



BRIEFING

# VAT on vouchers explained

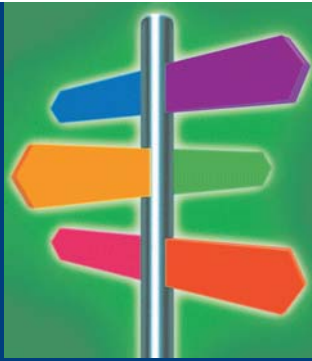
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**the**  
**voucher**  
**association**



# VAT on vouchers explained

On 9th April 2003 (in the Spring Budget statement), changes to the VAT treatment of face value vouchers were announced and took immediate effect. These have had implications for those throughout the incentive industry; voucher provider, incentive and marketing companies and corporate customer. This document sets out to explain the changes and provides guidance on compliance for each company in the supply chain.

## Why the change?

Following a consultation period, the Government decided that there was a certain amount of tax leakage in the incentives industry – namely in the onward sale of vouchers from a company that is not the issuer, for instance a motivation agency.

## Voucher definition

In the Finance Bill 2003, the Government defines a voucher as follows: *“face-value voucher” means a token, stamp or voucher (whether in physical or electronic form) that represents a right to receive goods or services to the value of an amount stated on it or recorded in it.*

## Differences in vouchers

Whilst the legislation affects the majority of vouchers purchased, there are some vouchers on the market where the legislation will have no effect. It is therefore important to distinguish between **retailer vouchers**, where the treatment of VAT has changed, and **credit vouchers**, where there has been no change.

## Retailer vouchers

These are face value vouchers where the issuer and redeemer of the goods and services is the same person. On retailer vouchers, VAT is accounted for on the **value at which the voucher is sold**, at the point of redemption.

## Credit vouchers

A credit voucher is defined as a face value voucher that is issued by a person who cannot redeem the voucher for goods or services themselves. Instead, they undertake to give complete or partial reimbursement to the person who does redeem the vouchers for goods and services. VAT is accounted for on the **full face value of the voucher**, at the point the voucher is redeemed.

## How do voucher providers comply with the legislation?

Whenever a retailer voucher is sold to a company which is VAT registered, the voucher provider should issue an invoice which shows the amount of VAT charged, which is included in the sale price of the vouchers.

VAT should be nominally charged at the standard rate (17.5%) unless it is known that the voucher can be redeemed for zero-rated or reduced-rated goods, or unless the retailer has, and is prepared to disclose, a composite rate. Many retailers have an agreed ‘composite rate’ with HMRC which averages out the range of standard-rated, reduced-rated and zero-rated goods that the retailer sells. These rates can be passed through the supply chain, if the voucher provider states its composite rate on a VAT invoice when supplying vouchers. Therefore some issuers are producing documents which serve as VAT invoices but which do not lead to VAT being accounted for through the accounts system.

However, retailers still do not have to account for this VAT until the voucher has been redeemed.

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Therefore retailers will have to make system changes (or make offline adjustments) so as not to pay the VAT shown on these invoices until the voucher is redeemed.

#### Example

*A retailer sells its own vouchers to a VAT registered business customer. The total face value of the vouchers is £10,000 and the vouchers are sold for £9,500.*

*The retailer should issue an invoice for £9,500 (inclusive of VAT) and the VAT should be accounted for on the net value of £9,500 at 17.5% or at a composite rate if this is stated. In short, the customer pays £9,500, inclusive of VAT. So based on 17.5% VAT, net purchase value would be £8,085.10, with VAT of £1,414.90.*

*If the composite rate is not stated, the issuer should state the following on the invoice "the issuer of the vouchers will account for tax under the face value voucher provisions in Schedule 10A VAT Act 1994."*

*It is important to note that if the voucher is a credit voucher, then these vouchers are disregarded for VAT unless they are sold for an amount that exceeds the face value. This means that customers who buy vouchers from a number of different providers may face the possibility of receiving VAT invoices as well as non VAT invoices.*

The purchaser of the vouchers will therefore receive an invoice incorporating the VAT. The next stage depends on whether the purchaser of the vouchers is either:

- a **corporate customer** – i.e. someone who will use the vouchers as gifts for employees, or customers;

- an **intermediary** – motivation/marketing agency who will be selling the vouchers onto another corporate customer or another intermediary.

#### How do third party intermediaries comply with the legislation?

When the intermediary purchases the vouchers, it can recover the VAT as Input Tax, subject to normal VAT rules and at the rate shown on the invoice.

The tax point is the date on the invoice and the intermediary can recover VAT as at this date.

When the intermediary sells the vouchers on to a corporate customer, it should raise a VAT invoice for the amount at which the vouchers are sold – in other words, including any margin set by the intermediary. VAT should be set at the same rate as that provided by the issuer. This means that if the retailer has a composite rate, this flows through to the onward sale of the voucher.

If the intermediary is selling onto another supplier, then they must provide a full VAT invoice, inclusive of VAT at the **amount the voucher is sold for**.

#### Example

*The intermediary buys retailer vouchers with a face value of £10,000 for £9,500. It can recover the VAT as Input Tax on the £9,500 at the composite rate if stated by the retailer, or at 17.5% if no composite rate is stated. It then sells all the vouchers to a corporate customer for £10,000. At this stage the intermediary should issue a VAT invoice for £10,000 (inclusive of VAT). If the composite rate is known, it should be stated on the invoice.*

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### How do corporate customers comply with the legislation?

Where a corporate customer purchases a voucher as a gift for an employee, customer or client, it can recover the Input Tax, subject to normal VAT rules. If the recipient is an employee, the employer will also have to account for income tax and National Insurance Contributions at the appropriate level. For more information see the leaflet *The Voucher Association's guide to Tax and National Insurance on Voucher Incentive Schemes*.

However, HMRC now treats the purchase of vouchers as a service rather than goods, meaning that the £50 business gifts exemption does not apply.

**Therefore, the corporate customer will have to account for Output Tax, when the voucher is disposed of – i.e. if the corporate customer gives it to a member of staff, a client or a customer. This will be equal to the Input Tax on the sum at which the voucher was sold to them.**

#### Example

*The corporate customer buys vouchers with a face value of £10,000 from the intermediary for £10,000. It will recover Input Tax on £10,000, but also have to account for Output Tax on the same sum, i.e. £10,000, when they are disposed of.*

***If the corporate customer buys vouchers with a face value of £10,000 directly from the voucher issuer for a sum of £9,500 they will receive an invoice showing VAT for £9,500 (inclusive of VAT). The VAT paid can be recovered through Input Tax and the corporate customer has to account for Output Tax on the same sum – £9,500. Therefore VAT is paid on this purchase.***

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## Frequently asked questions

### Corporate customers/intermediaries

#### I thought that corporate customers didn't have to pay VAT when purchasing vouchers directly from the voucher provider?

When purchasing vouchers, corporate customers can recover any VAT element as Input Tax. However, HMRC has stated quite clearly that corporates must pay an equal and opposite amount of Output Tax when the voucher is disposed of. Tax experts believe that this Output Tax charge is unenforceable and has the potential to be challenged.

#### What happens if I receive a retrospective discount from a voucher provider or intermediary?

Your supplier should issue a VAT credit note at the VAT rate which was disclosed at the time the original invoice was issued.

#### As an intermediary, can I ask the voucher provider for its non-redemption rate, and claim back the VAT on vouchers that I sold to a customer even though they were not redeemed?

No. HMRC now treats the supply of vouchers from a third party intermediary as a 'business service.' This means that the sale is still subject to VAT, regardless of whether the end recipient redeemed the vouchers or not.

#### Do these rules apply for electronic gift cards?

Yes. Any sale or purchase of an electronic gift card should be subject to the same VAT rules as a paper voucher.

**Contacting The Voucher Association**

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Website: [www.voucherassociation.co.uk](http://www.voucherassociation.co.uk)Email: [info@voucherassociation.co.uk](mailto:info@voucherassociation.co.uk)**What happens if my voucher supplier does not tell me its composite rate?**

It is at the discretion of the voucher retailer to disclose its composite rate. If the issuer chooses not to do so, then the standard rate (17.5%) will apply. However, the majority of suppliers are happy to disclose this information and the Voucher Association advises that customers call suppliers and ask for their composite rate.

**What if the voucher does not fit the description of the credit voucher or retailer voucher?**

HMRC defines any of these as 'Other Kinds of Vouchers,' which includes phone cards. The treatment for these vouchers is the same as for a retailer voucher.

**Why are all the voucher providers treating this issue differently?**

More often than not, it is because some voucher providers supply credit vouchers and some supply retailer vouchers.

Secondly, the legislation was brought in with immediate effect, so the industry has taken some time to adjust and become compliant. Moreover, there are mixed messages between the policy makers and the local HMRC offices, which have resulted in some confusion.

The Voucher Association is also working to ensure, where possible, uniformity of practice amongst the voucher providers who are members.

**For voucher providers****What happens if the intermediary does not account for VAT correctly?**

The legislation allows HMRC to disapply the provisions and collect VAT from the issuer where the third party fails to account for VAT. HMRC has, however, stated that this will only be enforced in the case of deliberate tax avoidance, rather than in normal commercial circumstances, including insolvency of the third party.

## Further references:

National Advice Service

0845 010 9000

HMRC' website:

[www.hmrc.gov.uk](http://www.hmrc.gov.uk)

## For a copy of the legislation:

[www.parliament.uk](http://www.parliament.uk).

Finance Bill 2003, Chapter 2, Clause 19

*Information correct as of April 2006.**Please note that the information in the document is intended to act as a guide only. Organisations are strongly advised to seek professional advice when dealing with VAT on vouchers.*

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# About The Voucher Association

The Voucher Association was founded in 1996 to promote and represent the interests of UK voucher providers. The Voucher Association has a broad range of aims and objectives:

- To represent the interests of the voucher industry
- To promote the concept of vouchers
- To enhance the standing and raise the profile of the voucher industry
- To maintain and promote communication between members
- To improve awareness of market developments within the voucher business
- To address consumer and legal issues relating to the voucher industry
- To enhance members' knowledge of issues relating to the production, distribution and redemption of vouchers, and to establish standards of best practice
- To provide consolidated industry market data to full members
- To promote The Voucher Association as the representative body in areas where the Association has an interest
- To communicate the views and opinions of The Voucher Association to any relevant government department, public authority or other body
- To co-operate with any other organised body or company in furtherance of the general interests of the voucher industry

The Voucher Association does not aim to influence individual member companies to adopt a majority or general view in an aspect of business practice. The integrity of member companies is a basic premise and remains the responsibility of each participating representative. The Voucher Association may not represent the views of specific member companies.

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*The information in this document is intended to act as a guide. Organisations are strongly advised to seek professional advice when dealing with tax issues relating to reward and incentive schemes.*