

## VALUE ADDED TAX: ALL CHANGE TO YOUR INTERNATIONAL SUPPLY CHAIN



New place of supply rules, to take effect on 1<sup>st</sup> January 2010, will see significant changes to the way in which businesses must deal with their international affairs.

Although the new rules can be broadly welcomed because they achieve a degree of simplification, an increase in compliance responsibilities will create pitfalls and there may also be some costs for taxpayers who cannot reclaim VAT.

The changes will mainly affect B2B transactions, and will generally result in VAT being due in the EU member state where services are to be consumed, rather than where the actual supplier of those services is established.

As a result of the changes, unless the specific supply is excluded from the basic "consumption" rule, a customer will be required to account for VAT in its own member state under what are known as the "reverse charge" principles.

The new consumption-based rules will reduce instances in which a supplier is required to register VAT in all the member states in which it makes supplies. The rules will also reduce the amount of VAT that a taxpayer will incur in other member

states and which can only be recovered under the long-winded 8<sup>th</sup> Directive refund mechanism.

The new rules do, however, create a significant issue for taxpayers that cannot recover VAT. Currently, such a business may outsource operations and procure services from outside the EU in order not to incur a VAT cost. The new rules will result in the business having to account for VAT on its own VAT return under the reverse charge provisions. That will be a real cost.

The new rules raise questions about where services are actually consumed or received. The place of consumption, where VAT will be due, is to be determined by reference to where the recipient has established its business. However, where the services are supplied to a fixed establishment of the business in another member state from the one in which it has established its business, then that other establishment will be the place of supply where VAT is due. This raises a question as to how businesses with multiple fixed establishments will have to deal with their affairs, leading perhaps to the need for suppliers to apportion VAT across a number of

member states based on the extent to which services have been consumed in each member state.

There will be further changes in the rules, to be implemented over the next six years, but we cannot address them in this short note. Our purpose is to bring the subject to your attention at this time, so as to allow you to consider the issues and opportunities that might arise for your business, and so that you can seek proper advice in a timely fashion.



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