



Global 3000

Service Pack Note

Tax - Reverse Charge VAT

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INTRODUCTION

This service pack updates Creditors Ledger and Purchase Order Processing to handle reverse charge VAT.

There are two types of reverse charge processing.

- **Domestic**, which is for the domestic supply of telecommunications and was introduced as a method of fraud prevention.
- **Standard**, which is for the supply of qualifying services from other EC member states.

A short summary of the documentation from the H.M.R.C. website (correct as per August 2017) is included below.

Reverse Charge – Domestic

The reverse charge only applies to the sale and purchase of specified goods and services:

- between UK taxable persons
- for goods, where the VAT exclusive value of the supply is above the de minimis limit (the de minimis limit only applies to supplies of mobile phones and computer chips, it does not apply to supplies of gas, electricity or emissions allowances, no matter what the value. The effect of the de minimis is to exclude supplies of mobile phones or computer chips with a VAT-exclusive value below £5,000.),
- where the goods and services are bought and sold for business use

It is the responsibility of the customer, rather than the supplier, to account to HM Revenue and Customs (HMRC) for VAT on supplies of the specified goods or services.

For example:

- ABC Ltd, a VAT registered distributor, sells a quantity of mobile phones to 123 Ltd, a VAT registered retailer, for a VAT-exclusive value of £6,000
- ABC Ltd does not charge VAT on the supply, specifying on its invoice that the reverse charge applies.
- 123 Ltd will account for ABC Ltd's output tax but will reclaim the exact same amount as input tax

Completion of your VAT return

You must enter the output tax payable on purchases under the reverse charge in box 1, but the VAT exclusive value of the purchases **must not** be entered in box 6.

Input tax may be reclaimed, subject to the normal rules, by including it in the total shown in box 4. The VAT exclusive value of the purchases should be entered in box 7 in the normal way.

Reverse Charge – Standard

The reverse charge is a simplification measure to avoid the need for suppliers to register in the member state where they supply their services. If you're a UK supplier providing services in another member state you should check with your customer and that member state how their

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rules work. If you're a UK recipient of services from a non-UK supplier the following rules apply to you.

The reverse charge applies where:

- the place of supply is the UK
- the supplier belongs outside the UK
- you belong in the UK
- the supply is not exempt (this includes exempt supplies subject to an option to tax)
- for supplies not within the general rule, you're VAT registered in the UK.

The reverse charge applies to almost all B2B (business to business) supplies of services except exempt supplies. It doesn't apply to land on which the option to tax has been exercised. In this circumstance the non-UK supplier must register and account for VAT in the UK.

The reverse charge isn't a complicated accounting procedure. Where it applies to services which you receive, you, the customer, must act as if you are both the supplier and the recipient of the services. It applies if your supplier belongs outside the UK even if they have a UK VAT registration number.

You simply credit your VAT account with an amount of output tax, calculated on the full value of the supply you've received, and at the same time debit your VAT account with the input tax to which you are entitled, in accordance with the normal rules. The partial exemption implications for reverse charge services are explained in Notice 706: partial exemption.

You then include in the relevant boxes of your VAT return:

- the amount of output tax in box 1 (VAT due on sales)
- the amount of input tax in box 4 (VAT reclaimed on purchases)
- the full value of the supply in box 6 (total value of sales)
- the full value of the supply in box 7 (total value of purchases).

The changes are:

- Two new options have been added to the Tax Options window (within system parameters). The new settings (named 'Code for domestic reverse charge supplies' and 'Code for non-domestic reverse charge supplies') are used to indicate that transaction is subject to reverse charge taxation.
- Reverse charge transactions have two tax analysis records one for the input tax and one for the output tax (the latter is created when the transaction is posted). The input tax is analysed to tax classes 'RA' (for domestic reverse charges) or 'RP' (for non-domestic reverse charges). The output tax is analysed to tax classes 'RD' (for domestic reverse charges) or 'RC' (for non-domestic reverse charges).
- Creditors Ledger transaction entry and auto-transfer have been updated so that transactions with either of the new reverse charge tax codes appear correctly on the VAT reconciliation report.

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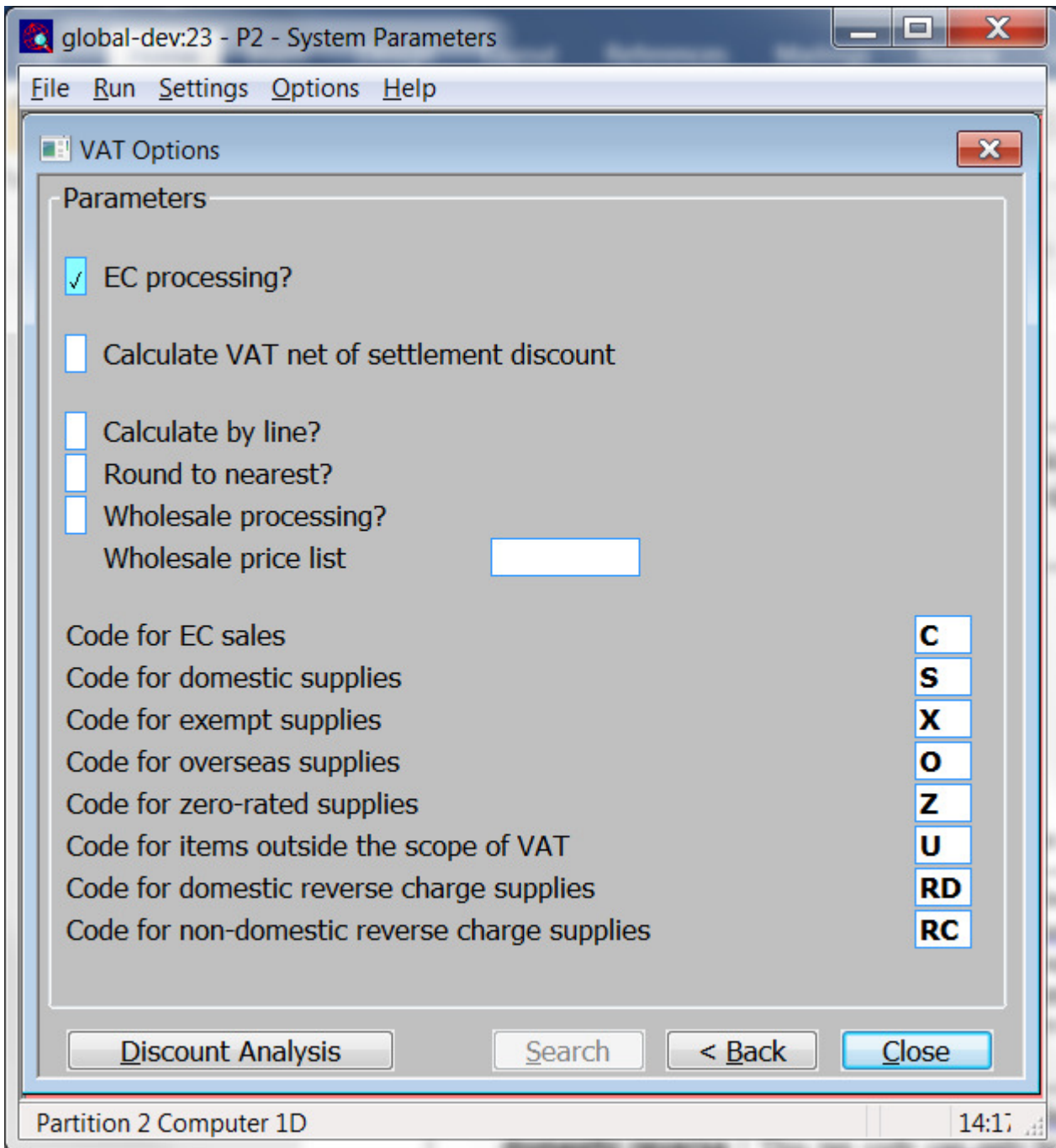
- Creditors Ledger transaction entry treats reverse charge tax in the same way as an intra-EC acquisition. If the transaction is analysed to a single tax code the line tax is set to zero and the tax analysis shows the amount of tax that is to be treated using the reverse charge rules.
- Transaction posting has been updated to generate the additional output tax analysis required to account for reverse charge processing.

In addition, Purchase Order Processing invoice input has been updated so that it prompts for Net, Tax and Gross amounts in the invoice details window (rather than just the Gross) and to allow foreign currency domestic orders to be invoiced.

DOCUMENTATION CHANGES

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Tax Options Window



Code for domestic reverse charge supplies	Set this to the tax code to be used for domestic reverse charge supplies. This tax code can only be used in Creditors Ledger (or Purchase Order Processing) for domestic supplies. When used the transaction it applies to is deemed to qualify as a supply of goods that qualify for reverse charge tax. This can be left blank if reverse charge processing is not required. A search is available.
Code for non-domestic reverse charge supplies	Set this to the tax code to be used for non-domestic reverse charge supplies. This tax code can only be used in Creditors Ledger (or Purchase Order Processing) for supplies received from outside of the UK. When used the transaction it applies to is deemed to qualify as a supply of goods that qualify

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	for reverse charge tax. This can be left blank if reverse charge processing is not required A search is available.
Note	Reverse charge transactions have two tax analysis records one for the input tax and one for the output tax (the latter is created when the transaction is posted). The input tax is analysed to tax classes 'RA' (for domestic reverse charges) or 'RP' (for non-domestic reverse charges). The output tax is analysed to tax classes 'RD' (for domestic reverse charges) or 'RC' (for non-domestic reverse charges).

Transaction Entry - Items in Batch Window (Invoices, Credit Notes and Journals)

Tax (Only if tax analysis is in use and you selected analysis by transaction.) If the entire transaction amount is to be analysed to a single tax code, enter the tax code. Otherwise leave this prompt blank; you then have the option of analysing the transaction to multiple tax codes after you complete this window.

If the tax code entered is either the code defined for domestic reverse charge supplies or for non-domestic reverse charge supplies then the transaction is deemed to be for a supply that qualifies for the relevant reverse charge processing and is analysed as such. It is your responsibility to ensure that

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the reverse charge tax codes are only applied to transactions that meet the criteria set by the relevant tax authority.

Note Reverse charge transactions have two tax analysis records one for the input tax and one for the output tax (the latter is automatically created when the transaction is posted). The input tax is analysed to tax classes 'RA' (for domestic reverse charges) or 'RP' (for non-domestic reverse charges). The output tax is analysed to tax classes 'RD' (for domestic reverse charges) or 'RC' (for non-domestic reverse charges).

In addition, reverse charge tax codes cannot be used if the tax analysis is by batch.

Transaction Entry – Tax Analysis Window (Invoices, Credit Notes and Journals)

The screenshot shows a software window titled "VAT Analysis for INV028RC on Account ANT015". The window has a menu bar with "File", "Run", "Settings", "Options", and "Help". Below the menu bar is a table with columns for VAT, Title, Net, GBP, and VAT, GBP. The first row shows "RD" for VAT, "Dom Reverse Charge" for Title, "1,000.00" for Net, and "200.00" for VAT. Below the table is a "Posting Information" section with fields for Name ("Antec (UK) Ltd"), GL PC ("STH"), GL A/C ("S1001"), and a "London Office" label. A "Notes" section contains a green highlighted message: "The VAT amount shown will be processed using the reverse charge rules." Below that is a "Remainder" section with "Net" and "VAT" fields, both showing "0.00 GBP". At the bottom of the window are buttons for "Search", "GL Analysis", "Allocations", "Reset", "Amend", "Apply", and "Close". The status bar at the bottom shows "Partition 2 Computer 1D", "14:32:37 dcp", "CL110F/W3", and "DSP CAPS NUM".

Tax Enter the tax code. A search is available.

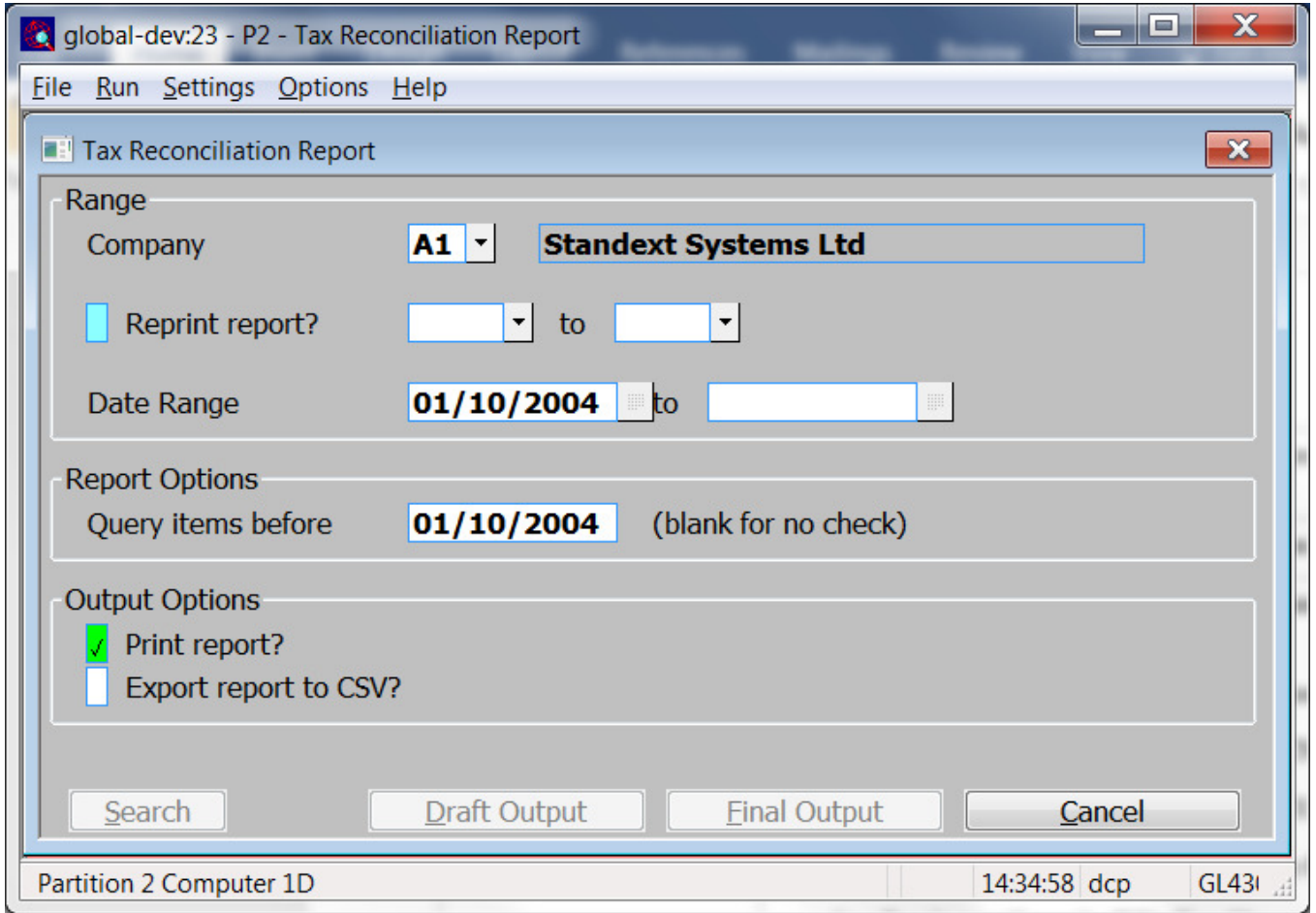
If the tax code entered is either the code defined for domestic reverse charge supplies or for non-domestic reverse charge supplies then the analysis line is deemed to be for a supply that qualifies for the relevant reverse charge processing and is analysed as such. It is your responsibility to ensure that the reverse charge tax codes are only applied to transactions that meet the criteria set by the relevant tax authority.

Note Reverse charge transactions have two tax analysis records one for the input tax and one for the output tax (the latter is automatically created when the transaction is posted). The input tax is analysed to tax classes 'RA' (for domestic reverse charges) or 'RP' (for non-domestic reverse charges). The output tax is analysed to tax classes 'RD' (for domestic reverse charges) or 'RC' (for non-domestic reverse charges).

In addition, reverse charge tax codes cannot be used if the tax analysis is by batch.

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VAT Reconciliation Report Window



This window appears when you select VAT Reconciliation Report from the Financial Reports menu

Purpose This window enables you to enter the selection criteria for the report.

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Detailed - This format of the report contains up to 10 sections each beginning on a new page which list:-

1. Sales (Domestic/Overseas), Tax Classes NS, AN, AV.
2. Sales (to the EC), Tax Classes ES, CN, CV.
3. EC Acquisitions, Tax Classes EA, EV.
4. Purchases (Domestic/Overseas), Tax Classes NP, BN, BV.
5. Purchases (from the EC), Tax Classes EP, DN, DV.
6. Discount Adjustment on Sales, Tax Class OD.
7. Discount Adjustment on Purchases, Tax Class ID.
8. Digital Services, Tax Class DS.
9. Domestic reverse charge supplies, Tax Classes RA, RD.
10. Reverse charge supplies, Tax Classes RP, RC.

If any of the sections in the detailed format have no entries, the section is omitted completely from the report.

Purchase Order Processing - Invoice Details Window

Net Enter the net amount from the supplier invoice (in supplier currency).

Tax *(Only if tax analysis is in use)* Enter the tax amount from the supplier invoice (in supplier currency).

Note When entering a new invoice the tax amount is defaulted based on the net amount and the default tax code for the suppliers' tax status.

Gross Enter the gross amount from the supplier invoice (in supplier currency).

Note When entering a new invoice the gross amount is defaulted based on the net and tax amounts entered above. If the gross amount is amended the net amount is recalculated (it is assumed that the tax amount is correct).

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