

# VAT treatment of vouchers (1) (2/37/17)

Traders are increasingly using vouchers in the form of prepaid cards, gift cards or otherwise. Since these cards are often distributed by middlemen, the VAT charge and the tax point should be determined in the context of middlemen defined by the VAT Act. This article explores the latest developments in the VAT treatment of vouchers and discusses some of the issues affecting traders that are using or planning to use vouchers.

## Closing the legal loophole

The rules of Council Directive 2006/112/EC on the common system of value added tax (the “VAT directive”) governing the VAT treatment of transactions involving vouchers were not clear enough. The EU member states did not have a uniform approach to determining the tax point, place of supply, taxable amount, chargeability, or input tax deduction rights in underlying supplies of goods or services, indicating a lack of consistency and offering favourable conditions for potential distortions of competition. On 27 June 2016 the EU Council amended the VAT directive<sup>1</sup> to close this loophole.

The amendments provide for transposing the new voucher directive into national laws before 2019. The rules for VAT treatment of vouchers will apply only to vouchers issued after 2018 and will not affect the validity or interpretation of any prior legislation.

## Vouchers under the new directive

For VAT purposes a voucher will be taken to mean an instrument that must be accepted as a consideration or partial consideration for a supply of goods or services where those goods or services, or the identities of potential suppliers, are stated on that instrument, or in related documents including the terms and conditions for using it.

These rules will apply only to vouchers that can be used to buy goods or services. They will not apply to any instrument entitling its holder to a discount on the purchase of goods or services without giving him the right to receive those goods or services.

There will be two types of vouchers:

- A single-purpose voucher is one for which the place of supply and the applicable rate of VAT are known when the voucher is issued;
- A multiple-purpose voucher is one that is not a single-purpose voucher.

## VAT treatment of single-purpose vouchers

VAT is chargeable on each transfer (issue) of a single-purpose voucher. The VAT treatment is the same as where the value of goods or services is received in advance.

The transfer (sale) of a single-purpose voucher performed by a taxable person acting in his own name is considered a supply of goods or services covered by that voucher. The tax point is not affected by the timing of actual delivery in exchange for the voucher.

Where single-purpose vouchers are issued or distributed by a middleman acting for another person under the intermediary principles<sup>2</sup> –

1. the supply of goods or services should be reported by the taxable person for whom the middleman is acting. The VAT should be reported on the VAT return for the tax period in which the voucher is transferred;
2. the middleman is not treated as taking part in the supply of goods or services. The middleman will charge VAT only on his own services, such as distribution services. The timing of the middleman's service has nothing to do with the actual supply of goods or services in exchange for the voucher. The middleman's service attracts VAT when it is supplied.

#### VAT treatment of multiple-purpose vouchers

A multiple-purpose voucher attracts VAT when the underlying supply of goods or services actually occurs. Accordingly, VAT is not chargeable on the advance transfer of a multiple-purpose voucher.

Once goods or services have been supplied, the taxable amount will be the monetary value stated on the multiple-purpose voucher (or on a related document) less the amount of VAT payable on the supply.

Where a multiple-purpose voucher is used in part, the taxable amount is the relevant part of the consideration (monetary value) less the amount of VAT payable on the supply.

The VAT treatment of a multiple-purpose voucher that the end consumer fails to use by its expiry date while the trader keeps the consideration received for it, is still an issue beyond the scope of this directive. We'll be writing about this issue and the VAT treatment of intermediary services in voucher transactions.

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<sup>1</sup> Council Directive (EU) 2016/1065 of 27 June 2016 amending Directive 2006/112/EC as regards the treatment of vouchers

<sup>2</sup> We'll be writing about the principles of intermediary activities next week.