



VAT BREAKFAST HEADLINES

1. SALARY SACRIFICE

2. WITHDRAWAL OF LOW VALUE CONSIGNMENT RELIEF

1. *Salary sacrifice*

HMRC has reviewed its policy with regards to the VAT treatment of goods and services supplied via salary sacrifice.

Deduction from salary

When an employee receives a supply of goods or services from his/her employer the amount is deducted from the employee's pay. VAT has always been and will continue to be due on the amount deducted from the salary. The employer will be in a position to recover the relating input tax (VAT on the purchase of the goods/services) in accordance with the normal rules.

Salary sacrifice

This is where employees opt to receive goods or services from the employer and forego part of their salary in return. The employees enter into a new employment contract or have their existing contract amended to reflect the new arrangement which they are tied into. HMRC have always considered that the reduction in the salary did not constitute a supply for VAT purposes and therefore VAT was not due on the salary sacrificed. Employers, however, were able to recover VAT on the related purchase subject to the normal rules.

As a result of a European Court of Justice judgement, HMRC has now revised the VAT treatment of *salary sacrifice*.

From 1 January 2012 HMRC now expects VAT to be accounted for on the salary sacrifice. The change in policy will apply where an employee provides consideration in exchange for benefits, such as:

- Cycle to work scheme.
- Face value vouchers.
- Food and catering provided by employers.
- Administrative fees incurred by employers for providing childcare vouchers (exempt from VAT). The employer will have to establish whether VAT on the administrative fee is recoverable under the partial exemption rules.
- Exception to the rule is motorcars as most businesses are prevented from recovering VAT in full on the purchase and leasing of company motorcars. As the employer cannot recover such VAT in full, employers do not account for VAT when the cars are made available to the employees.

This is a simple summary of the rules and for further detail you can contact our VAT Director, Nigel Medhurst, or your normal Rawlinson & Hunter contact.

2. *Withdrawal of low value consignment relief*

The low value consignment relief (LVCR) relates to goods entering the UK from outside the European Union. If the value of import of those goods does not exceed £15 they can be imported into the UK free of VAT.

Eighth Floor
6 New Street Square
New Fetter Lane
London EC4A 3AQ

and at
Lower Mill
Kingston Road Ewell
Surrey KT17 2AE

T +44 (0)20 7842 2000
F +44 (0)20 7842 2080

firstname.lastname@rawlinson-hunter.com
www.rawlinson-hunter.com

November 2011

Partners

Chris Bliss FCA
Simon Jennings FCA
Philip Prettejohn FCA
Mark Harris FCA
Frances Jennings ACA
David Barker CTA
Kulwarn Nagra FCA
Ben Melling FCA
Paul Baker ACA
Sally Ousley CTA
Derek Rawlings FCA
Andrew Shilling FCA
Craig Davies ACA

Directors

Lynnette Bober ACA
Phil Collington CTA
Mike Cunningham ACA
Karen Doe
Chris Hawley ACA
Nigel Medhurst AIT

Consultants

Ken Dent FCA
Bob Drennan FCA
Ralph Stockwell FCA

HMRC were concerned that UK retailers were setting up structures whereby goods could be imported via the Channel Islands under the LVCR, giving rise to estimated tax leakage of £140 million per year. HMRC consider such structures as abusive of the LVCR. Therefore, with effect from 1 April 2012 LVCR will no longer be available to the importation of goods into the UK from the Channel Islands. LVCR will continue to be available for imports from non-EU countries other than the Channel Islands, although HMRC have said they will consider further restrictions if retailers move their operations elsewhere.

LVCR has been increasingly used by online suppliers of DVD's, CD's and other low value items which would normally be subject to 20% VAT when sold to the UK.

Any business involved in supplying LVCR goods should consider its position.

Our VAT Director, Nigel Medhurst, would be pleased to discuss your business and provide a view on your VAT efficiency. You can contact Nigel direct on 020 7842 2150 or email nigel.medhurst@rawlinson-hunter.com for an initial consultation to assess whether there is a need to consider your VAT affairs in more detail.

The information contained in this bulletin does not constitute advice and is intended solely to provide the reader with an outline of the provisions. It is not a substitute for specialist advice in respect of individual situations.

Rawlinson & Hunter is a partnership registered to carry on audit work in the UK and regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at www.auditregister.org.uk under reference C005362660.