Comparison report on the VAT treatment of prompt payment discounts
23 December 2014

This report compares the AAT response to the HMRC consultation document “VAT: Prompt Payment Discounts” published on 17 June 2014 with the summary of responses document published by HMRC on 10 December 2014.

HMRC received 38 responses from 32 respondents, including the AAT, with some respondents providing more than one response.

Historically, when a business offered a prompt payment discount (PPD) it accounted for VAT on the amount the customer was required to pay if they took up the offer of the discount, even if the customer did not take up the offer. The rules changed on 1 May 2014 in relation to certain broadcasting and telecommunications services and are due to change on 1 April 2015 in relation to other goods and services. The effect of the change to the rules is that a supplier must account for VAT based on the full price unless the customer takes up the offer of the discount. The consultation document considered how the change to the rules would be implemented in the common situation when a VAT invoice is issued to a customer at a time when the supplier does not know whether the customer will take up the discount.

HMRC initially suggested that a credit note or revised invoice would need to be issued when it became clear that a customer had taken up a discount after the original invoice was issued. The AAT and other parties pointed out that this would involve additional costs for businesses.

HMRC accepted that its initial suggestion would involve additional costs for businesses and on 22 December 2014 published Revenue and Customs Brief 49 (2014) providing an alternative method of accounting for VAT when PPDs are offered from 1 April 2015.

The following is an extract from Revenue and Customs Brief 49 (2014):

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."

The AAT welcomes the guidance in Revenue and Customs Brief 49 (2014) and encourages members who work for or advise businesses that offer or receive prompt payment discounts to read it.

Revenue and Customs Brief 49 (2014) - https://www.gov.uk/government/publications/revenue-and-customs-brief-49-2014-vat-prompt-payment-discounts/revenue-and-customs-brief-49-2014-vat-prompt-payment-discounts