



Intra EC VAT Rules

- Invoices
- Invoice Number

The changes to VAT invoicing came into effect from October 2007. As with all new requirements within the first year HMRC will only issue penalties for non compliance in exceptional cases only. Therefore from October 2008 all businesses must adhere to the new regulations.

VAT Info Sheet 10/07 details the correct wording required for all invoices when trading Intra-EC (trading within the EC countries). Many businesses have existing invoicing procedures which may suffice or not

The HMRC specific Info Sheet reads:

What reference is required when the invoice involves an Intra-EC Zero Rated Supply?

For intra EC zero-rated supplies of goods (dispatches) you will need to include one of three references – a reference to the relevant article in the EC Directive, a reference to the relevant UK legislation, or any other indication that the supply is a zero rate intra EC supply.

The way in which the zero rate treatment is indicated on an invoice is a matter for business and not for HMRC. Our aim is to reduce the impact of change by allowing affected businesses the widest possible discretion. It is possible that, in some cases, the format and information already used on invoices is sufficient to satisfy the new rules.

Examples of references under the third option include:

- 'Zero rated intra-EC supply'.
- 'This is an intra-Community supply'.
- 'Intra-Community supply subject to VAT in the country of acquisition'.

There are also changes to VAT invoicing when the supply is subject to a Second Hand Scheme, Tour Operators Margin Scheme, Exempt or Reverse Charge Supplies. (see VAT Info Sheet 10/07)

Invoice Number

All invoices will be required to be sequentially numbered by law. This is the only aspect of the changes that affects every VAT registered trader, and as many already number their invoices, there will be no change. However, businesses which “restart” their invoicing sequence each financial year will now have to ensure that every single invoice has a unique number, and that number sequences are not repeated. Where businesses use separate sequences for different customers or product types this is acceptable, provided each sequence is identifiable and unique. Using customer prefixes is also fine, provided the sequencing is discernable. Any system under which invoice numbers are duplicated for whatever reason is unacceptable.

General Queries

- Tooling

We are receiving numerous enquiries regarding tooling and how you calculate duty and VAT.

This all depends on who owns the tooling, where the tooling has been manufactured and where the tooling is being used.

Scenario 1

Your overseas customer specifically asks you to make or buy the tooling to manufacture goods for them and your company makes a specific charge for the supply of the tooling. The tooling costs can be zero rated as long as you follow the conditions as set out in Notice 701/22.

Scenario 2

Your company is buying goods from an overseas manufacturer who has manufactured the tooling and made a specific charge to your company.

Your company will be charged Duty and VAT on the tooling costs, in addition to the goods being imported. However the tooling Duty and VAT can be amortised over subsequent shipments of the goods.

Scenario 3

Your company has your own tooling produced in the UK and pays UK VAT. Later the tooling is exported to the overseas manufacturer to produce the goods. Your company will pay Duty on the tooling and VAT on the Duty.

See Notice 252 section 3 for scenarios 2 and 3

There are various other ways that HMRC will maximise the Duty and VAT and before entering into any of the above long term situations it is advisable to check with HMRC and obtain a ruling.

If tooling costs can not be determined HMRC may look at the Value Added figures, which means paying Duty and VAT on the price you would have paid if the overseas company had manufactured the tooling.

On a separate note - Ownership is also a big issue with tooling as you may think you own the tooling by making a payment but this could be only a part payment towards the cost, so watch your manufacturers terms and conditions carefully. 'Full cost of tooling 'and' the right of unimpeded access to remove the tooling ' are important.