

# VAT: PROMPT PAYMENT DISCOUNTS

Response by the Association of Taxation Technicians

## 1 Introduction

- 1.1 The Association of Taxation Technicians (ATT) is pleased to have the opportunity to respond to the consultation document *VAT: Prompt payment discounts* ('PPD') ('the Consultation') published by HMRC on 17 June 2014.

## 2 Our detailed responses to the questions

- 2.1 **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?**

The requirement to issue a high volume of credit notes will almost certainly be an extra administration challenge for many entities. The reality is that many businesses will probably cease to offer PPD as a matter of course.

- 2.2 **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?**

The requirement to issue a credit note or an amended invoice may significantly increase the administrative burden for an affected business. The legislation already offers some flexibility concerning a simplified procedure for issuing credit notes – the decrease in the consideration can be evidenced by credit notes or any other document having the same effect (VATA1994, Sch 11, para 2(10)(c)). The court has also admitted that in the case of the returning of leased goods prior to the end of the agreement, the overall effect of the various documents has had the same effect as a credit note. Looking at the VAT rules in other member states, the French system exempts suppliers from issuing a credit note where PPD is taken up provided that the initial invoice mentions that, where the PPD is taken up, only the price effectively paid gives rise to a right of deduction. As the information regarding the reduction of the consideration is known in advance in cases of PPD, the requirement of issuing an invoice may be simplified by simply mentioning the person's right and obligation with respect to VAT on the initial invoice.

2.3 **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?**

The ATT is not able to comment on this issue.

2.4 **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?**

Self-billing should not be an issue because the customer is raising the relevant paperwork so should know at the time of raising the document whether he will take advantage of any prompt payment discount offered by the supplier – the self-billing document can then be adjusted according to the relevant outcome.

2.5 **Question 5 - Are there any other implementation issues that may cause businesses difficulties? If so what are they? How might they be overcome?**

Intra-community transactions

In the case of intra-community transactions, the recipient of the supply is liable to account for VAT. It might be excessive to require the issuance of a credit note by the supplier to allow a VAT adjustment. A VAT adjustment without the issuance of a credit note may be considered provided that the initial invoice includes all the relevant information required for the adjustment such as the discount and amount to be credited.

Scope of the provision: consideration in kind

The new legislation seems to limit the possibility to reduce the taxable amount where the PPD is taken up only in situations 'for a consideration which is a price in money'. However, the ECJ already ruled in Goldsmiths (C-330/05) that Article 11C(1) of the Sixth Directive (now art. 90 of the PVD) makes no distinction between consideration in money and consideration in kind. Therefore, a member state (in the case of the UK) which enacts provisions for the refund of VAT in the case of total or partial non-payment of the consideration cannot refuse the refund where the unpaid consideration is in kind, when it permits a refund where the consideration is expressed in money. By analogy, the new legislation might be in breach of EU law for not allowing adjustment where the consideration is in kind.

### **3 Contact details**

- 3.1 Should you wish to discuss any aspect of these comments, please contact us at [atttechnical@att.org.uk](mailto:atttechnical@att.org.uk).

Yours sincerely

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On behalf of ATT Technical Steering Group

#### **4 Note**

4.1 The Association is a charity and the leading professional body for those providing UK tax compliance services. Our primary charitable objective is to promote education and the study of tax administration and practice. One of our key aims is to provide an appropriate qualification for individuals who undertake tax compliance work. Drawing on our members' practical experience and knowledge, we contribute to consultations on the development of the UK tax system and seek to ensure that, for the general public, it is workable and as fair as possible.

Our members are qualified by examination and practical experience. They commit to the highest standards of professional conduct and ensure that their tax knowledge is constantly kept up to date. Members may be found in private practice, commerce and industry, government and academia.

The Association has over 7,500 members and Fellows together with over 5,000 students. Members and Fellows use the practising title of 'Taxation Technician' or 'Taxation Technician (Fellow)' and the designatory letters 'ATT' and 'ATT (Fellow)' respectively.