

# Global VAT Specialist Group Newsletter

For members with clients or businesses trading goods and services globally

Issue 6, September 2020

## HMRC announces significant change in position on compensation payments

Historically HMRC have taken the view that compensation and similar payments are not consideration for a supply and are thus outside the scope of UK VAT.

However, in Revenue and Customs Brief 12/20 they have announced that this view has changed due to recent EU cases. They rather bluntly state:

*“Most early termination and cancellation fees are therefore liable for VAT. This is the case even if they are described as compensation or damages.”*

Even more disconcertingly they also say that the action for affected taxpayers:

*“Any taxable person that has failed” [i.e. taken the agreed course on the VAT treatment when payment was received] “to account for VAT to HMRC on such fees should correct the error.”*

*“Any taxable person that has had a specific ruling from HMRC saying that such fees are outside the scope of VAT should account for VAT on such fees received after the issue of this Revenue and Customs Brief.”*

The last paragraph seeks to nullify any rulings HMRC may have given in the past for payments received after the date of the guidance (2nd September 2020).

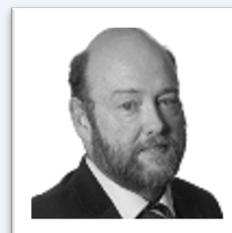
This is a huge change in treatment and can have a potential significant impact on affected taxpayers.



For more information on this developing topic, please contact:

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From the updated internal manuals the main areas affected appear to be:

- Early termination payments (whether already in the contract or separately negotiated)
- Liquidated payments
- Breach of contract

The current view is that this change does not impact on dilapidation payments (which are treated as compensatory and thus outside the scope) but discussions with HMRC are ongoing to confirm this.

**If you would like to know more about this change in interpretation, please contact Ian Marrow at Rickard Luckin - [Ian.Marrow@rickardluckin.co.uk](mailto:Ian.Marrow@rickardluckin.co.uk)**



## Webinar Save the Date

### Brexit - The Practicalities

5 November 2020 4pm GMT

A guide to the practical steps to take regarding the impact that the current Brexit scenario will have for clients and their customers. More information to follow.

For more information please contact a member of the Global VAT Services Operational Group:



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