

Taxline and VATline Q & A

Taxline 0845 356 0006 VATline 0845 356 0007

Q: My client buys in web-site advertising and other internet marketing support services from an internet provider based in Eire. This means the client does not pay VAT. The client is making exempt supplies and is not registered for VAT - is this too good to be true?

A: Probably. Advertising and most other internet support services fall within Schedule 5 of VATA 1994 and are 'Reverse Charge Services'. This means the recipient of the service must account for VAT on the service as output tax when he pays for it and can then claim the same amount as input tax, but subject to any partial exemption restriction. If the business is partly exempt this process results in a payment of VAT to HMRC. In addition, the receipt of reverse charge services counts as 'Taxable Turnover' for the purposes of establishing if the VAT registration limit is breached. The result is that a business, which makes only exempt supplies, can become registered just to pay over the VAT on the reverse charge services it receives.