation and will impact all businesses buying from the EU or selling to the EU. The essence of the new laws is to improve VAT handling within the EU and enable easier processing.

Key changes have been made to the rules surrounding, Place of Supply of Services, Reporting obligations, 8th Directive refunds, and electronically supplied services (read more about these below). All businesses will need to be compliant with the new regulations by the 1st of January to avoid potential penalties for incorrect accounting.

Place of Supply of Services

The current rule, simplified, states that the place of supply of a service to a business customer (Business-to-business) is where the supplier is established. This is to be changed on the 1st of January 2010 so that the place of supply is based on where the customer is located or the service is consumed.

By changing this from where the supplier is located to where the customer is located, VAT will be better matched to the market in which the services is performed and as a result avoid double or non taxation conflicts between member states.

This has been updated to work in a similar way to how the EU trade for goods works, where the country, in which the supply is made, is the country responsible for reporting VAT (Reverse charge). Reverse charge puts the responsibility of reporting both the VAT on sale and VAT on purchase on the buyer, the seller does not report any VAT on the sale.

For example, if you sell services to a company in France, you as the seller do not have to report any VAT on this sale.

Instead, the French Company must pay this VAT (at the French VAT rate).

However, if your company was to purchase a service from this French based company, you are then responsible for paying the VAT on this purchase, which must be the at the UK VAT rate.

This rule is the opposite of what is the rule for trade between business and private persons: The main rule when selling services to private persons in another country is to invoice the seller's VAT. This is because it is said that the service is delivered in the seller's country.

Reporting obligations for the supply of services

The purpose of these changes is to allow Member States to have a better overview

and control of reverse charges, and to help reduce the level of VAT fraud.

All businesses providing services across EU countries are required to produce a summary report (recapitulative statement) on all services provided. The report must include the following information:

- > **The customer sold to**
- > **The customer's country code**
- > **The customer's VAT registration number**
- > **Total value of supplies**

The report is only to include those services where the reverse charge applies i.e where

the company purchasing the services is responsible for paying the VAT.

8th Directive Refunds

From the 1st of January 2010 the current paper-based refund procedure for VAT will be replaced with a new electronic VAT refund procedure, in order to streamline and simplify this process. Businesses will be able to submit claims up to nine months from the end of the calendar year in which the VAT was incurred, instead of 6 months as at present (30 September deadline rather than 30 June). Businesses will submit claims for VAT incurred in other EU countries on a standardized form, speeding up the refund process.

UK VAT rate change and new requirement to lodge VAT online

From the 1st of January 2010 the UK VAT rate will return to the standard rate of 17.5% from the current rate of 15%.

In addition to the increase of the VAT rate, on the 1st of April 2010, the current paper based VAT returns will be phased out, meaning that all UK businesses will be required to submit all returns online and pay VAT electronically. This will mean for you, that your submission can be made faster and easier, without needing to worry about postal delays. On-screen information will be included to help simplify the process and automatic calculations and checks will also be included in order to reduce the number of errors.

5 MAIN POINTS TO REMEMBER

- 1 Changes will come into effect from the 1st of January 2010
- 2 You must be compliant with these changes by the 1st of January otherwise you may face penalties for incorrect accounting
- 3 The place of supply of services rule has changed from where the supplier is located to where the customer is located
- 4 All EU businesses selling goods across member states are required to report statistics on cross border sales (ESL's)
- 5 The current paper-based refund procedure for VAT incurred by EU businesses in Member States where they are not established will be replaced with a new electronic refund procedure.

More information www.hmrc.gov.uk