

The logo for vatmate, featuring the word "vatmate" in white lowercase letters with a registered trademark symbol, set against a blue rectangular background.

vatmate[®]

A background photograph of a modern office setting. In the foreground, a man with short brown hair, wearing an orange V-neck sweater over a light blue collared shirt, sits at a wooden desk. He has a slight smile and is looking towards the camera, with his hands clasped in his lap. A pair of glasses hangs from the neckline of his sweater. In the background, two other people, a man and a woman, are seated at the same desk, working on laptops. The man is wearing a blue denim jacket over a white shirt, and the woman is wearing a blue and white plaid shirt. The desk is cluttered with various items, including a laptop, a coffee cup, a smartphone, and some papers. The overall atmosphere is professional and collaborative.

**The New Place of
Supply Regulations
from January 2019, an
opportunity for
business growth**

Be smart. Make sales less taxing.

The New Place of Supply Regulations from January 2019, an opportunity for business growth

(If you thought GDPR will impact your business, try this for size)

Introduction

The current Regulations came into force on 1st January 2015 and are being extended. The changes are being phased in from now until 2022 and they will have a strategic impact on all businesses that supply any goods or services.

From a government perspective, VAT is a major and growing source of revenue. In 2015, across the European Union (EU), over €1 trillion was raised through it. This corresponded to 7% of EU Gross Domestic Product (GDP).

Whatever happens through 'Brexit', the UK will be bound by the rules and these changes when trading with the EU on an ongoing basis - and internally until March 2019 at least.

The VAT Place of Supply Regulation changes are part of wider reaching ones, some that have taken place and some that are planned to be introduced, designed to make business to business (B2B) and business to consumer (B2C) simpler and easier to operate.

In particular they allow start-ups and Small and Medium-sized Enterprises (SMEs) to buy and sell goods online with the paperwork involved in selling across an EU Border much reduced.

The importance of how these changes will impact on an operating business and what

new advantages and opportunities they afford is the key to potential business growth. It is essential to plan and implement the changes for your business to ensure compliance when the first new Regulations come into force by the 1st January 2019.

The first change introduced will help Member States to recoup the current estimated €5 billion of VAT lost on online sales every year. The overall changes are planned to address the €150 billion shortfall that currently exists between the estimated total amount of VAT collectable on trade within the EU and the actual amount realised. This is important for at least these two reasons:

- the shortfall is approximately one-and-a-half times as much as it costs to 'run the EU' a year
- at least €50 billion of the shortfall is believed to be the result of criminal fraud

whichever way you look at it, reducing this deficit will mean more, potentially considerably more, funds available for Member States to deploy.

From a business perspective, ensuring compliance will maximise revenue, reduce aggravation and protect reputation.

Existing EU VAT place of supply rules

From 1 January 2015, the rules around the European Union (EU) VAT place of supply of services changed. This affected the sales of digital services (broadcasting, telecoms and e-services) from a business to a consumer (private individuals and non-business entities - for example, public authorities or charitable bodies). For such sales the place of taxation depends on the location of the consumer.

Where digital services are supplied on a B2C basis, the supplier is responsible for accounting for VAT on the supply:

- to the tax authority of the consumer's EU member state
- at the VAT rate applicable in the consumer's EU member state
see HMRC [VAT Notice 741A: place of supply of services](#)

The rules created a level playing field for UK businesses by removing the then current competitive advantage of EU member states with lower rates of VAT.

Source: HMRC 2017-12-20

If a business customer cannot provide a valid VAT Number and purchases a digitally delivered item then that sale must be treated as B2C.

The new EU VAT place of supply rules

The agreement, that established the new rules, was reached by the Economic and Finance Ministers of EU member states during their meeting in early December last year (2017).

The new rules will progressively come into force from 2019 and by 2021 will:

- Simplify VAT rules for start-ups, micro-businesses and SMEs selling goods to consumers online in other EU Member States. VAT on cross-border sales under

€10,000 a year will be handled according to the rules of the home country of the smallest businesses, giving a boost to 430 000 businesses across the EU. SMEs will benefit from simpler procedures for cross-border sales of up to €100,000 annually. These measures will enter into force by 1 January 2019.

- Allow all companies that sell goods to their customers online to deal with their VAT obligations in the EU through one easy-to-use online portal in their own language. Without the portal, VAT registration would be required in each EU Member State into which they want to sell – a situation cited by companies as one of the biggest barriers for small businesses trading cross-border.
- For the first time, make large online marketplaces responsible for ensuring VAT is collected on sales on their platforms that are made by companies in non-EU countries to EU consumers. This includes sales of goods that are already being stored by non-EU companies in warehouses (so-called 'fulfilment centres') within the EU which can often be used to sell goods VAT free to consumers in the EU.
- Address the problem of fraud caused by a previously misused VAT exemption for goods valued at under €22 coming from outside the EU which can distort the market and create unfair competition. Previously, fraudsters had been able to mislabel high value goods in small packages as having a value under the threshold of €22, making the goods exempt from VAT and creating an unacceptable gap of €1 billion in revenues which would otherwise have gone to the budgets of EU member states.

The new rules will ensure that VAT is paid in the Member State of the final consumer [the acquirer], leading to a fairer distribution of tax revenues amongst EU Member States.

They will help to cement a new approach to VAT collection in the EU, already in place for sales of e-services, and fulfil a core commitment of the [Digital Single Market \(DSM\) strategy for Europe](#). Today's agreement also marks another step towards a definitive solution for a single EU VAT area, as set out in the Commission's recent proposals for EU VAT reform.

The One Stop Shop [easy-to-use online portal] for sales of online goods is due to come into effect in 2021 to give Member States time to update the IT systems underpinning the system.

Source: European Commission http://europa.eu/rapid/press-release_IP-17-4404_en.htm.

Zero Rating B2B cross-border sales where the Buyer has a valid VAT number (note the Seller may be required to provide proof that they have validated any VAT Number proffered) will be abolished.

In its place the Seller will assume full responsibility for the VAT (currently the Buyer (acquirer) is responsible and should inform their taxation office of the details of the transaction) and:

- the VAT will be levied at the VAT Rate applying in the Member State of the Buyer
- the Seller will account for it to the appropriate taxation office of that Member State
- pay the whole amount so collected to that taxation office - on a strict quarterly scheduled basis
- keep a searchable record of all transactions for ten years.

Opportunities

Although the 'new rules' will bring in major changes in the way that businesses have to deal with VAT, there are obvious 'wins' for

your business, for example:

With the first €10,000 per annum of cross-border sales exempted, smaller businesses will have a new opportunity for increased sales and revenue as they will not have to deal with cross-border VAT.

Such transactions will be dealt with under their country's rules so, for a UK small business below the current VAT Registration threshold from some time yet to be specified before 1 January 2019, they will only have to charge VAT to their customers when and if they become VAT Registered. ***Until this rule applies, you have to make the charges required under the existing rules.***

Cross-border sales from €10,000 to €100,000 will also benefit an SME¹ in a similar way and timeframe.

The 'One Stop Shop' and the removal of the requirement for VAT Registration in each country where sales are made will considerably reduce the complexity and therefore cost of administering cross-border sales.

The change from the current 'zero rating' regime does bring major challenges and responsibilities, however, with proper planning and the choice of appropriate tools your business can take these in its stride.

Making the large online marketplaces responsible for VAT where they have been able to 'trade' in an advantageous way to smaller business can only be a positive step.

This 'levelling of the playing field' will improve the competitiveness of smaller business and create further opportunities.

¹The EU definition of SME: "The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro."

Planning for the changes

It is worth understanding how current B2C digital sales are reported to the appropriate member state taxation agencies.

The two main options for doing this, that are available to UK businesses, are:

- Register for VAT in each of the 28 EU Countries and pay each Government's 'HMRC equivalent' quarterly; or
- Register, in the UK, with HMRC for the VAT MOSS (VAT Mini One Stop Shop) service

Registration for VAT MOSS greatly reduces the administration overhead for your business as HMRC to do the tax reconciliation and distribution amongst the other member states on your behalf.

In either case, certain information is required by law and this has to be kept available online for 10 (ten) years should it be required by any involved Government's agency.

The information used in the Tax Returns under both the current and the new is critical to your business success selling across any border, whether within the EU or outside of it:

- the time/date of the sale
- the Member State of Consumption
- the VAT rate type
- the VAT rate in the member state
- the Total value of supplies excluding VAT
- the amount of VAT due

The requirement for displaying the correct rate of VAT prior to any online purchase, for each purchaser and each product whichever EU State they are in, will certainly feature in the new online portal as it does under the current (VAT MOSS) rules.

This legislation will come in to effect, for all sales of goods and services, across the EU (including the UK) starting this year.

Businesses that wish to trade will need to comply.

The future

Do not be put off, the rewards can be immense!

It's not too complicated now, and will become much simpler with these new Regulations, to trade with other countries. It's far simpler to trade with the EU member states over other countries as they all 'use the same rules' and this will remain so whether the UK is in or out of the EU.

vatmate® was created initially to address the needs of businesses facing the issues brought about by the introduction of the first change in the place of Supply Rules in January 2015. It is committed to continuing this support for the current new Regulations and any forthcoming ones. We are able to offer a cost-effective management solution for businesses who sell online to customers just in the UK or to one or more of the other European Union countries. (If you also trade with non-EU Countries our parent company iVAT Limited may well be able to provide support.)

If you're selling online, it is crucial that you can prove what rate of VAT you applied to every sale made. If you sell cross-border you also need to provide evidence of the type of customer you sold the item to as well as their location at the time they placed the order. **When selling B2B the HMRC VAT Inspectorate look for proof that any VAT Number provided by a customer has been validated.**

How can vatmate® help?

vatmate®|essential

We've got your back. Through the tracking and recording of every online sales transaction you can be confident that you have all of the data you need for your regular VAT Return, a straightforward audit or an unwanted VAT investigation.

vatmate®|extend

Delivers the same benefits as vatmate®|essential *with an added bonus*: we prepare and submit your VAT MOSS return for you, giving you notice of the amount of VAT collected and the date payment is due.

Be smart. Make sales less taxing.

Once you've chosen the right solution for your business, you're ready to get started.

Simply visit our website and create your **vatmate®** account. It takes less than ten minutes.

<https://www.vatmate.com/signup>



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