

If your business supplies a service to customers outside the UK, it will automatically encounter a highly complex area of VAT. If understood, the VAT treatment applicable to your business activities is straightforward to administer. However, it is all too common that businesses apply the wrong treatment, resulting in unnecessary errors and potential VAT assessments, interest and penalties.

Here are some of the most frequent questions our clients ask us....

If my customers are outside the UK, do I have to charge UK VAT?

In many cases, depending on the nature of your business, you will have to charge UK VAT to overseas customers.

Why do I have to charge UK VAT to overseas customers?

The basic rule states that the place in which your business supplies its services is where you, the supplier, is seen to 'belong'. This means UK VAT is chargeable, by default, if your business is established and operating in the UK. However, this treatment is over-ridden if your business provides services which are viewed differently by HM Revenue & Customs (HMRC) in terms of where the benefit is received.

So, for which services does UK VAT not have to be charged?

These services comprise:

- services in connection with land or property – these are 'supplied' wherever the land is located;
- transport services - these are supplied wherever the transport takes place;
- cultural, artistic, sporting, scientific, educational and entertainment services – these are supplied wherever the services are physically performed.

In terms of the following services, they are 'supplied' from wherever the recipient belongs:

- transfers and assignments of rights;
- advertising;
- consultants, engineers, lawyers, accountants, data processors, information providers;
- obligations to do something or refrain from doing something;
- banking financial and insurance services;
- the supply of staff;
- letting on hire of goods other than means of transport;
- agency services in procuring any of the above.

This list is not exhaustive however, and there are many exceptions and additional conditions that you should be aware of. Similarly, you will have to be able to satisfy HMRC that your businesses activities allow you not to charge your customers UK VAT. We strongly urge you to seek suitable advice in order to ensure that you meet the various requirements, and avoid unintentionally exposing your business to VAT penalties.



If my business is included in the list above, what should I do?

If the place you supply your services is treated as outside the UK, generally, you do not have to charge UK VAT.

The list seems to cover most services. Are there any that are not included?

The common services that are not covered, and so must always be charged with UK VAT include:

- anything described simply as ‘management services’ (although separately identifying the various services can lead to some of them falling within the definitions above)
- clerical and secretarial services when supplied in the UK

Does UK VAT have to be charged on telecommunications and internet services for customers outside the UK?

This area has its own set of definitions and rules which must be considered in detail before the VAT treatment can be determined.

Is the situation complicated by the European Union?

Yes. Where you supply services which are treated as though supplied where received, there is an additional requirement that states your customer must use the services for business purposes. If you cannot demonstrate this to HMRC, then you must charge UK VAT. A common method is to quote your customers own VAT registration number on your invoice, although other evidence of business status will usually suffice.

This requirement does not apply for those customers outside the EU.

Am I affected by other country’s VAT rules?

Possibly yes. Other countries do have different thresholds for their own VAT registration, and different rules for overseas businesses operating there.

Via UHY, our international network, we have access to professionals in most major business centres in the world. We will call on the experience of these colleagues to ensure we can give you the best possible advice about the implications of legislation in other countries, which may affect you.

If I receive services from outside the UK, do these VAT rules still apply?

Yes they do. If you receive services from outside the UK for the purpose of your business, **and** they would be liable to VAT if they had been provided by a UK supplier, then you must account for UK VAT yourself. This is called a ‘reverse charge’, and is similar in some ways to the VAT charged on the import of goods.

How does the ‘reverse charge’ work?

You must account for output tax on the value of the service you have received, as though you had supplied it yourself. And, in the same VAT return, claim the VAT back as input tax subject to the normal rules. If your business can recover all the VAT it incurs on expenses, then there is no cost to you from this procedure. If, however, your business is partially exempt (see our leaflet ‘Understanding Partial Exemption’), then you may be unable to recover all the input tax concerned, and so there will be a net cost to your business.

At UHY Hacker Young, our in-house VAT specialists can advise you on how to structure your business affairs in order to minimise the cost of irrecoverable VAT, and to simplify the process of trading with overseas customers.

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