



HM Revenue
& Customs

VAT: Prompt Payment Discounts

Consultation document

Publication date: 17 June 2014

Closing date for comments: 9 September
2014

Subject of this consultation:	VAT invoicing and accounting arrangements when prompt payment discounts are taken up in relation to supplies made on or after 1 April 2015.
Scope of this consultation:	<p>Changes to UK legislation relating to prompt payment discounts will take effect in relation to supplies made on or after 1 April 2015. From that date, the way many businesses account for VAT when offering prompt payment discounts will change. Currently businesses can issue invoices that give details of the amount of the prompt payment discount and its terms and show the VAT due calculated on the discounted price. If the discount is not taken up HMRC has not required businesses to alter the amount of VAT invoiced and accounted for. After the change businesses must account for VAT on the consideration they actually receive.</p> <p>HMRC would like to receive views or suggestions on how the businesses affected should make consequent accounting adjustments. These will be used to inform any guidance HMRC may issue.</p> <p>The nature of the change and its timing has been decided and are not part of this consultation.</p>
Who should read this:	Businesses that use prompt payment discounts and their customers.
Duration:	The consultation will start on 17 June 2014 and end on 9 September 2014.
Lead official:	Edward Fosbrook HMRC
How to respond or enquire about this consultation:	Edward Fosbrook, VAT Supply Team, HM Revenue & Customs, Room 3C/09, 100 Parliament Street, London. SW1A 2BQ. Tel 03000 585869 Email: edward.fosbrook@hmrc.gsi.gov.uk
Additional ways to be involved:	<p>We are requesting written responses. However, if a meeting would be helpful, please contact Edward Fosbrook at the above address.</p> <p>Alternative format versions of this document are available on request. Please contact Edward Fosbrook at the above address.</p>
After the consultation:	We will evaluate the responses and a Response Document will be published in the Autumn. Following that guidance will be published explaining how such adjustments may be made.
Getting to this stage:	The change was announced at Budget 2014 and legislation is contained in Finance Bill 2014. The change was implemented with effect from 1 May 2014 for supplies of telecommunication and broadcasting services where there is no obligation to provide a VAT invoice.
Previous engagement:	None.

Contents

1	Introduction	5
2	Background	5
3	How the change will be made	6
4	Questions	7
5	Tax Impact Assessment	8
6	The Consultation Process	9
Annex A	New prompt payment discount legislation	12
Annex B	Annex B: VAT Regulations 1995 - Reg 14(1) (Contents of VAT invoice)	13

On request this document can be produced in Welsh and alternate formats including large print, audio and Braille formats.

1. Introduction

This measure was announced in Budget 2014. It is designed to protect the revenue by ensuring that VAT is accounted for on the full consideration received for supplies of goods and services. It will also clearly align the UK with EU legislation. This is a consultation on some of the practical issues around invoicing that may arise following the change.

The measure will take effect for supplies made on or after 1 April 2015. However, for supplies of telecommunication and broadcasting services where there is no obligation to provide a VAT invoice, the measure took effect from 1 May 2014.

2. Background

Many businesses offer prompt payment discounts (PPDs) to their customers to encourage them to pay earlier than the terms of the sale require in order to improve their cash flow. HM Revenue & Customs (HMRC) has until now interpreted UK legislation as allowing 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.

Invoices issued to VAT registered customers must contain the information set out in regulation 14(1)¹ of the VAT Regulations 1995 (reproduced at Annex B) which reflects what is required by Article 226 of the Principal VAT Directive. Price adjustments are normally processed by the issue of a credit note, a debit note or a revised invoice and these are required to contain the same information as an original invoice.

Currently businesses allowing PPDs to other VAT registered businesses issue invoices containing the information required by the VAT Regulation 14(1). The invoice must include the rate of any discount the supplier will allow for prompt payment. The invoice may specify the terms of the PPD e.g. the time by which it must be taken up, but the terms could be made known elsewhere.

¹ There are some exceptions such as Retailers' Invoices and Simplified Invoices for supplies not exceeding £250.

3. How the change will be made

The change will be made by amending paragraph 4 of Schedule 6 to the Value Added Tax Act 1994. See Annex A showing the amendments that will be made by the 2014 Finance Bill.

From 1 April 2015 the change will mean that, in relation to supplies made on or after this date, businesses that allow or receive PPDs will have to make some adjustments to how they account for VAT.

In circumstances where a VAT invoice is required and the terms on which the goods or services are supplied allow a discount for prompt payment:

- If the discounted price is paid in accordance with the terms before the invoice is issued the invoice should show the discounted price paid.
- If the discounted price is not paid before the invoice is issued then the invoice must show the undiscounted amount plus VAT, and the rate of the discount offered.
- If the PPD is taken up in accordance with the terms on which the supply is made and after the invoice is issued businesses must adjust the VAT charged and accounted for to reflect the consideration actually received. The supplier will do this by issuing a credit note or revised invoice, and making the necessary adjustments to their accounting records. On receipt of the credit note/revised invoice customers must enter these into their records to ensure they only claim the VAT that has actually been charged.

In circumstances where a VAT invoice is not required and the terms on which the goods or services are supplied allow a discount for prompt payment:

- If payment is not made before the time of supply then the supplier should account for VAT on the undiscounted price.
- If the discounted payment is received before or at the time of supply, in accordance with the terms on which the supply is made (which allow a discount for prompt payment) then VAT must be accounted for on the discounted price paid.
- If the full price is paid then VAT must be accounted for on the undiscounted price.
- If the discounted price is paid after the time of supply but in accordance with the terms of the supply (which allow the discount) then VAT must be accounted for on the discounted price paid. VAT will already have been accounted for on the full price and therefore an adjustment must be made.

The time businesses must account for VAT is unchanged, meaning that VAT must be accounted for in the accounting period in which the supply is made; or for those businesses in the cash accounting scheme, in the period the payment is received. This will be the case irrespective of whether a VAT invoice is required or not.

The normal accounting and invoicing arrangements apply. This means that, in all instances where a VAT invoice is issued, the amount of VAT on the invoice (when considered together with any credit or debit notes) will equate to the amount that has actually been paid and received.

If the customer takes the discount without meeting the PPD terms this should be treated in the same way as any other underpayment.

An example

The terms and conditions of a supply allow a discount for prompt payment and the business making the supply issues an invoice before it is known whether payment will be made in accordance with the PPD terms. The business will issue an invoice showing the undiscounted amount plus VAT (and specifying the rate of the PPD offered) and make the supporting accounting entries. If the discount is subsequently taken up the supplier will need to adjust the net amount and the associated output tax they have invoiced by issuing a credit note, or a revised invoice. They will also amend their accounting entries so that their books and records reflect the discount and they declare VAT on the discounted price received.

The customer, on receipt of the original invoice, will enter the full amount of VAT into their VAT records and, subject to the normal rules, may deduct the VAT on the full price. On receipt of the credit note they must make an adjustment in their records to reflect the reduced price and reduce any input tax they may claim/have claimed.

4. Questions

Bearing in mind the example:

Question 1

Are there particular issues or difficulties in raising and issuing credit notes or revised invoices where a PPD is taken up after an invoice is issued? If so what are they?

Question 2

If you have answered yes to Question 1 have you identified any solutions which still ensure that output tax is declared by the supplier on the consideration received and that the customer can only claim the corresponding input tax?

Question 3

Are there any particular challenges involved in processing payments and adjusting VAT when discounts are taken up? If so what are they? How might they be overcome?

Question 4

Are there any particular types of supply or arrangements, e.g. self-billing, which may result in other implementation issues? If so what are they? How might they be overcome?

Question 5

Are there any other implementation issues that may cause businesses difficulties? If so what are they? How might they be overcome?

5. Tax Impact Assessment

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.				
Impact on business including civil society organisations	<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>				

	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
Operational impact (£m) (HMRC or other)	This measure is not expected to have an operational impact on HMRC.	
Other impacts	<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>	

6. The Consultation Process

This consultation is being conducted in line with the Tax Consultation Framework. There are 5 stages to tax policy development:

- Stage 1 Setting out objectives and identifying options.
- Stage 2 Determining the best option and developing a framework for implementation including detailed policy design.
- Stage 3 Drafting legislation to effect the proposed change.
- Stage 4 Implementing and monitoring the change.
- Stage 5 Reviewing and evaluating the change.

This consultation is taking place during stage 4 of the process. The purpose of the consultation is to seek views on the policy implementation and thereafter

amend/issue guidance as appropriate on how accounting adjustments resulting from PPDs should be made.

How to respond

Responses should be sent by 9 September 2014, by e-mail to edward.fosbrook@hmrc.gsi.gov.uk or by post to:

Edward Fosbrook,
VAT Supply Team,
HM Revenue & Customs,
Room 3C/09,
100 Parliament Street,
London, SW1A 2BQ

Telephone enquiries 03000 585869 (from a text phone prefix this number with 18001)

Paper copies of this document or copies in Welsh and alternative formats (large print, audio and Braille) may be obtained free of charge from the above address. This document can also be accessed from [HMRC Inside Government](#). All responses will be acknowledged, but it will not be possible to give substantive replies to individual representations.

When responding please say if you are a business, individual or representative body. In the case of representative bodies please provide information on the number and nature of people you represent.

Confidentiality

Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes. These are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004.

If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals with, amongst other things, obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on HM Revenue and Customs (HMRC).

HMRC will process your personal data in accordance with the DPA and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.

Consultation Principles

This consultation is being run in accordance with the Government's Consultation Principles. The Consultation Principles are available on the Cabinet Office website: <http://www.cabinetoffice.gov.uk/resource-library/consultation-principles-guidance>

If you have any comments or complaints about the consultation process please contact:

Oliver Toop, Consultation Coordinator, Budget Team, HM Revenue & Customs, 100 Parliament Street, London, SW1A 2BQ.

Email: hmrc-consultation.co-ordinator@hmrc.gsi.gov.uk

Please do not send responses to the consultation to this address.

Annex A: New prompt payment discount legislation

The new legislation is contained in the 2014 Finance Bill

102 VAT: prompt payment discounts

(1) In Part 2 of Schedule 6 to VATA 1994 (valuation: special cases), for paragraph 4 (prompt payment discounts), substitute—

- “4 (1) Sub-paragraph (2) applies where—
- (a) goods or services are supplied for a consideration which is a price in money,
 - (b) the terms on which those goods or services are so supplied allow a discount for prompt payment of that price,
 - (c) payment of that price is not made by instalments, and
 - (d) payment of that price is made in accordance with those terms so that the discount is realised in relation to that payment.

(2) For the purposes of section 19 (value of supply of goods or services) the consideration is the discounted price paid.”

(2) The amendment made by this section has effect in relation to relevant supplies made on or after 1 May 2014.

(3) The Treasury may by order made by statutory instrument provide that the amendment has effect in relation to supplies of a description specified in the order made on or after a date so specified (being a date before 1 April 2015).

(4) Subject to that, the amendment has effect in relation to supplies made on or after 1 April 2015.

(5) In this section—

“relevant supply” means a supply of radio or television broadcasting services or telecommunication services made by a taxable person who is not required by or under any enactment to provide a VAT invoice to the person supplied;

“telecommunication services” has the same meaning as in paragraph 8(2) of Schedule 4A to VATA 1994.

Annex B: VAT Regulations 1995 - Reg 14(1) (Contents of VAT invoice)

Subject to...a registered person providing a VAT invoice in accordance with regulation 13 shall state thereon the following particulars-

- (a) a sequential number based on one or more series which uniquely identifies the document,
- (b) the time of the supply,
- (c) the date of the issue of the document,
- (d) the name, address and registration number of the supplier,
- (e) the name and address of the person to whom the goods or services are supplied,
- (f) (Omitted by SI 2003/3220, reg 7(a))
- (g) a description sufficient to identify the goods or services supplied,
- (h) for each description, the quantity of the goods or the extent of the services, and the rate of VAT and the amount payable, excluding VAT, expressed in any currency,
- (i) the gross total amount payable, excluding VAT, expressed in any currency,
- (j) the rate of any cash discount offered,
- (k) (Omitted by SI 2003/3220, reg 7(a)) .
- (l) the total amount of VAT chargeable, expressed in sterling,
- (m) the unit price,
- (n) where a margin scheme is applied under section 50A or section 53 of the Act, the reference "margin scheme: works of art", "margin scheme: antiques or collectors' items", "margin scheme: second-hand goods", or "margin scheme: tour operators" as appropriate,
- (o) where a VAT invoice relates in whole or part to a supply where the person supplied is liable to pay the tax, the reference "reverse charge".