

VAT: - comply with cross-border VAT changes



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How to - comply with
cross-border VAT
changes



Chamber International 'How to Guide'



Several changes on EU Cross-border VAT rules were introduced from 1 January 2010. To comply with the new rules, businesses need to make fundamental changes to their current VAT accounting and reporting processes to comply with these changes.

Businesses affected are:

- Businesses supplying services to overseas businesses.
- Businesses receiving services from overseas businesses.
- Businesses supplying goods to other EC countries.
- Businesses that want to reclaim VAT incurred in another EC country.

Changes to the Place of Supply Rules

From 1 January 2010, most services provided to business customers will be treated as supplied in the country where the business customer is established, and the business customer will account for VAT under the reverse charge mechanism. Services provided to non-business customers will still generally be liable to VAT in the country of the supplier.

New EC Sales Lists (ESLs) for services and changes to ESLs for goods

UK VAT-registered businesses that supply services to EU businesses, where the place of supply is the customer's country, will have to complete ESLs for each calendar quarter and submit these within 14 days for paper returns and 21 days

for electronic returns, in addition. UK VAT-registered businesses that supply goods to other EU countries already submit ESLs. From 1 January 2010 new rules will reduce the time available to submit ESLs in line with the limits above, and will require the monthly submission of ESLs where the value of the supplies of intra-Community goods (excluding VAT) exceeds £70,000 in the current quarter, or any of the previous four quarters. This threshold will be reduced to £35,000 (excluding VAT) with effect from 1 January 2012.

Application of the reverse charge on services

When you buy services from suppliers in other countries, you may have to account for the VAT yourself, depending on the circumstances. This is called the 'reverse charge'. Where it applies, you act as if you are both the supplier and the customer. You charge yourself the VAT and then, assuming that the service relates to VAT taxable supplies that you make, you also claim it back. So there is no net cost to you, as the two taxes cancel each other out.

The reverse charge on services only applies when the supplier is in a different country from you. It applies in three situations:

- Where you belong in the UK and receive - from a supplier who belongs in another country - one of the services that are not covered by the basic rule for place of supply of services.
- Where the services are covered by what is known as European Community (EC) simplification.

These are supplies such as intra-EC freight services, valuations of goods and most intermediary services. The reverse charge applies if you belong in the UK and the supplier belongs in another EU country.

Procedures

The time at which VAT must be accounted for under the reverse charge changed on 1 January 2010, along with other changes to the VAT rules for international transactions. The trader now needs to consider whether they will be affected by these changes and whether they may need to make changes to any of their software, systems or procedures. Businesses need to consider whether changes will be required for their accounting systems in order to implement these new rules from 1 January 2010, to account for VAT under the reverse charge, and/or to capture the information needed to submit ESLs. They should also consider obtaining the VAT Registration Numbers of regular business customers in other EC countries, and that means configuring their systems to account for the other VAT rates elsewhere in the EU.

All businesses need to analyse the impact of the changes on their particular circumstances and put in place procedures and systems that will make them compliant with the new rules. Businesses receiving services from another member state will need to analyse, under the new rules, whether they are now under an obligation to operate the reverse charge. Suppliers will need to obtain

customers' VAT registration numbers as the primary evidence of EU customers being in business.

UK companies affected by these changes will have to adjust their accounting schedules and invoicing details to allow for the VAT rates for all other EU member states where their customers are based, as in many cases VAT will have to be charged at the VAT rates of those countries depending upon where the customer is based.

Changes to the procedure for obtaining refunds of VAT paid in other EU Member States

A new electronic VAT refund procedure will be introduced across the EU for all claims submitted after 1 January 2010 to replace the current paper-based system. Businesses established in the UK will submit claims for VAT incurred in other EU countries on a standardised form through the UK Government Gateway, rather than direct to the Member State of Refund as at present. Claims for VAT incurred in member states where the trader is not established will be made via this new electronic portal in the trader's member state of establishment, and the details will then be passed on to the member states of refund. Claims must be made by 30 September of the calendar year following the refund period and must be for more than three months and less than a year. Payment by the relevant member state must be made within four months of receipt and within 10 days of approval, and interest is due if payment is late, unless requested information fails to be supplied.