

BIC Bites are a series of short, high level, papers on topics of interest to BIC Members. If there is a topic you would like to see as a BIC Bite, please contact info@bic.org.uk

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EU VAT Changes

This report is relevant to publishers, wholesalers, library suppliers, libraries and booksellers who already sell or plan to sell eBooks or provide other digital product and services.

Please Note

Please note that BIC cannot give specific advice or guidance on legal, taxation or accountancy matters. This BIC Bite document simply explains BIC's understanding of the forthcoming EU VAT Rules Changes as they may affect BIC members and suggests some possible areas of concern for members to look at. This document should not be seen as a substitute for obtaining proper advice from qualified professionals or detailed information from HMRC.

Introduction

BIC members involved in selling eBooks, digital products and services, need to be aware of the EU VAT Rules Changes which come into force on 01/01/2015. This BIC Bite document outlines some of the issues as currently understood. BIC's focus is on the need for BIC members to review their systems and processes to enable them to cope with these changes. Some members have reported that they have commissioned wide ranging reviews of their business and BIC's advice is for all members who sell eBooks into the EU to undertake similar work as soon as possible as the changes are likely to affect many different areas of their business, e.g. online services and back office systems.

What are the changes?

- The new EU VAT rules will apply to the supply of eBooks and digital products to consumers in all EU member states - B2C. It does not affect any B2B supply. As an EU measure it does not apply to non-EU EFTA countries.
- The change is simply that instead of charging the VAT rate which is in force in the supplier's location (e.g. the UK), the new rules require that the supplier charges the VAT rate which is in force in the customer's location. (e.g. A customer in Country A with eBook VAT rate of 17.5%, orders an eBook from a UK based supplier. The supplier must identify the customer's location and charge the correct 17.5% VAT on the eBook when the order is placed, rather than the 20% rate which currently applies in the UK).
- The UK supplier of the eBook must also account for the VAT in the transaction and remit the amount of the VAT to the tax authorities in the customer's location or MSC (Member State of Consumption) within the appropriate accounting period.
- HMRC, the UK tax authority will offer UK businesses a solution called MOSS (Mini One Stop Shop) whereby they may register for VAT with just the one authority (UK HMRC) instead of having to register separately with every EU MSC. MOSS can then be used to pay the VAT to just the one authority (UK HMRC) and HMRC will then remit these payments on to the relevant tax authorities in the other member states. BIC members are advised to find out more about MOSS and any extra rules involved, e.g. data required, timings, currencies etc. Note, MOSS does not enable reclaiming VAT in MSCs nor does it cope with EFTA countries.
- In the UK there is a threshold below which businesses do not need to register for VAT. The MOSS scheme is voluntary, but the requirement to register in each MSC is driven by each MSC's VAT registration threshold. Most have a "nil" threshold so it is a case of register in the UK under MOSS, or register in each MSC that you sell to, irrespective of the UK threshold. This might mean that even if a business only sells one eBook to a consumer in an MSC, the business must be registered for VAT in that MSC (or via UK HMRC's MOSS) and VAT must be charged, recorded and then paid correctly to the MOSS or MSC. This might mean that even very small organisations need to be compliant. It would be worthwhile for small organisations to explore the application of any thresholds.
- Compliance. BIC has learned that there may be some strict MOSS compliance rules whereby organisations must submit their data and payments on time or eventually be barred from using MOSS. This could mean having to register separately in each MSC and then to remit VAT payments to each MSC. It may therefore be worth focusing on MOSS compliance.

Areas of Concern

These include front end and back office systems, sales reporting, invoicing, EDI and metadata. BIC members are advised to investigate the following areas of concern in good time.

- 1. Contractual Issues:** Who is making the supply? Is it the publisher or an intermediary on behalf of the publisher? The organisation making the supply will have to charge for, account for and pay the VAT so a first step is to consider if your organisation is the supplier or if this duty can be passed on to another organisation, e.g. a retailer, intermediary etc. The basic rule of thumb will be that the supplier is the organisation that the consumer believes they are being supplied by. It may be worth getting professional advice on this point, particularly if 'agency' arrangements are in place.
- 2. B2C or B2B:** Is the customer a consumer or a business? The changes only apply to B2C so to be excluded from the new rules a B2B customer must supply a VRN (Vat Registration Number). B2B supplies continue as now, i.e. UK organisations would charge VAT at zero percent to EU-based businesses with a VRN. Online systems should accept VRNs so that B2B customers can be identified and charged the right VAT.
- 3. Prices, particularly in relation to the Eurozone:** Because of the variation in the VAT rate across the Eurozone, publishers have to choose either to have one single end-customer price inc VAT (which inevitably means that the price exclusive of VAT varies by country), or have one single exc-VAT price (which inevitably means that the end-customer inc-VAT price varies from country to country).
- 4. Charge the correct VAT rate:** The correct EU VAT rate in force in the MSC will need to be charged by the front end e-commerce system (e.g. online shop). The system will need to identify the consumer's location (possibly by getting the consumer to register their details early on in the purchase or by quoting an ex-VAT price until registration is complete.) Check the rate that is in force and that the eBook in question should attract that rate. Rates can vary considerably from country to country, e.g. 19% in Germany, 26% in Denmark, 7.5% in France. (Note that there is a possibility that some products may attract a reduced rate as a cultural item in some states – this has yet to be confirmed).
- 5. EDI and Metadata:** BIC Members are advised to check their product metadata and EDI messages in both directions to ensure that they can cope with these rule changes. Any orders, invoices, Digital Sales Reports etc. should be checked to see if they are affected by the new rules, e.g. multiple VAT rates, VAT amounts, currencies, subscription orders and bundles. Standard EDI is not often used for eBooks (except by the library supply chain). Any bundles for print and eBook items may have multiple VAT rates with the print rate being the UK rate and the eBook being the MSC rate. Also consider eBook subscriptions.
- 6. Sales reporting:** Sales reports returned from retail platforms may need to include geographical information for each sale, so that payment of the correct rate of VAT can be confirmed.
- 7. Timing:** The new rules come into force on 01/01/2015. BIC members are advised to test their systems and be ready to implement the new rules on time. Note that although no payment under the new rules for eBooks has to be made to VAT authorities until the due date, e.g. in the next quarter, charging the right VAT rate etc. has to go live on 1st January 2015. Members may wish to consider staffing issues e.g. the availability of support staff on 31/12/14.

This BIC Bite is endorsed by



Accountants &
business advisers

BIC is delighted to report that PKF Littlejohn is offering BIC members 15% discount on all EU VAT related work.

For more information about this BIC Bite, or to take advantage of the 15% discount please contact info@bic.org.uk

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