



New VAT Rules for intra-EU trade from January 1st 2010

From January 1st 2010 new rules aimed at modernising and harmonising cross-border VAT rules will come into force throughout the European Community.

The following businesses **WILL** be affected by the changes:

- Any business supplying services to overseas businesses
- Any business receiving services from overseas businesses
- Any business supplying goods to other EC countries
- Any business wanting to reclaim VAT incurred in another EC country

The January 1st changes to cross-border VAT rules represent a dramatic reform of the current VAT regime that applies to the supply services whilst simultaneously introducing important changes to the intra-eu reporting regime for goods.

In order to meet the compliance requirements for the new VAT rules, businesses will be required to make a number of changes to their existing accounting and reporting procedures and whilst not all aspects of the new VAT rules have been finalised it is essential that businesses are aware of possible changes in order to respond more quickly and minimise impact on the business.

What are the changes to the VAT rules?

Essentially the changes to the new rules relate to the following four specific areas (see below for more details):

- Time of supply rules
- Place of supply rules
- ESLs (EC Sales Lists) for services & goods
- Obtaining VAT refunds

The following pages contain brief summaries relating to the core VAT-rule changes mentioned above together with useful links to further information on the changes.



Changes to the Time of Supply Rules

UK businesses are currently required to account for VAT on the receipt of supplies from intra-EU countries as a reverse charge. In most circumstances the time of supply for this category of cross border supply is when the supply is paid for.

From the 1st of January 2010 the Time of Supply rules will apply primarily to when a service is performed and a distinction will be made between single and continuous supplies. For one-off supplies, the time of supply will be when the service is completed or when it is paid for if this is earlier - the invoice date is irrelevant.

In the case of continuous supplies, the time of supply will be the end of each billing or payment period. For example, if leasing charges are billed monthly or the customer is required to pay a monthly amount, the time of supply will be the end of the month to which the bill or payment relates. Again, if a payment is made before the end of the period to which it relates or before the end of the billing period then that payment date, rather than the end of the period, will be treated as the time of supply.

For continuous supplies that are not subject to billing or payment periods, the time of supply will be the 31st of December each year unless a payment has been made beforehand, in which case the payment will determine the time of supply.

Changes to the Place of Supply Rules

As of January 1st 2010 most services provided to business customers will be treated as supplied in the country where the business customer is established and the business customer will account for VAT under the reverse charge mechanism.

Where services are provided to non-business customers, liability for VAT will still generally remain in the country of the supplier.

The changes to these rules will be phased in on 1st of January 2010, 1st of January 2011, 1st of January 2013 and 1st of January 2015.

New ESLs for services and changes to ESLs for goods

In order to enable tax authorities to better check that VAT is being correctly accounted for by businesses receiving intra-EU supplies of **services**, VAT-registered businesses in the UK supplying services to EU businesses, where the place of supply is the customer's country, will be required to **complete ESLs for each calendar quarter** and submit them within 14 days (for paper returns) and within 21 days (for electronic returns).



UK VAT-registered businesses supplying **goods** to other EU countries will already be submitting ESLs, however, from the 1st of January 2010 the new rules will:

- Reduce the time available to submit ESLs in line with the aforementioned limits
- Require **monthly ESLs** where the value of trade in goods to intra-EU countries exceeds £70,000 (excluding VAT) in the current quarter or in any of the previous four quarters. From **1 January 2012** this threshold will be further reduced to £35,000 (excluding VAT).

Changes to the procedure for obtaining refunds of VAT paid in other EU Member States

From 1 January 2010, a new electronic VAT refund procedure will be in place across the whole of the EU to replace the existing paper-based system. UK businesses will submit their claims for VAT incurred in other EU countries on a standardised form through the UK Government Gateway, rather than direct to the Member State of Refund as is the current system.

The next step for businesses

All businesses should visit the **HMRC website** for further details on each of the specific elements of the new VAT rules in order to familiarise themselves with the rules and consider how their individual business will be affected and the steps they need to take in order to achieve compliance from 1 January 2010.

It is also strongly recommended by HMRC that UK businesses should endeavour to **obtain the VAT Registration Numbers of regular business customers** based in other EC countries.

Useful Links

[European Commission Taxation and Customs Union - http://ec.europa.eu/taxation_customs](http://ec.europa.eu/taxation_customs)

[HM Revenue & Customs – http://www.hmrc.gov.uk](http://www.hmrc.gov.uk)

[UK Trade & Investment – http://www.uktradeinvest.gov.uk](http://www.uktradeinvest.gov.uk)

[Midlands World Trade Forum – http://www.mwtf.org.uk](http://www.mwtf.org.uk)

Please contact **Midlands Enterprise Europe** for further details of this or any other intra-EU trade related issues on **0121 455 0268** or by email at een@birminghamchamber.org.uk