



VAT: prompt payment discounts

Who is likely to be affected?

Any VAT registered businesses that offer their customers a prompt payment discount and those customers.

General description of the measure

An amendment to VAT legislation on prompt payment discounts (PPD) to clearly align UK VAT legislation with EU VAT legislation.

Policy objective

This measure will protect revenue by putting it beyond doubt that UK VAT legislation on PPDs is aligned with EU VAT legislation and ensuring VAT is accounted for on the full consideration paid.

Background to the measure

This measure is being announced for the first time in Budget 2014.

HM Revenue & Customs (HMRC) has until now interpreted UK legislation to allow suppliers to account for VAT on the discounted price offered for prompt payment even when that discount is not taken up. This interpretation is to be changed to bring it in to line with the Principal VAT Directive (PVD) which requires VAT to be accounted for on the consideration actually received. The existing UK legislation may be interpreted as being in line with the PVD but has a degree of ambiguity so it will be amended to provide clarity on the VAT treatment of PPDs.

Historically PPDs have mainly been offered business to business (B2B) and recipients have generally been entitled to recover any VAT charged. PPDs are increasingly being offered to final consumers (B2C) who cannot recover the VAT charged. In particular, HMRC have identified several instances of suppliers of B2C services offering PPDs in the telecommunication and broadcasting sectors. Under the existing interpretation this results in a tax loss where PPDs are not taken up.

Detailed proposal

Operative date

This measure will for supplies of telecommunication and broadcasting services where there is no obligation to provide a VAT invoice, have effect for supplies made on and after 1 May 2014. For all other supplies the measure will have effect for supplies made on and after 1 April 2015; unless, for revenue protection purposes, it is necessary to bring forward the implementation date for specified supplies.

Current law

The current UK legislation is the Value Added Tax Act 1994 (VATA 1994), Schedule 6, paragraph 4. The relevant European legislation is the Principal VAT Directive (Directive 2006/112) Article 79.

Proposed revisions

Legislation will be introduced in the Finance Bill 2014 to:

- amend VATA 1994 to clearly bring the UK treatment of VAT when PPDs are offered into line with the European legislation; and
- take a power allowing HM Treasury to extend the early commencement of this amendment by secondary legislation to specified supplies.

In addition, provision will be made for a Provisional Collection of Taxes Act (PCTA) resolution to give statutory effect to the measure from 1 May 2014 for supplies of telecommunications and broadcasting services where there is no obligation to provide a tax invoice.

The reason for the PCTA resolution in relation to specified supplies and the power to provide for early commencement in relation to other supplies is to ensure that the application of PPDs does not result in significantly less VAT being collected prior to the main commencement.

The majority of businesses will have until 1 April 2015 to implement the change.

A consultation will be carried out on implementation prior to the commencement of the main change in April 2015.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19
	-	nil	nil	nil	nil
	This measure is not expected to have an Exchequer impact. This measure supports the Exchequer in its commitment to protect revenue.				
Economic impact	This measure is not expected to have any significant macroeconomic impacts.				
Impact on individuals and households	This measure will principally affect businesses. Individuals may be impacted in that prompt payment discounts are less likely to be offered to them.				
Equalities impacts	There is no specific impact identified for any equalities group.				

<p>Impact on business including civil society organisations</p>	<p>There will be an impact on businesses that currently offer or receive prompt payment discounts. Although the number of businesses using prompt payment discounts is not known, a survey by the British Chambers of Commerce on supply chains suggests that 13 per cent of businesses offer prompt payment discounts. It is therefore estimated that up to 250,000 businesses (i.e. 13 per cent of the VAT-registered population of 1.9 million businesses) could be affected by the change.</p> <p>It is anticipated that there will be one-off familiarisation and system changes and ongoing costs due to issuing revised paperwork where prompt payment discounts arrangements are in place. It is estimated that the one-off costs to these businesses are likely to be significant at about £8 million. The on-going costs are also likely to be significant at about £3.5 million per annum from 2015-16 but will depend on the mechanism chosen for adjusting VAT. The publication of a consultation document provides an opportunity for those affected by the change in the law to tell us about these practical impacts.</p> <table border="1" data-bbox="411 763 1380 1473"> <thead> <tr> <th></th> <th>Cost</th> <th>Time Period (yrs)</th> </tr> </thead> <tbody> <tr> <td colspan="3">Compliance Costs</td> </tr> <tr> <td>One-off Costs</td> <td>£8m</td> <td>N/A</td> </tr> <tr> <td>Average Annual Costs</td> <td>£3.5m</td> <td>4</td> </tr> <tr> <td>Total Costs (PV)</td> <td>£21m</td> <td>N/A</td> </tr> <tr> <td colspan="3">Compliance Benefits</td> </tr> <tr> <td>One-off Benefit</td> <td>N/A</td> <td>N/A</td> </tr> <tr> <td>Average Annual Benefit</td> <td>N/A</td> <td>N/A</td> </tr> <tr> <td>Total Benefit (PV)</td> <td>N/A</td> <td>N/A</td> </tr> <tr> <td>Net Benefit (NPV)</td> <td>-£21m</td> <td>N/A</td> </tr> <tr> <td colspan="3">Impact on Administrative Burden (included in Net Benefit)</td> </tr> <tr> <td>Increase</td> <td>Decrease</td> <td>Net Impact</td> </tr> <tr> <td>£3.5m</td> <td>£0m</td> <td>£3.5m</td> </tr> </tbody> </table>		Cost	Time Period (yrs)	Compliance Costs			One-off Costs	£8m	N/A	Average Annual Costs	£3.5m	4	Total Costs (PV)	£21m	N/A	Compliance Benefits			One-off Benefit	N/A	N/A	Average Annual Benefit	N/A	N/A	Total Benefit (PV)	N/A	N/A	Net Benefit (NPV)	-£21m	N/A	Impact on Administrative Burden (included in Net Benefit)			Increase	Decrease	Net Impact	£3.5m	£0m	£3.5m
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<p>Operational impact (£m) (HMRC or other)</p>	<p>This measure is not expected to have an operational impact on HMRC.</p>																																							
<p>Other impacts</p>	<p><u>Small and micro business assessment</u>: the measure will impact on all businesses that offer or receive prompt payment discounts including small firms.</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 and evaluation of information from compliance work.

Further advice

If you have any questions about this change, please contact Andy Heywood on 03000 554534 (email: andrew.heywood@hmrc.gsi.gov.uk).