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VAT and vouchers

1. What is a face value voucher?

A face value voucher is:

- A voucher, token, or stamp with a cash value.
- It provides a right to receive goods or services to that face value without receiving additional payment.
- They can be issued in physical or electronic form.
- The value maybe recorded physically (e.g by printing it on the front) or electronically (e.g voucher cards with a digital strip).
- Examples include – book tokens, gift vouchers, phone cards, electronic top up cards

2. New Rules from 1 January 2019

Vouchers issued on or after 1 January 2019 fall into one of two categories, they are either:

1. **Single purpose vouchers:** These are vouchers which can be redeemed for goods and services with a single VAT liability; or
2. **Multi-purpose vouchers:** These are vouchers which can be redeemed for goods and services which may have different liabilities.

2.1 *Single purpose vouchers*

The VAT liability of a single purpose voucher is very straight forward – and unchanged from the pre 1 January 2019 position.

They are taxed according to the liability of the items for which they can be redeemed at every stage of the supply chain.

The issuer, and any intermediate suppliers account for VAT based upon the amount of payment they receive. No VAT is due when the voucher is redeemed.

2.2 *Multipurpose vouchers*

Multi-purpose vouchers are not subject to VAT when they are sold. The issuers of such vouchers and any intermediary suppliers do not need to account for VAT when multi-purpose vouchers are bought and sold.

When a multipurpose voucher is redeemed, the redeemer accounts for VAT based upon the liability of the goods and services supplied.

3. Rules before 1 January 2019

Before 1 January 2019 face value vouchers fell into four categories:

1. **Single purpose vouchers** – the treatment of these was the same before 1 Jan'19.
2. **Retailer vouchers** – vouchers which are issued and redeemed by the same entity
3. **Credit vouchers** – vouchers which are issued and redeemed by different entities
4. **Other vouchers** – i.e vouchers which do not fall into any of the above categories. The sale of these is subject to VAT at every stage, as though they are 'standard rated single purpose vouchers'.

3.1 Retailer vouchers

VAT is not due on issue. VAT is due when the voucher is redeemed AND when the voucher is bought and sold by an intermediary supplier.

VAT accounted for by the retailer when the voucher is redeemed is based upon the consideration received by the retailer when the voucher is sold. If the voucher is sold to an intermediary for less than face value the, VAT is accounted for based upon this reduced consideration, not the face value.

In reality most retailer vouchers can be redeemed for items of differing liabilities (otherwise they would be single purpose vouchers). To take account of this retailers may agree an estimated VAT rate for their vouchers with HMRC based upon their overall sales. This composite VAT rate may be used by any intermediaries if they know it.

Operating a voucher scheme where the vouchers are bought and sold through intermediaries may require sophisticated IT to keep track.

3.2 Credit vouchers

Credit vouchers are issued and redeemed by different parties, e.g a voucher issued by a trade association which can be redeemed at a variety of different retailers.

No VAT is due on the issue of credit vouchers, or their sale by intermediaries.

VAT is due from the redeemer when the vouchers are redeemed based upon their face value –unless there is evidence that they were bought for less than their face value.

4. Implications of the 1 January 2019 changes

The 1 January 2019 changes are less complex than they first appear. The changes can be summarised as follows:

Single purpose vouchers: treatment is unchanged. These vouchers continue to be taxed on issue and subsequent re-sale – but their redemption does not result in VAT becoming due.

Multi-purpose vouchers: under the new rules VAT is only due when they are redeemed. Thus:

Retailer vouchers – treatment has changed (see below)
Credit vouchers – treatment is almost unchanged
Other vouchers – treatment has changed

Other vouchers are uncommon. Under the pre-1 Jan '19 rules VAT was due at every stage of their sale, so for businesses which trade in these the move to accounting for VAT only on redemption will be significant.

4.1 Retailer vouchers which are also multi-purpose vouchers

If retailer vouchers are simply issued and redeemed by the same retailer without being bought and sold by intermediaries, VAT accounting will be unchanged. However, many vouchers are distributed by intermediaries and the change in VAT accounting for these vouchers will be significant, as follows:

1. For vouchers issued before 1 Jan '19 VAT is due on redemption according to the amount for which they were sold to the first intermediary in the supply chain.
2. For vouchers issued on or after 1 Jan '19 VAT is due on redemption according to the face value of the voucher.

Keeping track of both types of voucher in order to ensure that VAT is neither over nor under paid is likely to be a significant challenge.