



VAT treatment of refunds made by manufacturers

Who is likely to be affected?

VAT-registered manufacturers and other suppliers of goods who initiate a supply chain and pay cash refunds direct to consumers in respect of goods purchased through retailers.

VAT registered recipients of such refunds.

General description of the measure

UK law will be amended to allow suppliers to adjust their VAT to take account of refunds they make to final consumers, including those made as part of business promotion schemes.

Policy objective

The measure will ensure that the net VAT accounted for on a supply of goods is reduced to take account of a refund made.

Background to the measure

This measure was announced in Budget 2013. A consultation document, VAT treatment of refunds made by manufacturers was published on 31 May 2013.

The government's response to this consultation was published on the GOV.UK website on 18 December 2013.

Detailed proposal

Operative date

The measure will have effect on and after 1 April 2014.

Current law

UK law currently provides for adjustments in the course of business (Regulation 38 of the VAT Regulations 1995 SI 1995/2518).

EU law provides for reductions after the supply has taken place (Article 90(1) of Directive 2006/112).

Proposed revisions

Secondary legislation will be introduced to supplement the existing Regulation 38. It will provide a mechanism for manufacturers and other VAT-registered suppliers who initiate a supply chain to adjust their VAT where they provide certain refunds to final consumers at the end of a chain of supplies they initiated. Such refunds may be in respect of goods which are faulty, damaged or otherwise do not fully met the expectations of the final consumer, or be made under a sales promotion scheme.

VAT-registered customers who receive such payments (or the benefit of such payments) will have to make any necessary adjustments to the VAT they recover.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	-	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals and households	There is no impact on individuals and households as this measure only affects the VAT treatment by a business.					
Equalities impacts	This measure affects businesses and does not have an equality impact on any protected characteristic.					
Impact on business including civil society organisations	<p>This measure is expected to have a negligible impact on businesses and civil society organisations.</p> <p>Although this measure could in theory affect all UK VAT-registered manufacturers, of which there are about 130,000, we believe cases of direct refunds for faulty goods are rare. Adjustments in respect of refunds made under business promotions are already permitted.</p> <p>There may be some one-off compliance costs and admin burdens for businesses relating to familiarisation with the amended legislation but these are expected to be negligible as are the on-going costs of complying with the legislation.</p>					
Operational impact (£m) (HMRC or other)	The operational impact of this measure is expected to be negligible.					
Other impacts	<p>Small and Micro Business Assessments (SMBA) The measure is expected to have a negligible impact on micro and small businesses that provide refunds covered by this measure. SMBAs will benefit by being able to reduce their VAT to take account of refunds they make to final consumers. Any businesses that receive such refunds will need to reduce the amount of VAT they reclaim to reflect the lower amount of VAT charged on the goods.</p> <p>Other impacts have been considered and none have been identified.</p>					

Monitoring and evaluation

This measure will be kept under review through communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact Michael Kelly on Telephone: 03000 585636 or Email: [Michael Kelly](#).

Declaration

David Gauke MP, Exchequer Secretary to the Treasury, has read this Tax Information and Impact Note and is satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impacts of the measure.