

26 April 2021

VAT on digital services from other countries

Digital services – councils that are not VAT registered

Where digital services (such as web hosting, downloadable software or e-publications) are purchased within the UK, by a council (or any other customer) that is not VAT registered, the VAT is charged in the customer's country, not the seller's. In other words, the VAT charged will be UK VAT (generally 20% unless the supply is zero rated) and this can be reclaimed from HMRC, subject to the normal rules.

Until 31 December 2020, businesses registered for VAT elsewhere in the EU could charge UK VAT by using their VAT registration number for their home country (or an EU VAT Number, if they have no base inside the EU). Where UK VAT has been charged in this way prior to 1 January 2021, it is still reclaimable from HMRC, subject to the 4-year time limit on VAT reclaims. Leaving the EU has no effect on this.

Businesses outside the UK that continue to supply services within the UK have had to register for VAT in the UK from 1 January 2021 and will continue to charge UK VAT to customers that are not VAT registered.

Where a supplier is charging UK VAT and providing a UK VAT registration number, the council can reclaim this VAT (if it is incurred for non-business purposes, such as council meetings), in accordance with the normal rules set out in VAT Notice 749. It is not "foreign" VAT and there is nothing complicated about it.

Digital services – VAT registered councils

VAT registered councils should quote their VAT number when purchasing digital services from businesses outside the UK. They should not be charged VAT by the supplier but are responsible for accounting for UK VAT on their purchases, using the reverse charge mechanism set out in VAT Notice 735.

Essentially, they charge themselves VAT (rather than paying VAT to the supplier) by declaring output tax (Box 1 of the VAT return) on the purchase, they can then reclaim that VAT as input tax (box 4) on the same VAT return, subject to the usual rules. In most cases this has no net effect on the council, but they need to ensure that they declare the VAT correctly.

Zoom

Zoom Inc. is based in the USA but has to be VAT registered to supply services in the UK. Until 31 December 2020 they charged VAT in the UK under their EU VAT Number EU528003555 and VAT up to this date can be reclaimed from HMRC, subject to the rules set out in VAT Notice 749.

From 1 January 2021, Zoom Inc. registered for VAT in the UK and charge UK VAT on their invoices. Their new VAT number is GB373142903. Although the company seems to have registered on time, HMRC only appear to have issued them with A VAT Number in March 2021. This VAT can be reclaimed form HMRC, subject to the usual rules.

As explained above, Zoom Inc. will not charge VAT to councils that are registered for VAT, the council will have to use the reverse charge mechanism to account for VAT.

Goods and non-digital services

Please note that the treatment of digital services is different to a situation where a council buys goods or non-digital services from another country. This is a summary of the position and is not intended to provide detailed guidance.

For purchases prior to 1 January 2021, where VAT was charged in the seller's country (for example, 23% for Ireland), councils were not entitled to reclaim VAT charged in other countries.

From 1 January 2021, where goods are ordered directly from abroad, the purchaser is generally responsible for paying the import duty and VAT on their purchase before it is released by Border Force. A council could either register as an importer or use an agent to import the goods for them. As we understand it, anyone importing goods from outside the UK will need an EORI number, unless they are purchasing from an online marketplace, ordering low value goods by post or bringing them in personally as luggage.

Guidance

Guidance is available online from HMRC at www.gov.uk, please read it:

[VAT rules for supplies of digital services to consumers](#)

[Place of Supply of Services \(VAT Notice 741A\)](#)

[Domestic reverse charge procedure \(VAT Notice 735\)](#)

[Paying VAT on imports from outside the UK to Great Britain and from outside the EU to Northern Ireland - GOV.UK \(\[www.gov.uk\]\(http://www.gov.uk\)\)](#)

[Import goods into the UK: step by step - GOV.UK \(\[www.gov.uk\]\(http://www.gov.uk\)\)](#)

<https://www.gov.uk/guidance/vat-and-overseas-goods-sold-directly-to-customers-in-the-uk>

[Notice 143: a guide for international post users - GOV.UK \(\[www.gov.uk\]\(http://www.gov.uk\)\)](#)

[Local authorities and similar bodies \(VAT Notice 749\) - GOV.UK \(\[www.gov.uk\]\(http://www.gov.uk\)\)](#)

Disclaimer

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