



VAT on publications

Welcome to Kingston Smith's monthly VAT series, specially designed to provide charity finance professionals with all the latest developments from the VAT world.

In this issue...

Watch out for digital publication charges

The supply of printed matter used to be a fairly straightforward matter for VAT purposes; it was zero rated regardless of whether the supplier or the customer was a charity or not for profit body. The only things to watch out for were certain items that could be wrongly treated as zero rated when they were actually subject to VAT at the standard rate, such as stationery, posters for public display, address books, etc. However, as new technology has evolved, the VAT treatment of publications has become far more complex, as only physical printed matter can benefit from VAT zero rating. Digital versions of publications (eBooks) are not subject to the same favourable VAT rate. Charities therefore need to be aware that they may be liable for VAT charges that did not previously apply. This is particularly common where charities provide magazines via supporter schemes or learned article and research material, for example.



Background

VAT was introduced in the UK as a condition of admittance to what was then the European Economic Community (EEC). As a derogation from the EEC rules on VAT, the UK was allowed, as a transitional measure, to keep certain supplies of goods and services at the zero rate. The zero rate of VAT is arguably the most favourable rate; it is taxed at 0%, but it allows for VAT incurred on related expenditure to be fully recoverable.

The UK cannot extend the scope of the zero rate to other supplies of goods or services. Under the EU rules, the

lowest rate of VAT - the reduced rate - is 5%. There are a number of “super reduced rates” in existence in some EU countries, but these have been specifically agreed with the EU. This is normally part of a transitional period when a country joins the EU.

Online digital versions of publications are not physical therefore, zero rating does not apply. These represent a supply of services and the following issues should be taken into consideration when determining the VAT treatment:

- Who is the customer - a business or a private individual/consumer?
- Where is the customer located?
- If the customer is located outside the UK, are they located in the EU or in a non-EU country?
- Is the digital publication a supply in its own right or is it part of a wider package? This may be a membership benefits package, where there is a physical version together with a digital publication, for example.

Digital Publications and VAT

When digital publications are supplied to a business (B2B) or private individual (B2C) in the UK, they are subject to VAT at the standard rate. However, if the supply is to a business customer located in the EU who provides details of his VAT number, then it would not attract standard rate VAT. Meanwhile, if the supply were made to a private individual located in another EU country, then it would be subject to the prevailing rate of VAT that applies in the country in which the customer is located. This means that suppliers would potentially have to register in every EU country where they are making supplies of digital publications to private consumers.

Since 1 January 2015, there has been a simplification measure in place that allows for suppliers to register in one EU country and account for their EU wide VAT liabilities altogether, through one VAT registration. This is called the “Mini One Stop Shop” or MOSS. A supplier would still need to charge and account for the VAT in the particular country where the customer is located, but he would account for this on the MOSS VAT return, making the process significantly quicker and easier to administrate.

Many organisations make supplies that are deemed to be digital services, and not all are aware of the requirement to charge and account for VAT that is applicable in the country where the customer is located. The provision of magazines via supporters schemes and membership benefits, or learned article and research material is quite common and the use of digital downloads makes the



supply of these much more efficient. However, the VAT treatment, especially where there has been a “shift from hard copy versions to online” could lead to significant unexpected VAT liabilities.

There has been extensive debate at EU level around the potential “discrimination” against online versions of publications and how this could be addressed. Many organisations have been lobbying to bring the VAT rates of digital versions in line with the physical versions. At the beginning of June 2017, it was announced that the EU Parliament had voted overwhelmingly in favour of allowing member states to align the VAT treatment of online versions of publications with the physical printed matter. Currently, eBooks are required to be taxed at the EU minimum of 15%, whereby EU member states could now be allowed to apply the reduced rate of 5%. When supplies are made to private individuals or organisations that cannot recover all or any of their VAT, then this could represent a real saving.

It will be interesting to see how the UK tax authorities react to this development and whether they will consider implementing a reduced rate of VAT for digital publications.

For the latest news and comment on this and other key tax issues affecting charities, please visit our website at www.kingstonsmith.co.uk/vat.

So what do I need to do now?

Charities and not for profit bodies need to ensure that the way in which publications are provided in all cases is monitored. This is to ensure that any unexpected VAT liabilities can be identified at the earliest stage, and the impact of this assessed. Responsibility for this is does not just rest with the finance staff, decisions can be made in the operational areas which then change the VAT profile and potentially increase costs.

What VAT topics would you like to hear about?

Our leading VAT specialists have helped a wide range of organisations of all sizes address VAT concerns, save VAT and avoid pitfalls.

Our VAT series will cover a variety of 'need to know' VAT topics. However, we are also happy to hear directly from you about what you want to know about VAT, to ensure you get the most out of the series.

Please send any topic requests to damoo@ks.co.uk

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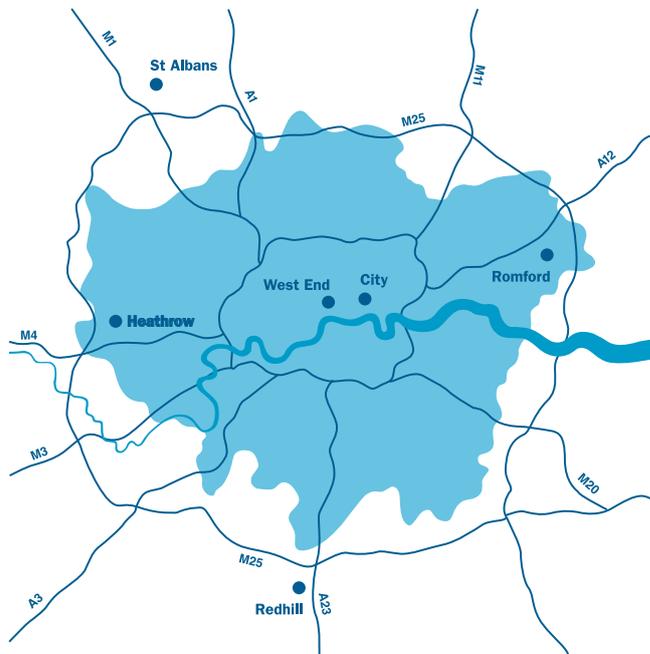
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