
EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations, which come into force on 1 November 2010, amend the Value Added Tax Regulations 1995 (“the Principal Regulations”).

The amendments to the Principal Regulations are made in consequence of an amendment to Section 55A of the Value Added Tax Act 1994 (“the Act”) by section 50 of the Finance Act 2010 (c. 13).

Section 55A of the Act provides that VAT due on specified taxable (but not zero-rated) supplies must be accounted for and paid by the VAT registered recipient of those supplies rather than their supplier. A charge to tax which is imposed on the recipient of a supply is referred to as a reverse charge. The supplies which are subject to the reverse charge pursuant to section 55A are specified in a Treasury order.

Section 55A was amended by section 50 of the Finance Act 2010. Prior to the amendment the reverse charge under section 55A had only been applicable to supplies of goods. Following the amendment it can also be applied to supplies of services.

Article 3 of these Regulations amends the Principal Regulations as follows.

Regulation 38A of the Principal Regulations makes provision for the adjustment to a taxpayer’s VAT account where, because of an increase or decrease in the consideration for a supply, it becomes subject to or ceases to be subject to a reverse charge under section 55A. The title to regulation 38A is amended to refer to services as well as goods in accordance with the extension of the application of section 55A to services.

Regulation 55C(6) provides that supplies of goods which are subject to a reverse charge under section 55A are neither relevant supplies nor relevant purchases for the purposes of the flat-rate scheme. That paragraph is amended to apply to supplies of services in the same way as it applies to supplies of goods.

Regulation 58(2)(g) provides that the cash accounting scheme shall not apply to supplies of goods which are subject to a reverse charge. That sub-paragraph is amended so that the scheme also excludes supplies of services which are subject to a reverse charge.

A full regulatory impact assessment has not been produced for this instrument as no impact on the private or voluntary sectors is foreseen.