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GLOBAL VAT

NEWSLETTER

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The MGI Global VAT Specialist Group continues to bring together leading indirect tax experts from across the network, providing a true centre of excellence in VAT and customs. With members collaborating across jurisdictions, the group supports firms and their clients in navigating complex international VAT challenges, from day-to-day compliance through to strategic cross-border advice.

This edition covers key VAT developments in the Czech Republic, Germany, India, Italy, Kenya, the Philippines and the United Kingdom, including transfer pricing adjustments and VAT, Czech VAT changes from 2027, business transfers in multi-step structures, India's GST reset, cross-border provisions in Italy's Omnibus Decree, Kenya's shifting VAT regime, Philippine e-invoicing and exporter refund relief, and the UK reverse charge reform for overseas service suppliers.

For further information on any of the topics covered, please contact the relevant contributor directly. Alternatively, for general enquiries or to find out more about joining the MGI Global VAT Group, please contact Nicki Lynn at nicki.lynn@mgiworld.com.

In this edition:

		Page
Czech Republic	Transfer pricing from VAT perspective	2
Czech Republic	GFD guidance on VAT on donated goods: clarified rules	4
Czech Republic	VAT changes from 2027	5
Germany	Transfer of businesses in multi-step transfer structures	7
Italy	Several cross-border relevant provisions implemented through the Omnibus Decree	9
India	India's GST Reset: what global businesses need to know	9
Kenya	Navigating Kenya's shifting VAT regime	13
Philippines	E-invoicing rulebook, exporter refund relief and year-end invoicing deadlines	14
United Kingdom	UK VAT reverse charge reform - what overseas service suppliers need to know	19

Czech Republic: Transfer pricing from VAT perspective

Year-end transfer pricing adjustments -"TP adjustments," "true-up payments" or "year-end adjustments" (hereafter "TPAs") - have become a fairly routine feature of how multinational groups operate. They typically serve to align each company's final profitability with its functional and risk profile while keeping with the arm's length principle.

While from a transfer pricing perspective, these adjustments are often regarded as a standard tool for managing group profit, from a VAT perspective, they have long raised a series of questions. Are they mere accounting and pricing corrections? Or do they in fact constitute payment for a specific service between related parties?

Recent judgments of the Court of Justice of the EU in SC Arcomet Towercranes SRL ("Arcomet") and Stellantis Portugal, S.A. ("Stellantis") offer important guidance and suggest that there is no one-size-fits-all answer. What matters is not the label given to the payment, nor its link to transfer pricing, but the economic substance of the relationship between the parties.

Why are TPAs problematic from a VAT perspective?

In transfer pricing, we frequently encounter profitability adjustments whose purpose is not to pay for a specific service, but to ensure that a company's final margin falls within a predefined range.

From a VAT perspective, each payment must be assessed on its own. The mere fact that an amount arises from applying transfer pricing rules says nothing, in itself, about whether it constitutes a supply subject to VAT.

In other words: not every TPA automatically falls outside the scope of VAT, but neither does every TPA amount to a taxable supply.

The key question is: what is actually being paid for?

What determines whether a TPA is subject to VAT?

The case law of the Court of Justice of the EU has long held that VAT applies only where there is:

- a legal relationship between the parties
- reciprocal consideration and obligations
- an identifiable service or other supply
- a direct link between the supply provided and the payment received
- an actual economic reality matching the arrangement as declared

If the payment is merely a mechanism for adjusting prices or allocating the economic result among group companies, it may fall outside the scope of VAT.

If, however, the payment is in economic terms remuneration for a specific service that one company provides to another, it may be subject to VAT - even where the amount of that remuneration is determined using a transfer pricing methodology.

What does the Arcomet judgment show?

In Arcomet, a Belgian company provided its Romanian subsidiary with a range of centralised services - in areas such as strategy, planning, supplier negotiations, financing and quality management - while also bearing a substantial part of the group's economic risk. The remuneration was set through a mechanism tied to the operating margin achieved by the Romanian company.

The Court stressed that there was a contract between the parties, specifically defined services and an economic benefit on the recipient's side. The Romanian subsidiary's operating margin was merely the method for calculating the remuneration, not the reason for the payment itself. The Court therefore concluded that the amount in question constituted consideration for a service subject to VAT.

In practical terms: where an adjustment represents remuneration for services actually provided, the fact that its amount is calculated using a transfer pricing mechanism does not, in itself, prevent VAT from applying.

What does the Stellantis judgment show?

A few months later, the CJEU ruled on a situation that looked similar at first glance. Here too was a transfer pricing mechanism securing a predetermined level of profitability for a distribution company in Portugal.

This time, however, the case concerned subsequent adjustments to the prices of vehicles between the manufacturers and the distributor. The size of the adjustment was influenced by a range of the distributor's costs, including the cost of warranty repairs. The Portuguese tax authority argued that the distributor was in fact providing the manufacturers with a service (in the form of arranging warranty repairs) and that the payments received were remuneration for that service.

The Court rejected this approach. It stressed that the mere fact that warranty repair costs were factored into the pricing mechanism does not, by itself, establish that there is a service subject to VAT. In this case, no legal relationship was identified under which the distributor had undertaken to provide the manufacturers with repair services for consideration. The payments from the manufacturer to the distributor served primarily to achieve the distributor's target margin and were the result of a transfer pricing adjustment mechanism.

In the Court's view, this was therefore not automatically remuneration for a service, but rather a subsequent price adjustment. Only if a specific legal relationship and a direct link between the service and the payment could be shown would there be grounds to apply VAT.

Practical examples

The case law above suggests that assessing a TPA requires analysing the specific circumstances of each case.

Year-end adjustment with no specific service

A contract distributor has its profitability adjusted at year-end to a target level set by benchmarking analysis. There are no separate service and no distinct consideration.

→ More likely a price correction outside the scope of VAT.

Management services with a true-up mechanism

A parent company provides its subsidiaries with strategic, financial and administrative services. The remuneration is adjusted at year-end to reflect actual costs or the margin achieved.

→ More likely a supply subject to VAT, since the adjustment fine-tunes the remuneration for an identifiable service.

Compensation for a contract manufacturer's loss

A low-risk manufacturer reports a loss, and the group provides compensation to bring it up to its target margin.

→ The outcome will depend on whether this is merely an evening-out of the economic result, or whether the payment can be linked to a specific supply provided by the manufacturer to another group company.

Warranty adjustment between distributor and manufacturer

A distributor bears certain warranty costs, after which a TP adjustment is made between the distributor and the manufacturer.

→ The mere fact that warranty costs were taken into account does not establish a service. The legal relationship and the economic substance of the transaction need to be examined.

Key takeaways

Together, the Arcomet and Stellantis judgments confirm that, for VAT purposes, TP adjustments cannot be assessed on the basis of their formal label or on the fact that they stem from transfer pricing rules. What is always decisive is the specific legal and economic relationship between the parties - in particular, whether there is an identifiable supply, a direct link between that supply and the payment, and genuine reciprocal obligations.

If an adjustment represents remuneration for a specific service provided between related parties, it may be subject to VAT. If, on the other hand, it merely serves to reach a target level of profitability without any separate supply, it may fall outside VAT.

This means that when multinational groups design group mechanisms, it is not enough to check that they comply with transfer pricing rules. It is equally important to analyse the true economic substance of the relationship and whether the resulting payments do not represent, for VAT purposes, something else than it might first seem.

It is worth adding that Czech administrative practice is not yet settled on this question. The significance of these judgments can therefore be expected to grow over the coming years, and they are likely to become an important point of reference when assessing cross-border transactions involving Czech companies.



Lenka Pól Brožková
LTA Tax s.r.o.
Czech Republic
lenka.pol-brozkova@ltapartners.com

Czech Republic: GFD guidance on VAT on donated goods: clarified rules

The General Financial Directorate has issued updated guidance on applying VAT to supplies of goods free of charge, replacing its previous guidance from 2023. The guidance deals with the VAT treatment of goods supplied free of charge by a VAT payer where the VAT on acquiring the donated goods was lawfully deducted. The guidance will be particularly relevant for donations to food banks and other charitable organisations.

If a VAT payer deducted VAT when acquiring goods, it will generally have to account for output VAT when donating the goods. For purchased goods, the tax base is the purchase price, adjusted for the condition of the goods at the time of the donation, taking into account any modification costs and wear and tear. If the current market price is lower, it can be used as the tax base for the sake of simplicity.

For goods that were not purchased, the tax base is the price of similar goods. If that price cannot be determined because the goods are of a unique kind, the tax base will be the total cost of acquiring the goods.

Goods that are no longer of any use to the donor will have a value close to zero. These may include, for example, food or low-value consumer goods (cosmetics, household and toiletry products, pet food) that are close to the end of their shelf life or have damaged or outdated packaging. The same applies to construction chemicals (such as silicone sealants and paints), as well as flowers and other perishable goods. In the case of textiles, this may include goods with minor defects or seasonal items that, after the end of the sales season, have been permanently withdrawn from sale because of the business's commercial policy.

By contrast, the VAT base for commonly traded goods (laptops, mobile phones, office supplies and the like) will generally be equal to the normal market price. Donating such goods is no reason to reduce the output VAT base, even if the donation is made for charitable purposes.

The updated guidance includes specific examples and lists recommended documents that can be used to prove a permanent reduction in the value of goods. These might include, for example, an internal policy setting out the rules for gradually discounting goods to maximise the chance of selling them within the usual time frame, documentation of discount campaigns, or records of marketing activities published on social media. The donor should also be able to prove the age and the technical or aesthetic condition of the goods, the approaching end of their usable life, the lack of demand, the costs of further storage or disposal, long-term compliance with an internal commercial policy on withdrawing goods from sale, or the fact that the goods were not offered for sale again anywhere. It is also essential to keep a record of the donated goods (what was donated, to whom and when) and to retain donation agreements and handover reports or photographs.

What remains unchanged is the rule that if goods were acquired primarily for the purpose of donating them, VAT on their acquisition cannot be deducted, so there is no obligation to account for output VAT when they are subsequently donated.



Lenka Pazderová
LTA Tax s.r.o.
Czech Republic
lenka.pazderova@LTApartners.com

Czech Republic: VAT changes from 2027

The Act on the Registration of Sales and Amendments to Certain Other Acts, signed by the President on 17 September 2026, not only introduces a new sales registration system but also makes several significant changes to the VAT Act.

From 1 January 2027, the changes will mainly affect the following areas:

- a lower VAT rate for drinks served as part of catering services
- broader scope for adjusting the tax base for "small irrecoverable debts"
- a shorter period after which a debtor must reduce a previously claimed VAT deduction
- the removal of restrictions on VAT deductions for certain passenger cars.

VAT rate changes

Non-alcoholic drinks served as part of a catering service will be subject to the reduced VAT rate. It will therefore no longer matter whether the drink is drinking water or a "selected drink" listed in Annex 3 to the VAT Act.

Alcoholic drinks, including beer, served as part of a catering service will remain subject to the standard VAT rate.

Where drinks are supplied separately as goods (including takeaway sales in restaurants and cafés), the reduced rate will continue to apply only if they qualify as drinking water or as selected drinks listed in Annex 3 to the VAT Act.

The definition of selected drinks remains unchanged. They will continue to include milk, liquid dairy products and certain milk-based drinks, as defined by the relevant customs nomenclature codes.

Please note that restaurants and other catering businesses will once again need to correctly distinguish between providing a catering service and selling drink as goods. The same non-alcoholic drink may therefore be subject to a different rate depending on the nature of the supply. Typically, a drink served to a guest in a restaurant will be subject to the reduced rate if the conditions for a catering service are met, whereas the same drink sold as a takeaway in a sealed container will be subject to the standard rate, unless it is drinking water or a selected drink.

Broader tax base adjustment for bad debts

The amendment widens the scope for adjusting the tax base for small irrecoverable debts. The limit for an individual debt will rise from CZK 10,000 to CZK 20,000 including VAT, the required period after the due date will be shortened from six months to three, and the annual aggregate limit for debts owed by a single debtor will increase from CZK 20,000 to CZK 100,000 including VAT.

At the same time, the restriction allowing this adjustment only once a year, in the last tax period, is being abolished.

The new rules will also apply to debts not yet claimed that arise from taxable supplies made on or after 1 January 2025, provided that the adjustment is claimed no earlier than for a tax period in 2027 and the new conditions are met.

Adjusting VAT deductions for overdue debts

In line with this change, the period after which a debtor must reduce a previously claimed VAT deduction on an unpaid supply it has received, provided the statutory conditions are met, is also being shortened from six months to three months after the due date. The shorter three-month period will only apply to taxable supplies made on or after 1 January 2027.

Removal of the deduction limit for selected passenger cars

From 2027, the CZK 420,000 limit on VAT deductions for the acquisition or technical improvement of selected passenger cars will be abolished.

However, for cars and technical improvements that become ready for use by 31 December 2026, the existing limit will continue to apply, including any subsequent corrections and adjustments of the deduction.

If the car or its technical improvement only becomes ready for use on 1 January 2027 or later, the limit will no longer apply.

If, by the end of 2026, a VAT payer has claimed a limited VAT deduction on a supply related to the acquisition or technical improvement of a selected passenger car, and the car or improvement does not become ready for use until 1 January 2027 or later, the payer may, subject to the general conditions, claim the remaining part of the deduction. This is done by filing a supplementary tax return for the tax period in which the limited deduction was originally claimed, no later than the end of January 2027. The VAT payer must also file a subsequent control report.

If a VAT payer acquired a selected passenger car as goods by the end of 2026 and the car becomes a long-term asset from 2027, the payer will still be required to reduce the deduction claimed under the former Section 77a of the VAT Act. This obligation will continue for the entire period during which the deduction can be claimed.

Summary and recommendations

- We recommend that restaurants and other catering businesses update their cash register systems well in advance for the VAT rate changes taking effect on 1 January 2027, when the VAT rate on non-alcoholic drinks served as part of a catering service will be reduced. At the same time, the VAT rate on takeaway drinks will not change next year.
- From next year, VAT payers should set up their accounting systems to track the three-month period, the higher limit for individual debts and the annual limit.
- When acquiring selected passenger cars around the turn of 2026 and 2027, VAT payers should bear in mind that the VAT deduction rules will depend on when the car becomes ready for use.



Milena Drábová
LTA Tax s.r.o.
Czech Republic
milena.drabova@LTApartners.com

Germany: Transfer of businesses in multi-step transfer structures

Interpretation of the General Court Judgment of 9 September 2026 (T-366/25) from a German view

The General Court of the European Union (GC) denied the application of Article 19 of the VAT Directive (non-taxable transfer of a going concern) to a business asset donation split between two recipients in the case **Szytelbiecka** although the business is continued upon a subsequent partnership contribution. By contrast, the case law of the German Federal Fiscal Court (BFH) supports an intermediate or **pass-through acquisition** as non-taxable transfer of a going concern under certain conditions.

I. Factual background

A Polish entrepreneur intended to donate her entire business equally to her two daughters, after which she would cease her own business activity. The daughters were already partners in a partnership. They planned to immediately contribute their 50% shares in the assets of the undertaking to the partnership, which would continue to operate the transferred business substantially unchanged.

However, the Polish tax authorities and the court of first instance denied the existence of a non-taxable transfer of a going concern. According to them, each daughter merely received an interest in the business's individual assets instead of a whole business capable of independent continuation. The Polish Supreme Administrative Court therefore referred the interpretation of Article 19 of the VAT Directive to the Court of Justice of the European Union for a preliminary ruling.

II. Key findings of the General Court

In its judgment of 9 September 2026 (case T-366/25, Szytelbiecka), the General Court of the European Union held that each transfer must be assessed separately; only transactions that are objectively impossible to split may constitute a single supply by exception. The donation to the two daughters and their subsequent contributions to the partnership constituted four separate transactions. The subsequent contribution was not a condition of the preceding gifts, and each daughter was free to dispose of her share independently.

According to Article 19 of the VAT Directive, the transfer of assets must enable the continuation of an independent economic activity, and the recipient must intend to continue that activity. The two 50% interests did not satisfy the first requirement as neither daughter could operate an independent business based on her share alone. The intended immediate contribution to the partnership did not have an effect on this. Consequently, no transfer of assets or part thereof occurred within the meaning of Article 19 of the VAT Directive applies. This article may be applied in the EU Member States and is neither mandatory nor directly applicable.

III. German case law: BFH and VAT Administrative Guidelines

In Germany**, Section 1 para. 1a of the German VAT Act (UStG)** implements Article 19 of the VAT Directive. The provision governs the concept of a **transfer of a going concern** and excludes qualifying transfers from the scope of VAT (i.e. non-taxable).

In particular, German case law has recognised the concept of a **pass-through acquisition** in the context of multi-step transfer structures to be seen as a transfer of a going concern. In its judgment of **25 November 2015 (V R 66/14),** the Federal Fiscal Court (BFH) held that, where several consecutive transfers are involved, the required intention to continue the business activity does not have to be personally fulfilled by every intermediate transferee. Rather, the decisive factor is that the economic activity is continued within the overall transfer chain.

This line of case law was further developed by the BFH in its judgment of **25 September 2024 (XI R 19/22)**. According to the Court, a transit acquisition may also exist where the intermediate transferee is not a taxable person. What remains decisive is that the requirements for the continuation of the business are fulfilled by the final acquirer.

The German tax authorities adopted this case law in the Federal Ministry of Finance circular dated **20 January 2026** and incorporated it into **Section 1.5 para. 1 of the German VAT Administrative Guidelines (UStAE).**

IV. Interaction between the European judgement and German practice

The decisions follow different analytical approaches and, at the same time, concern different transfer structures.

Aspect	BFH – V R 66/14 (2015)	BFH – XI R 19/22 (2024)	EuG – T-366/25 (2026)
Subject of the Acquisition	Rented building transferred through intermediaries	Water supply facilities transferred through a municipality	Two separate 50% interests in an undertaking
Status of the intermediate purchaser	No personal continuation of the rental activity required	No personal continuation of the water supply activity required	Each daughter initially receives a non-autonomous interest
Perspective	Business continuity assessed across successive transfers	Permissible intermediary acquisition; focus on final purchaser	Focus on whether each recipient acquires an independently operable economic unit instead of the final continuation
VAT consequence	TOGC accepted	TOGC accepted	Article 19 not applicable to the initial transfers, subject to national court verification

The three rulings do not fundamentally contradict each other; rather, they address different scenarios. Under German case law, a pass-through acquisition may qualify as a transfer of a going concern where the business is ultimately continued by the final purchaser, and the transferred assets constitute a functioning economic unit. However, as soon as the business at the intermediate level is divided among several persons (even if continued at a subsequent stage), it may endanger the application of Article 19 of the VAT Directive.

V. Considerations for the future and country-specific assessment

Business successions, contributions in kind and multi-step transfers require a **country-specific assessment**, considering the (non-mandatory) national implementation of Article 19 of the VAT Directive, domestic judgments and administrative practice. In Germany, Section 1 para. 1a of the German VAT Act, BFH case law and section 1.5 UStAE are of central importance.

For cross-border restructurings, each relevant jurisdiction should be examined separately, ideally documenting **who receives which independently operable assets**, whether the steps are legally interdependent, and who will ultimately continue the economic activity. Solely an onward transfer alone does not establish a transfer of a going concern.

An incorrect VAT treatment of a transfer of a going concern (TOGC) may trigger unexpected VAT liabilities, incorrect invoicing, denial or repayment of input VAT, and interest or penalties. Further risks include input VAT adjustments under Section 15a UStG, purchaser liability under Section 75 AO, and significant cash flow implications.

Please contact us in case of questions and let us know in case you wish our support.



Fabian Thumm
Menold Bezler
Germany
fabian.thumm@menoldbezler.de

- it is provided that, if a company resident in a State belonging to the EU or party to the EEA (Iceland, Norway and Liechtenstein) is merged into a company resident in Italy, the losses of the non-resident company may be carried forward by the Italian company, to the extent that the merged companies are part of the same group and the losses are final

- the so-called Side-by-Side Regime, the UPE Safe Harbour and the so-called Substance-Based Tax Incentive Safe Harbour have been implemented in Italy in the framework of the Italian Pillar Two legislation

- the withholding tax rate applied on dividends paid by Italian tax resident companies to European pension funds has been increased from 11% to 20%. This is to align the outbound foreign tax burden to the tax burden suffered by Italian pension funds.



Francesco Bartolucci
MGI Studio Pragma
Italy
bartolucci@studiopragma.it

Italy: Several cross-border relevant provisions implemented through the Omnibus Decree

The Legislative Decree no. 148 of 7 August 2026 (the so-called "Omnibus" Legislative Decree) contains supplementary and corrective provisions on income tax, inheritance and gift tax, value added tax, excise duties, as well as on controls and assessment.

From the point of view of cross-border relations, the main provisions of interest are the following:

- the accounts of the Italian permanent establishments of non-resident companies must be time-stamped with suitable tools according to the law

India: India's GST Reset: what global businesses need to know

Faster refunds, broader input tax credit recovery and a more digital compliance framework are reshaping the way businesses operate in India.

Why this matters beyond India

India's Goods and Services Tax (GST) is entering a new phase. The 57th GST Council meeting, held on 8 October 2026, recommended a package of changes designed to make the system faster, simpler and more predictable. Several measures have since been operationalised through Central Board of Indirect Taxes and Customs (CBIC) notifications dated 26 October 2026, with most of the relevant rule changes taking effect from 1 November 2026.

For international businesses, the significance is practical. GST can influence the cost of entering a market, the cash tied up in tax credits, the efficiency of cross-border service arrangements and the reliability of a company's compliance processes. The latest changes therefore deserve attention from overseas investors, multinational groups, exporters, manufacturers and e-commerce businesses considering India as a market, sourcing base or regional hub.

The direction of travel is clear: greater use of technology and risk-based processing, faster access to legitimate refunds, and a more proportionate approach to enforcement. The details—and the distinction between recommendations and provisions already in force—remain important.

1. Faster refunds: less tax trapped in the system

For exporters and businesses with an inverted duty structure, delayed GST refunds can turn tax credits into a working-capital problem. The latest reform package seeks to reduce that friction through quicker acknowledgement, risk-based processing and greater automation.

- **A shorter acknowledgement window**. The period for issuing an acknowledgement or deficiency memo has been reduced from 15 days to 10 days. If no deficiency memo is issued within that period, the application is deemed to have been acknowledged.

- **Provisional refunds**. Eligible, low-risk claims relating to zero-rated supplies and inverted duty structure are intended to benefit from provisional sanction of 90% of the claimed amount, subject to prescribed conditions.

- **Cash-ledger refunds**. Refunds of eligible excess balances in the electronic cash ledger are to be processed through an automated mechanism, reducing the need for manual follow-up.

- **A wider export refund base**. The restriction that capped the turnover of zero-rated supplies of goods for refund purposes at 1.5 times the value of like domestic supplies has been removed.

The commercial upside is straightforward: where a business receives a legitimate refund sooner, it may need less short-term borrowing and can plan cash flows with greater confidence. For global groups, this can also improve the predictability of the Indian entity's working-capital cycle.

2. Broader ITC refunds: a potential boost for investment

The Council has also recommended widening the refundability of accumulated input tax credit (ITC), particularly for input services and capital goods. This is especially relevant to businesses that invest heavily in facilities, machinery and infrastructure or operate in sectors where the tax rate on inputs exceeds the rate on outputs.

- **Input services**. Eligible ITC on input services under the inverted duty structure is refundable for credits availed on or after 1 November 2026.

- **Capital goods**. ITC on capital goods is to become refundable in specified zero-rated supply and inverted-duty cases from 1 April 2027. The credit is to be apportioned over 60 months, subject to the detailed rules.

Manufacturers, renewable-energy businesses, infrastructure developers and exporters should assess how these changes may affect project cash flows and the timing of tax-credit recovery. Investors evaluating capital-intensive Indian operations should look beyond headline tax rates and consider how efficiently the business can convert eligible credits into cash.

The benefit is not automatic: eligibility, attribution, apportionment and documentation requirements will continue to matter. Businesses should model the impact using the final operative provisions rather than assume that all accumulated credit will be refundable.

3. E-commerce: a simpler route to reach customers across India

A further measure is aimed at smaller suppliers selling goods through e-commerce operators. Under the new Rule 14B mechanism, eligible sellers may use an e-commerce operator's warehouse as their principal place of business in a State or Union Territory where they do not otherwise have a physical presence, subject to prescribed conditions and the operator's consent.

The scheme is intended to reduce the need for a small seller to establish its own premises in every State simply to access customers through a marketplace. It may be particularly useful for regional brands, artisans, food businesses and small manufacturers seeking to scale their online sales.

For international marketplace operators and businesses using fulfilment networks, the change is a reminder to review warehouse arrangements, seller onboarding and the allocation of GST responsibilities. The simplified route is conditional; it should not be treated as a blanket exemption from State-wise registration requirements.

4. More digital compliance: prepare for January 2027

India's GST architecture is becoming increasingly data-led. The notified expansion of e-invoicing from 1 January 2027 is expected to cover specified inward supplies from unregistered persons on which the recipient pays tax under the reverse charge mechanism, as well as imports of services.

This is particularly relevant to multinational groups with intercompany service charges, overseas vendors and centralised procurement arrangements. Businesses should review whether their ERP systems can capture the required invoice-level information and support the associated reporting and reconciliation.

Strong vendor master data, accurate tax coding, timely invoice capture and regular reconciliation between books, returns and the GST portal will be essential. Automation can speed up compliant transactions, but it can also make inconsistencies more visible.

5. Enforcement: a move towards proportionality

The 57th GST Council has recommended changes intended to rationalise arrest, prosecution and penalty provisions. These include removing arrest provisions under the GST framework, raising the prosecution threshold from ₹1 crore to ₹5 crore, reducing the maximum general penalty under Section 125 from ₹25,000 to ₹10,000, and capping the pre-deposit for appeals involving only a penalty and no tax demand.

These measures should be understood as recommendations unless and until the necessary statutory amendments are brought into force. They do not remove the obligation to comply with GST law, nor do they signal a retreat from action against deliberate evasion or fraudulent input tax credit arrangements.

For compliant businesses, the proposed direction may reduce the risk of disproportionate consequences arising from procedural or technical failures.

For tax leaders, the priority remains to distinguish genuine errors from deliberate non-compliance and to retain evidence that supports the business's position.

6. What the courts are signalling

Recent Indian High Court decisions underline a familiar but important point: GST liability depends on the statutory character of the transaction and the evidence available—not simply on the label used by the parties or the department.

Leasehold rights and the meaning of 'supply'

In Siemens Ltd. v. Union of India, the Gujarat High Court examined the assignment of leasehold rights in industrial land allotted by the Gujarat Industrial Development Corporation. In the circumstances before it, the Court treated the transaction as a transfer of immovable property rather than a taxable supply of services and quashed proceedings seeking GST of approximately ₹34.83 crore.

The decision is relevant to industrial parks, manufacturing facilities, logistics and real-estate transactions. It should be applied with care: the legal rights transferred; contractual terms and factual context will be central to any comparison with another transaction.

An incorrect tax head does not automatically establish fraud

In a decision dated 30 October 2026, the Bombay High Court considered a case in which tax had been paid under an incorrect GST head. The Court emphasised the statutory mechanism for transferring tax paid under the wrong head and held that the mere error, without the necessary elements of fraud or wilful misstatement, did not by itself justify proceedings under Section 74.

For businesses, the lesson is to document the original tax treatment, identify the reason for the error and use the statutory correction mechanism where applicable. A genuine mistake should be supportable through contemporaneous records.

Departmental action must respect binding circulars

In an order dated 4 November 2026, the Gauhati High Court considered penalty action in an ITC dispute and the effect of a relevant CBIC circular. The Court indicated that departmental authorities must act consistently with binding circulars and restrained further action under the impugned notice pending further proceedings.

The order is interim, not a final ruling on the underlying ITC dispute. Nevertheless, it highlights why businesses, and their advisers should identify applicable CBIC circulars when responding to show-cause notices and assessing litigation risk.

7. A practical checklist for global businesses

For overseas investors, multinational groups and businesses already operating in India, the reforms provide a timely reason to revisit GST processes. The following areas deserve attention:

- **Refund exposure**. Map export and inverted-duty refund positions, outstanding claims and the documentation needed to support them.
- **Capital investment**. Revisit the expected cash-flow impact of eligible capital-goods ITC refunds from April 2027.
- **Marketplace and warehouse models**. Review whether eligible sellers can use the simplified registration route and whether contracts clearly allocate GST responsibilities.
- **Cross-border services**. Assess imported services, reverse-charge accounting, place-of-supply treatment and readiness for the expanded e-invoicing requirements.
- **ITC controls**. Strengthen vendor due diligence, invoice matching, receipt-of-goods evidence, payment trails and return reconciliations.
- **Disputes and provisions**. Review pending demands and litigation involving classification, tax paid under the wrong head, ITC reversals and penalties.

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- **Systems and governance**. Treat GST data quality, ERP configuration and tax automation as core business controls—not merely back-office administration

Looking ahead: GST as a business variable, not just a tax cost

India's latest GST changes point towards a system that is more automated, more focused on risk and potentially more responsive to legitimate business claims. Faster refunds and wider credit recovery could improve liquidity; simplified e-commerce registration may lower barriers to market access; and expanded digital reporting will require stronger systems and governance.

For global professionals, the central question is not simply what has changed in Indian tax law. It is how those changes affect the economics and operating model of a business with an Indian footprint. Companies that understand their refund position, maintain reliable transaction data and build GST into investment and supply-chain decisions will be better placed to benefit.

Implementation will remain decisive. Businesses should monitor subsequent statutory amendments, CBIC notifications, GSTN advisories and judicial developments, and should assess each measure against the law in force on the relevant transaction date.



Divya Somani
Rangamani Associates
India
divya@brangamani.com

Kenya: Navigating Kenya's shifting VAT regime

Kenya is rapidly rewriting its fiscal rules to cement its position as East Africa's commercial engine. For multinational firms, cross-border suppliers, and the global tax advisors within our MGI Worldwide network, these domestic shifts are no longer just local compliance matters—they are directly impacting regional supply chains and corporate liquidity.

The Kenya Revenue Authority (KRA) is moving quickly to bring more taxpayers to the tax bracket.

Here are the four structural VAT developments with global implications currently reshaping the market in Kenya:

1. The push to drop the KES 5 million VAT threshold

Historically, only businesses hitting an annual turnover of KES 5 million (roughly USD 38,000) had to register for VAT (KRA, 2024). The KRA is now pushing to eliminate this floor entirely under the Value Added Tax Act 2013 (KRA, 2026). If this goes through, every single business—regardless of size—must charge and remit the standard 16% VAT. While targeted at formalising the massive micro and small enterprise (MSME) sector, the immediate ripple effect for global firms will be felt through local vendor pricing and sudden administrative friction across local supply chains.

2. Universal eTIMS Enforcement: No invoice, no deduction

Kenya's Electronic Tax Invoice Management System (eTIMS) is no longer in a polite rollout phase; enforcement is now absolute. Under Section 23A of the Tax Procedures Act (2015), the KRA will outright disallow any business expense or input VAT claim unless it is tied to an electronically transmitted eTIMS invoice (Finance Act, 2023). For international entities trading in Kenya, this places a premium on strict vendor vetting. A non-compliant local supplier is no longer just their own tax problem—they directly inflate the tax exposure of their international partners.

3. The VAT refund squeeze on corporate liquidity

Managing corporate cash flow in Kenya has grown increasingly complex against the backdrop of an estimated KSh 50 billion VAT refund backlog (Institute of Economic Affairs [IEA], 2025). Instead of easing the pressure, recent legislative shifts have tightened the operational windows. The statutory timeline for taxpayers to lodge a VAT refund claim under Section 17 of the VAT Act was cut in half—from 24 months down to just 12 months (Finance Act, 2025).

Meanwhile, the KRA's internal review window under Section 47 of the Tax Procedures Act expanded from 90 days to 120 days (Finance Act, 2026). Global finance teams must accelerate their internal accounting cycles to file claims quickly or risk losing these tax credits permanently.

4. Strict five-year archiving for import origin documents

Effective September 1, 2026, the KRA introduced a heavy compliance anchor for inbound logistics. Under Section 23B of the Tax Procedures Act, importers must source, match, and legally archive full export declarations and origin documentation directly from the country of export for a minimum of five years (Finance Act, 2026). This is a direct effort to seal customs valuation loopholes within the East African Community (EAC) and COMESA trading blocs. Global logistics managers need to ensure their international trade desks are providing complete, auditable trails to match these new domestic rules.

5. Regional realities and next steps

Kenya's 16% VAT rate looks highly competitive on paper next to Uganda's or Tanzania's 18%. Yet VAT brings in just 23.6% of total tax revenue here, compared to over 30% in Rwanda (EAC, 2025). The KRA's aggressive drive towards digital fiscalisation through eTIMS and tighter documentation rules is explicitly designed to close this gap by mimicking OECD best practices.

Because these rollouts are moving fast, foreign investors and cross-border operators cannot afford a reactive approach. At MGI Alekim, we are actively structuring compliance frameworks to help network clients mitigate these risks and keep their regional cash flows stable.



Felix Kimoli
MGI Alekim LLP
Kenya
kimolifk@mgialekim.co.ke

Philippines: The BIR issues its E-invoicing rulebook — Exporter refund relief and year-end invoicing deadlines

In our July 2026 contribution, we reported that the Bureau of Internal Revenue (BIR) had moved from writing the rules to explaining how they apply in practice. In the quarter to 31 October 2026 that shift continued, most visibly in e-invoicing, where the BIR issued detailed rules for the 31 December 2026 deadline and a separate accreditation regime for service providers. On digital services and ecozone VAT we found no new BIR circular changing the rules, but practical implementation points emerged, along with a VAT refund clarification for exporters. This update covers what has changed since July and what MGI member firms should flag to clients with Philippine operations or Philippine counterparties.

Where a point reflects reported taxpayer experience rather than a published BIR position, we say so, and we have left out anything we could not substantiate.

1. Digital Services VAT: Practical issues after the first year

We located no new BIR circular on VAT on digital services since RMC No. 59-2026 of 2 June 2026, which we covered in July. This quarter's developments are practical ones from the first year of operation of the regime, set out below.

- **Notices on nil returns (reported, unconfirmed).** We understand the BIR has started issuing notices to registered non-resident digital service providers (NRDSPs) that filed nil VAT returns, asking for the basis of the zero liability and supporting documents. We did not locate a published BIR issuance on this practice, so it should be treated as reported and unconfirmed rather than as formal policy. NRDSPs filing nil returns should retain documentation to substantiate their declarations. Providers reporting only VAT-exempt sales should separately ensure those transactions are disclosed as exempt sales in their VAT returns, as RMC No. 59-2026 requires.

- **Filing obligations for periods before registration**. Some NRDSPs that completed registration after the initial implementation period (for example, in October 2025) have reported that the VDS Portal required returns from the quarter ended 30 June 2025 before they could file for the current period, even where they had no taxable transactions in those quarters. It is unclear whether those returns are legally required or only needed to satisfy system-generated obligations.

- **Portal availability**. Taxpayers report that the VDS Portal is at times inaccessible during filing periods. The BIR extended the January 2026 filing deadline to 30 January 2026 for technical issues of this kind (RMC No. 6-2026).

- **Foreign exchange and excess payments**. Taxpayers report that gross sales and VAT in the portal are shown in US dollars, while actual payments can differ because of exchange movements and bank charges. Guidance received by some taxpayers is that excess payments may be treated as advance payments and deficiencies carried forward with surcharge, interest and penalties. Taxpayers also report that excess amounts from prior periods do not appear to be automatically credited against later liabilities in the portal.

2. Ecozone and incentive-registered enterprises: Rules unchanged, refund relief for exporters

We located no new BIR issuance this quarter changing the buyer-remittance rules for local sales by registered business enterprises (RBEs) under RR No. 9-2025 as amended by RR No. 1-2026, and no dedicated form replacing the interim use of BIR Form 0605. The relevant development is a VAT refund clarification for export-oriented enterprises.

- **RMC No. 96-2026 (7 September 2026): refunds of VAT incurred before zero-rating certification**. The circular amends the refund guidelines in RMC No. 37-2025. Qualified export-oriented enterprises (EOEs) may claim refunds of VAT passed on to them on local purchases and importations attributable to zero-rated sales from 28 November 2024, the effectivity of the CREATE MORE Act, until the date their DTI-EMB VAT zero-rating certification was issued. This applies where the certification was issued within the transitory period that ended 31 December 2025 and the 70% export threshold was met. Enterprises that met the threshold but did not secure certification, including during the transitory period, cannot claim a refund for the immediately succeeding year, although unused input VAT may be carried forward. Claims remain subject to Section 112 of the Tax Code, including documentation and direct attribution to qualified zero-rated sales, and VAT already reimbursed, credited, recovered or otherwise used cannot be claimed again.

- **Interim buyer-remittance mechanics continue**. The rules described in our July update still apply: VAT on B2B local sales of goods by RBEs is paid per transaction using BIR Form 0605 "in the meantime" until the BIR prescribes a specific form; bulk shipments covered by several invoices may use a single payment; and VAT-registered domestic market enterprises (DMEs) that do not qualify for VAT zero-rating on local purchases or VAT-exempt importation despite their registration with an investment promotion agency are excluded by Section 4(B) of RR No. 1-2026 from the buyer-remittance mechanism and account for output VAT as regular VAT taxpayers.

- **Invoicing system deadline: 31 December 2026**. RBEs using cash registers, POS systems, computerised accounting systems and other registered invoicing software must reconfigure them to show "VAT on Local Sales" in the sales breakdown by 31 December 2026. RR No. 1-2026 allows the Commissioner to extend this further, and we found no extension as of the date of this update.

- **Two invoice-template changes to coordinate**. RBE status alone is not a separate category under the mandatory e-invoicing rollout, but an RBE may still be covered if it falls within a listed category (section 3). Separately, the "VAT on Local Sales" label and the new creditable withholding tax line (section 4) both affect their invoicing systems.

What to do now: EOEs should check whether they hold refund claims that the new circular now allows. RBEs should schedule the "VAT on Local Sales" system change ahead of 31 December 2026 and keep the interim Form 0605 process in place.

3. E-invoicing: The BIR issues its rulebook ahead of the 31 December 2026 deadline

The 31 December 2026 deadline for covered taxpayers to comply with electronic invoicing is unchanged, and this quarter the BIR issued the detailed rules for meeting it: RMC No. 98-2026 on 22 September 2026 for taxpayers, and RMC No. 110-2026 on 12 October 2026 for e-invoicing service providers (ESPs). Both took effect immediately.

- **Invoicing and sales reporting are separate obligations**. RMC 98-2026 states that the duty to issue electronic invoices under Section 237 of the Tax Code is separate and distinct from electronic sales reporting under Section 237-A. Compliance with the first does not mean immediate compliance with the second, unless the BIR requires it through later issuances.

- **Coverage under the 31 December 2026 deadline**. The groups listed in RR No. 26-2025 are: e-commerce or internet-transaction taxpayers classified as small, medium or large (micro taxpayers are exempt); taxpayers under the Large Taxpayers Service; large taxpayers under the Ease of Paying Taxes Act; and users of computerised accounting systems (CAS), computerised books of account with electronic invoicing, and other invoicing software. RMC No. 98-2026 adds a fifth category of other taxpayers the Commissioner may require. Exporters, incentive-registered business enterprises and point-of-sale users are not listed as separate categories, and we understand they are left to separate regulations. They may still be covered if they independently fall within a listed category, for example as an LTS taxpayer or a CAS user, so clients should assess their actual classification and invoicing arrangements rather than rely on industry or incentive status.

- **What qualifies as an electronic invoice**. An invoice qualifies only if it is generated by a duly registered, approved or accredited system in a structured electronic format; is issued to the buyer electronically (for example by email, online viewing, QR code, or a mobile or web application); and carries data that can be electronically extracted, processed and transmitted to the BIR for sales reporting. Invoices created manually in office applications such as Word or Excel do not qualify, and a system-generated invoice that is simply printed does not qualify if the system cannot do these things. During downtime or similar disruption, a manual BIR-authorised invoice may be issued and must later be replaced by an e-invoice referencing the manual invoice number.

- **Permit to issue and EIS Certification**. Covered taxpayers must obtain a Permit to Issue (PTI) Electronic Invoice before issuing electronic invoices, and an Electronic Invoicing and Sales Reporting (EIS) Certification within six months from the PTI's issuance. Failure to certify is a ground for revoking the PTI. The requirements apply to the taxpayer as a whole: the head office and each branch are covered, with a PTI for each bearing the same number. Where different branches, offices or business segments use different invoicing systems, a separate PTI is required for each distinct system, and a change of system requires a new or amended PTI. The PTI is distinct from the Permit to Use or Acknowledgement Certificate for a computerised accounting system.

Applications are filed with the Revenue District Office or Large Taxpayer Office where the taxpayer is registered, and the BIR evaluates complete applications within 20 working days.Terminology note: our July update referred to a "Permit to Transmit". RMC 98-2026 requires a Permit to Issue now; a Permit to Transmit applies only if and when the Commissioner notifies taxpayers of electronic sales reporting requirements under Section 237-A.

- **No BIR-accredited service providers yet, and an accreditation framework is now in place**. On 14 September 2026 the BIR stated that it had not accredited, authorised, certified, recognised or endorsed any entity as an official ESP, and temporarily suspended certain ESP-related engagements. RMC 110-2026 then required every ESP to hold an Electronic Invoicing Solutions Accreditation Certificate before commercially deploying a solution. Accreditation is solution-specific, valid for five years and reviewed annually; taxpayers keep ownership of their data and vendor lock-in is prohibited. The BIR accepted accreditation applications from 16 to 30 October 2026. Taxpayers may still use an in-house or commercially acquired solution instead of an ESP.

- **Shared invoicing platforms in corporate groups**. Internally developed systems used exclusively by a single taxpayer appear to remain under the existing CAS and POS rules, while systems shared across affiliated entities may now require ESP accreditation. In our view, whether a shared group platform is caught depends on the facts, including which legal entity provides the solution and on what contractual terms. Groups running a common invoicing platform across Philippine entities should assess this against RMC No. 110-2026 rather than assume either answer.

What to do now: with the deadline weeks away, covered taxpayers, and foreign parents with Philippine subsidiaries that may be covered, should treat e-invoicing as a year-end workstream: confirm coverage, apply for the Permit to Issue, and plan the EIS Certification, rather than leave it to the final days of December.

4. Other developments touching VAT and invoices

Two further issuances this quarter affect VAT calculations or the invoices that carry VAT.

- **Allowable system loss charges excluded from the VAT base (RMC No. 97-2026, 14 September 2026).** RMC No. 97-2026 circularises Energy Regulatory Commission Resolution No. 26, s. 2026. The BIR confirmed that allowable system loss charges are government-mandated pass-through charges and not part of the gross sales of generation companies, the National Grid Corporation of the Philippines and distribution utilities for VAT purposes. Creditable withholding VAT does not apply to the excluded amount, and the exclusion applies only where the charge is separately identified in the billing statement, invoice or similar document. The circular took effect immediately and applies prospectively.

- **Creditable withholding tax (CWT) to be shown as a separate invoice line (RR No. 6-2026; RMC No. 112-2026).** This is not a VAT rule, but it changes the invoice that carries the VAT. RR No. 6-2026, published on 1 October 2026, amends Section 6(B) of RR No. 7-2024 to require CWT, where applicable, to appear as a separate item on invoices; it takes effect 15 days after publication. RMC No. 112-2026 (22 October 2026) clarifies that the line is required only where the transaction is actually subject to CWT, that a business-to-business sale is not automatically subject to CWT, and that CWT must not be treated as a reduction of gross sales, taxable sales or the VAT base.

Taxpayers covered by mandatory e-invoicing must have systems able to generate and process CWT information by 31 December 2026, with full implementation from 1 January 2027; other invoicing systems have until 31 March 2027. The CWT field must be present in system-generated invoices, and where a transaction is not subject to CWT it may be left blank or marked "N/A" or "0.00". Until systems are updated, existing invoices may continue to be used, with a manual stamp or notation of the CWT description and amount where CWT applies.

The bigger picture

The BIR's output this quarter was operational rather than structural. The e-invoicing rules, the service-provider accreditation regime and the new withholding tax line on invoices all concern how invoices are issued and evidenced, and several carry deadlines on 31 December 2026. On digital services, the reported notices to nil filers, if confirmed, would suggest closer validation of what is filed through the VDS Portal; we found no published BIR issuance on the point. Businesses should treat the fourth quarter of 2026 as a critical implementation period, particularly for electronic invoicing, the ecozone invoicing-system change, and the related invoice template and reporting changes.

Practical takeaways

- **Digital services**: confirm which foreign entity is the NRDSP and which Philippine entity withholds 12% VAT under Form 1600-VT. For NRDSP clients, review the VDS Portal filing history, including system-generated returns for earlier periods, excess payments and exchange differences, and keep support for any nil returns. Make sure VAT-exempt sales are disclosed as exempt sales, as RMC No. 59-2026 requires.
- **Ecozone and export enterprises**: EOEs should check whether they have refund claims for VAT incurred between 28 November 2024 and the date of their zero-rating certification (RMC 96-2026). RBEs should schedule the "VAT on Local Sales" system change before 31 December 2026 and keep the interim Form 0605 process in place until the BIR prescribes a form.
- **E-invoicing**: confirm whether the client falls within any of the covered categories, whatever its industry or incentive status. Apply for the Permit to Issue (PTI) Electronic Invoice with the Revenue District Office or Large Taxpayer Office, using a separate PTI for each distinct invoicing system, and plan the EIS Certification within six months of the PTI. A Permit to Transmit is a later, separate step for electronic sales reporting, if the BIR so directs. If a service provider is used, check that the specific solution and deployment are covered by its accreditation, not only that the provider is accredited, and whether a platform shared across group entities needs accreditation. Prepare a manual-invoice fallback for system downtime.
- **Invoice templates**: add the CWT field (RR No. 6-2026; RMC No. 112-2026) by 31 December 2026 for taxpayers under mandatory e-invoicing and by 31 March 2027 for other invoicing systems, showing the amount only where CWT applies, alongside the e-invoicing build and the "VAT on Local Sales" label.
- **General**: keep Philippine VAT and invoicing compliance on a monitoring list into 2027 and schedule a year-end readiness check with affected clients.



Veromeo Ramirez
TVP Consulting Group
Philippines
veromeo.ramirez@tvpconsulting.com.ph

United Kingdom: UK VAT reverse charge reform - what overseas service suppliers need to know

A change that moves the VAT burden onto the overseas supplier

From 1 April 2027, an overseas business supplying services to a UK business customer that is not registered for UK VAT will have to charge and account for UK VAT itself. The reverse charge, under which the UK customer accounts for the VAT instead of the supplier, will be confined to customers who hold a UK VAT registration.

The measure was announced at the UK Budget on 28 October 2026 and HM Revenue and Customs ('HMRC') published its policy paper the same day.

For MGI Worldwide member firms outside the UK, this is a client issue rather than a UK one. Any business in your jurisdiction that sells services into the UK, whether consultancy, software, platform or marketplace services, advertising, design, legal or professional services, or anything else taxed where the customer belongs, will need to know whether each UK business customer is VAT registered.

Where the customer is not, the supplier will have a UK VAT registration and reporting obligation from the first such supply.

The measure is forecast to raise around £70 million to £75 million a year for the UK Exchequer. The administrative weight of collecting that falls on overseas suppliers.

How the UK reverse charge works today

Under the general business to business rule, a service supplied to a business customer is treated as supplied where the customer belongs. When an overseas supplier provides such a service to a UK business, the UK is the place of supply, but the supplier is not required to register and charge UK VAT. Instead, s.8 Value Added Tax Act 1994 ('VATA 1994') treats the UK customer as having made the supply to itself, so that the customer accounts for the output VAT on its own return and, subject to the usual rules, recovers it as input tax.

The condition in s.8(2) is that the customer is a 'relevant business person' belonging in the UK. It is a test of business status, not registration. Only where the service falls within the special place of supply rules in Schedule 4A, such as land related services, admission to events or passenger transport, does the law additionally require the customer to be VAT registered.

The result is a gap. A UK business that is below the registration threshold and buys, say, software subscriptions, marketing services or platform fees from an overseas supplier receives those services free of VAT.

In principle the value of the reverse charge supplies counts towards its taxable turnover for registration purposes, and it must register if that pushes it over the threshold, but below that point no VAT is collected by anyone.

A UK supplier of the same services would have had to charge 20 per cent.

What changes from 1 April 2027

The registration condition that currently applies only to Schedule 4A services will be extended to all services. From 1 April 2027 the reverse charge will apply only where the UK customer is registered for UK VAT. If the customer is not registered, s.8 will not apply, the supply will remain a supply by the overseas supplier, and the supplier must charge UK VAT on it and account for that VAT to HMRC.

The practical test for an overseas supplier therefore becomes a single question: has the UK customer given me a valid UK VAT registration number? If yes, the supplier invoices without VAT and the customer applies the reverse charge as now. If no, the supplier charges UK VAT at the appropriate rate, generally 20 per cent, regardless of whether the customer is in business.

The customer's business status, which overseas suppliers currently have to evidence from contracts, websites, trading names and the like, ceases to matter.

HMRC has not yet published draft legislation. The change is expected to be made by amending s.8(2) in the Finance Bill that follows the Budget, and the detail will need to be checked when the clauses appear.

Why HMRC is making the change

HMRC gives two reasons. The first is a level playing field. An unregistered UK business currently pays no VAT on services bought from abroad but 20 per cent on the same services bought from a UK supplier. That is a standing incentive to source overseas, and one that UK suppliers have complained about for some time.

The second is the gig and sharing economy. Many drivers, hosts, sellers and small traders operate through platforms that are established outside the UK and charge their fees from abroad. Most of those traders are below the registration threshold and many are unaware that their platform is an overseas supplier at all, let alone that they are supposed to be tracking reverse charge supplies against the registration threshold. Having the platform charge UK VAT removes that obligation from them altogether. The measure has its roots in HMRC's December 2020 call for evidence on VAT and the sharing economy.

HMRC also presents the change as a simplification for overseas suppliers, who will only need to check for a UK VAT number rather than gather evidence of business status. That is true as far as it goes, although the trade off, discussed below, is a UK registration obligation for suppliers who may have had none before. The Exchequer effect is a gain of £70 million in 2027 to 2028 and £75 million a year thereafter, as certified by the Office for Budget Responsibility.

What it means for overseas suppliers

The most important point for clients of member firms is that there is no UK registration threshold for a business with no UK establishment. Under Schedule 1A VATA 1994, a non established taxable person is liable to register from the first taxable supply it makes in the UK, whatever its value.

An overseas consultancy with a single unregistered UK business client paying £2,000 a year will, from 1 April 2027, be making a taxable supply in the UK on which it must charge VAT, and will need a UK VAT registration to do so. Suppliers already registered in the UK because they sell to UK consumers, as many digital services providers are, will simply bring these supplies within their existing returns.

Suppliers will need a reliable process for collecting and validating UK VAT numbers at the point of onboarding and periodically thereafter. HMRC's online 'Check a UK VAT number' service provides verification and a reference that can be retained as evidence. Where a customer cannot produce a number, the default must be to charge VAT.

Contracts and price lists for UK business customers should be reviewed so that quoted prices are clearly exclusive of UK VAT, or so that the supplier is not left absorbing 20 per cent where the customer turns out to be unregistered.

Invoicing and accounting systems will need to be able to apply UK VAT at the standard or reduced rate as appropriate, issue invoices that meet UK requirements and feed UK VAT returns, which are filed digitally under Making Tax Digital. Overseas businesses with no UK establishment can register directly with HMRC and are not required to appoint a UK fiscal representative, although HMRC retains the power to direct one in some cases.

What it means for UK customers below the threshold

For a UK business that is not VAT registered, the change is a straightforward cost increase. Services bought from overseas that were previously received free of VAT will carry 20 per cent from 1 April 2027, and because the business is unregistered there is no recovery. Sole traders and small companies that rely heavily on overseas software, advertising and platform services will feel this most. For some, the comparison between staying below the threshold and registering voluntarily will shift.

The same applies to businesses that are unregistered because their activities are exempt rather than because they are small, such as smaller financial intermediaries, healthcare providers, education providers and residential landlords. These businesses currently escape VAT on overseas services unless the value of those services alone exceeds the registration threshold. From April 2027 they will pay VAT on all of them, which brings them into line with their position when buying from UK suppliers.

One point remains to be confirmed. At present an unregistered business must include the value of reverse charge services in its turnover when testing whether it has crossed the registration threshold. If s.8 no longer applies to unregistered customers, that deemed supply should fall away and overseas purchases should cease to count. HMRC's policy paper does not address this, and it is a point to watch when the draft legislation is published. If confirmed, it will be a genuine simplification for small businesses, and it removes a trap that has caught a number of them in the past.

What member firms should do now

The sensible first step is to identify which clients supply services to UK business customers and to ask them how many of those customers are VAT registered. In many cases the answer will be all of them, and the change will amount to a documentation exercise. Where a client serves small UK businesses, sole traders or platform users, the client should plan on the basis that it will need a UK VAT registration in place for 1 April 2027, with onboarding, pricing and invoicing processes adjusted accordingly.

HMRC registration lead times vary, and applications from overseas businesses tend to attract additional checks, so clients should not leave the application until March 2027.

The draft legislation, when published, should be reviewed for the precise wording of the amended s.8(2), any transitional rules for continuous supplies spanning 1 April 2027, and the position on the registration threshold calculation discussed above. A further update will be circulated through the network once the draft legislation is published.

UK based MGI Worldwide member firms are well placed to assist with UK VAT registration, compliance and the review of contracts and invoicing arrangements, and members are encouraged to make contact with their UK colleagues in the network at an early stage so that affected clients are ready well ahead of 1 April 2027.



Luke Prout
Cottons Group
United Kingdom
lprout@cottonsgroup.com

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