Association of Accounting Technicians response to the HMRC call for evidence “Alternative method of VAT collection”
1. **Introduction**

1.1. The Association of Accounting Technicians (AAT) is pleased to have the opportunity to respond to the HMRC call for evidence “Alternative method of VAT collection”, published on 20 March 2017.

1.2. AAT is submitting this response on behalf of our membership and for the wider public benefit of achieving sound and effective administration of taxes.

1.3. AAT has commented in order to add value or highlight aspects that need to be considered further by focussing on the operational elements of the proposals.

1.4. Furthermore, the comments reflect the potential impact that the proposed changes would have on taxpayers and businesses, many of which employ AAT members or would be represented by AAT’s 4,250 licensed accountants.

2. **Executive summary**

2.1. AAT recognises that non-compliance by businesses based in overseas jurisdictions with obligations to register and pay VAT in the UK is a significant and growing problem.

2.2. At some point in the payment process, human intervention will be required by the seller and this is an area that would be susceptible to fraud. Therefore, if the proposal does not address the issue of fraud then the remaining effect of the split payment would be to bring forward the date that the VAT is remitted to HMRC.

2.3. By itself, split payments are unlikely to have much impact on whether or not the overseas seller understands if they need to apply VAT and the appropriate rate that would need to be applied.

2.4. Potentially, split payments may be an efficient form of tax collection if applied at one rate on all monetary transactions. However, AAT recognises such a suggestion is beyond the scope of this consultation document.

3. **AAT response to the HMRC call for evidence “Alternative method of VAT collection”**

**Question 1: Please indicate what type of organisation/individual you are.**

3.1. AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

**Question 2: We are interested in any experiences you may have had in countries that operate a split payment mechanism where tax are extracted in real time. We would like to understand when it works well and when it doesn’t work well.**

3.2. Although AAT has no direct experience of the split payment mechanism in other countries, AAT’s understanding of the principles of the split payment mechanism is that:
3.2.1. at the Point-of-Sale (POS) it would work well when there is no discernible impact on consumers (buyers) of goods and services as the payment by credit/debit card should either include or exclude VAT depending on the goods and services provided

3.2.2. it should be the sellers’ responsibility as the ‘withholding agents’ to determine the rate of VAT to be applied at the POS. If the seller applies the incorrect rate of VAT then the seller should be accountable to the tax authority

3.2.3. it works less efficiently for businesses in the VAT supply chain, as issues may arise due to the different rates of VAT to be applied and it may create cash flow problems due to the level of tax withholding and any difference between the VAT point date, payment dates and the ability to recover the associated input tax.

3.2.4. the split payment mechanism may create new opportunities for fraudulent traders to perpetrate a fraud by misrepresenting the amount of VAT that they should withhold from a transaction and account for to HMRC.

3.2.5. the debit and credit card companies (or issuing banks, payment service providers, card scheme operators) may facilitate the split transaction but it is the seller’s responsibility as to whether or not VAT is to be applied and the rate of VAT to be applied. Any area where human intervention is required is by its very nature less efficient and increases susceptibility to fraud.

Question 3: We understand that fees and other payments are extracted in the payment cycle. Please provide evidence of how this is done and your thoughts on whether you think the same technology to extract fees could be adapted to extract VAT.

3.3. Currently, credit card fees and other overheads are absorbed into the selling price of the goods or services. However, where a fee is added by a seller, for example a credit card usage fee based on a percentage of spend, the seller manually adds the total fee into the credit card machine and the payment transaction is between the seller’s and buyer’s account. The settlement between the seller and their credit card company will be by a separate transaction irrespective of whether or not the credit card fee is separately itemised for the buyer.

3.4. The extraction of VAT by the credit/debit card company would be more feasible if there was one rate of VAT to be applied to all goods and services. It would be possible to extract VAT at the POS, although it would require the manual intervention by the seller to determine whether or not VAT should be applied and the rate of VAT to be applied. Clearly therefore this approach is impractical.

Question 4: Do you think these are the right design principles for a split payment model? Is anything missing or is there anything that should be excluded? If you think the design principles should be different please provide evidence on alternatives.

3.5. The design principles are broadly right, however, AAT has some observations below that should be added.

3.6. The Design Principles should acknowledge who will initially be expected to bear the cost of these developments.

3.7. The Design Principle mentions that, “The split should be initiated at a point in the payment cycle by one of the participants and be driven by payment technology”. The flaw with this principle is that payment technology can only “facilitate” the split and where there are different rates of VAT to be applied this can only be done with human intervention, which is where existing problems arise. Split payments will not by themselves solve the problem.

3.8. The Design Principle mentions that, “Every effort would be made to ensure VAT split payment is cost efficient to build, implement and maintain”. The Design Principle should state that HMRC will develop a final product rather than undertaking piecemeal and costly developments, as the costs will ultimately be borne by consumers/taxpayers.
Question 5: If you are an organisation that plays a part in a payment cycle but you are not captured in our illustrations in Annex C it would be helpful if in your response you outlined how you interact with the payment cycle.

3.9. AAT does not play a part in the payment cycle illustrated in Annex C.

Question 6: Please can you comment on our understanding of how the payment cycle works and whether it is correct. Please provide evidence about any gaps or misunderstandings.

3.10. AAT does not operate in the payments industry so is unable to comment on this question especially in respect of gaps or misunderstandings.

Question 7: Please can you comment on our assumptions about how a split payment model could work. We welcome evidence about the best way of exploiting payment technology to extract VAT from payments in real time to deliver a sustainable model for the future. Please provide as much technical detail as possible.

3.11. AAT agrees that the end user in the UK should have to pay VAT on goods and services from the overseas jurisdiction in order to avoid the problem of having an uneven playing field whereby UK businesses are unable to compete with those from overseas.

3.12. However, given the complex system of VAT, the proposal of a split payment relies on human intervention by the seller (i.e. a business based in an overseas jurisdiction) to ascertain the correct amount of VAT to be applied to each item of goods or service. The split payment model is impractical as it does not address the flaw that human intervention is required as it relies on the overseas seller being able to correctly understand whether or not VAT is standard, reduced, zero rated or exempt. There are also the assumptions that the seller is going to apply VAT correctly and remit the VAT due to HMRC.

Question 8: Based on your own understanding and experience of the payment cycle, at which point do you think the VAT split should take place?

3.13. The main issue (identified in 1.4 of the consultation document) is the non-compliance by businesses based in overseas jurisdictions with obligations to register and pay VAT in the UK, this is unlikely to be addressed by changing the point at which the VAT split operates. Aside from this flaw and to answer the question directly, the logical point to apply the VAT would be at the POS.

Question 9: What are the key challenges, from your perspective, to the development of a split payment model for VAT? Please provide evidence about the challenges you have identified and any solutions you think might help in overcoming those challenges.

3.14. Split payments will be challenging for HMRC as these may increase opportunities for fraud. The anonymity facilitated by those operating online is often problematical. For purchases of physical goods entering the country it may be useful to ask the seller to mark the package with a transaction number to indicate that VAT has been paid on those goods. It will be more challenging for HMRC to track for the purchases of services or intangible goods.

Question 10: Are there any enablers or new developments in the sector that would facilitate the development of a new collection mechanism for VAT? Please provide evidence about any new developments or technological advances in the payment sector that are relevant to this issue.

3.15. AAT is not aware of any new developments or technological advances that are relevant to this issue.

Question 11: Do you see a role for the card schemes in ensuring payment sector participants adhere to any future UK split payment legislation?

3.16. It would not be appropriate to change the role for the card scheme operators to include ensuring that payment sector participants outside the UK comply with any future split
payment legislation as it would be very difficult to monitor who the overseas seller is transacting with. It may even be difficult for the seller to know who they are transacting with, especially for services.

**Question 12:** Is there any other evidence you would like to submit as part of this call for evidence?

3.17. AAT has no further evidence.

4. **About AAT**

AAT is a professional accountancy body with approximately 50,000 full and fellow members and over 90,000 student and affiliate members worldwide. Of the full and fellow members, there are over 4,250 licensed accountants who provide accountancy and taxation services to individuals, not-for-profit organisations and the full range of business types.

5. **Further information**

If you have any questions or would like to discuss any of the points in more detail then please contact Aleem Islan, AAT Technical Consultation Manager, at:

E-mail: consultation@aat.org.uk  Telephone: 020 7397 3088

Association of Accounting Technicians
140 Aldersgate Street
London
EC1A 4HY