1. Introduction

PPD VAT legislation was amended earlier this year. This brief provides guidance on what to do when you raise or receive a VAT invoice offering a PPD from the 1 April 2015 when the change takes effect.

2. Who needs to read this?

Suppliers who offer and customers who receive PPD where an invoice is issued.

3. Background

A PPD is an offer by a supplier to their customer of a reduction in the price of goods and/or services supplied if the customer pays promptly; that is, after an invoice has been issued and before full payment is due. For example a business may offer a discount of 5% of the full price if payment is made within 14 days of the date of the invoice.
• at present, suppliers making PPD offers are permitted to put on their invoice, and account for, the VAT due on the discounted price, even if the full price (i.e. the undiscounted amount) is subsequently paid. Customers receiving PPD offers may only recover as input tax the VAT stated on the invoice.

• after the change, suppliers must account for VAT on the amount they actually receive and customers may recover the amount of VAT that is actually paid to the supplier.

Changes were made to UK legislation in the Finance Act 2014 in order to protect the revenue, and put it beyond doubt that UK legislation is aligned with EU legislation. The new legislation is at paragraph 4 below.

The change took effect on 1 May 2014 for supplies of broadcasting and telecommunication services where there was no obligation to provide a VAT invoice. For all other supplies the change takes effect on 1 April 2015.

A consultation took place between 17 June and 9 September 2014 asking businesses for their views and suggestions on how the changes should be implemented. In particular whether issuing credit or debit notes to evidence a change in the consideration would cause them difficulties. The Summary of Consultation Responses was published shortly after Autumn Statement 2014. We accepted that an alternative to issuing credit or debit notes was needed (see guidance below).

4. The New Legislation

The revised paragraph 4, Schedule 6, VATA 1994 is set out below:

4 (1) Sub-paragraph (2) applies where. (a) goods or services are supplied for a consideration which is a price in money, (b) the terms on which those goods or services are so supplied allow a discount for prompt payment of that price, (c) payment of that price is not made by instalments, and (d) payment of that price is made in accordance with those terms so that the discount is realised in relation to that payment. (2) For the purposes of section 19 (value of supply of goods or services) the consideration is the discounted price paid.

5. Guidance

Suppliers:

a) on issuing a VAT invoice, suppliers will enter the invoice into their accounts, and record the VAT on the full price. If offering a PPD suppliers must show the rate of the discount offered on their invoice (Regulation 14 of the VAT Regulations 1995 (SI 1995/2518)).

b) the supplier will not know if the discount has been taken-up until they are paid in accordance with the terms of the PPD offer, or the time limit for the PPD expires.
c) the supplier will need to decide, before they issue an invoice, which of the processes below they will adopt to adjust their accounts in order to record a reduction in consideration if a discount is taken-up.

d) when adjustments take place in a VAT accounting period subsequent to the period in which the supply took place the method of adjustment needs to comply with Regulation 38 of the VAT Regulations 1995 (SI 1995/2518).

e) suppliers may issue a credit note to evidence the reduction in consideration. In which case, a copy of the credit note must be retained as proof of that reduction.

f) alternatively, if they do not wish to issue a credit note, the invoice must contain the following information (in addition to the normal invoicing requirements):

- the terms of the PPD (PPD terms must include, but need not be limited to, the time by which the discounted price must be made).
- a statement that the customer can only recover as input tax the VAT paid to the supplier.

Additionally, it might be helpful for invoices to show:

- the discounted price
- the VAT on the discounted price
- the total amount due if the PPD is taken up.

g) if a business has adopted the option at (f), the VAT invoice, containing appropriate wording as described above, together with proof of receipt of the discounted price in accordance with the terms of the PPD offer (e.g. a bank statement) will be required to evidence the reduction in consideration, and the reduction to the supplier’s output tax (in accordance with Regulation 38 of the VAT Regulations 1995).

h) we recommend businesses use the following wording on the invoice:

“A discount of X% of the full price applies if payment is made within Y days of the invoice date. No credit note will be issued. Following payment you must ensure you have only recovered the VAT actually paid.”

i) if the discounted price is paid in accordance with the PPD terms, then the supplier must adjust their records to record the output tax on the amount actually received.

If the full amount is received no adjustment will be necessary.
Customers:

On receiving an invoice offering a PPD a VAT registered customer may recover the VAT charged, in accordance with VAT Regulation 29 of the VAT Regulations 1995.

As adjustments may take place in a VAT accounting period subsequent to the period in which the supply took place the method of adjustment needs to comply with Regulation 38 of the VAT Regulations 1995 (SI 1995/2518).

In practice this will mean:

a) if the customer pays the full price they record it in their records and no VAT adjustment is necessary.

b) if the customer pays the discounted price in accordance with the PPD terms on receipt of the invoice they may record the discounted price and VAT on this in their accounts and no subsequent VAT adjustment is necessary.

c) if the customer does not pay when the invoice is first issued, they must record the full price and VAT in their records as shown on the invoice. If they subsequently decide to take-up the PPD then:

- if they have received an invoice setting out the PPD terms which states no credit note will be issued they must adjust the VAT in their records when payment is made. They should retain a document that shows the date and amount of payment (e.g. a bank statement) in addition to the invoice to evidence the reduction in consideration.

- if the supplier’s invoice does not state that a credit note will not be issued, the customer must adjust the VAT they claim as input tax when the credit note is received. They must retain the credit note as proof of the reduction in consideration.

Imports

The legislation in relation to prompt payments on imports has not changed; section 21(3) of VATA 1994 still applies.
Payments outside PPD terms

Where a supplier receives a payment that falls short of the full price but which is not made in accordance with the PPD terms it cannot be treated as a PPD. The supplier must account for VAT on the full amount as stated on the invoice. If the amount not paid remains uncollected it will become a bad debt in the normal way. If a price adjustment is agreed later, then adjustment must be made in the normal way e.g. a credit note.

Date issued 22 December 2014.