COVID-19: Further updates for indirect tax

Indirect Tax

01 June 2020

Further to the COVID-19 measures for indirect tax highlighted in our article in the May edition of *Tax Adviser*, we look at the further developments for VAT.

VAT payment deferral: payments on account

Interim and balancing payments of payments on account VAT due between 20 March 2020 and 30 June 2020 can be deferred until 31 March 2021 ('the deferment period'). We have received several queries about the impact of deferring interim payments when the balancing payment is due outside of the deferment period.

a) Payment VAT return

Where a taxpayer has deferred two interim payments (for example, 30 May and 30 June) and it has a payment due to HMRC for the balancing payment due on 31 July 2020, it should only pay the equivalent balance as if the deferred interim payments had been made. The amounts due for the deferred interim payments must be paid to HMRC by 31 March 2021.

b) Repayment VAT return

Where a taxpayer has deferred two interim payments (for example, 30 May and 30 June) and the quarterly VAT return due on 31 July 2020 results in a repayment due to the taxpayer, HMRC will only repay the VAT figure in Box 5 (that is to say, not Box 5 plus the two deferred interim payments).

The deferral balance will reduce to nil at the time of the submission of the VAT return and the taxpayer will have no deferred amount of VAT due by 31 March 2021.

Temporary zero rate VAT liability of personal protective equipment (PPE)

On 30 April, HMRC published Revenue and Customs Brief 4/ 20, which introduces a temporary VAT zero rate for the period from 1 May to 31 July 2020 for the supply of PPE goods recommended for use by Public Health England in its guidance dated 24 April 2020, including:

- disposable gloves;
- disposable plastic aprons;
- disposable fluid-resistant coveralls or gowns;
- surgical masks, including fluid-resistant type IIR surgical masks;
- filtering face piece respirators; and
- eye and face protection, including single or reusable full face visors or goggles.

The temporary zero rate can also be app lied to supplies made from existing stock. The legislation for the COVID-19 temporary easement can be found here.

Zero rate of VAT for certain electronic publications

The government announced on 30 April that the intended zero rating for specified supplies of electronic publications, due to take effect from 1 December 2020, has been brought forward to 1 May 2020. This is to assist people confined to their homes as a result of workplaces and schools being closed due to the pandemic lockdown measures. Full details are set out in the guidance.

VAT liability of Small Business Grant Fund (SBGF) or Retail, Hospitality and Leisure Grant Fund (RHLG)

In April 2020, the Department of Business, Energy and Industrial Strategy announced two grant funding schemes for businesses: the Small Business Grant Fund; and the Retail, Hospitality and Leisure Grant Fund. In paragraph 24 of its guidance, the government mentions that grant income is subject to tax. However, for VAT purposes, as the grants are given without an expectation of anything in return and comply with state aid requirements, they are not classed as consideration for a supply and are not, therefore, subject to output VAT.

The receipt of grant funding does not automatically mean that an activity is not business or lead to an apportionment of input tax. Each grant-funded activity should

be reviewed separately to consider whether or not the activity is business. Where grants are received to support business activities, the normal input VAT rules apply.