

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Second Delegated Legislation Committee

VALUE ADDED TAX (PLACE OF SUPPLY OF
SERVICES) (TELECOMMUNICATION SERVICES)
ORDER 2017

Monday 23 October 2017

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Friday 27 October 2017

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The Committee consisted of the following Members:

Chair: STEWART HOSIE

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| † Chapman, Douglas (<i>Dunfermline and West Fife</i>)
(SNP) | † Philp, Chris (<i>Croydon South</i>) (Con) |
| † Crabb, Stephen (<i>Preseli Pembrokeshire</i>) (Con) | † Pursglove, Tom (<i>Corby</i>) (Con) |
| † Dodds, Anneliese (<i>Oxford East</i>) (Lab/Co-op) | † Shah, Naz (<i>Bradford West</i>) (Lab) |
| † Foster, Kevin (<i>Torbay</i>) (Con) | † Siddiq, Tulip (<i>Hampstead and Kilburn</i>) (Lab) |
| Godsiff, Mr Roger (<i>Birmingham, Hall Green</i>) (Lab) | † Smith, Jeff (<i>Manchester, Withington</i>) (Lab) |
| † Hair, Kirstene (<i>Angus</i>) (Con) | † Stride, Mel (<i>Financial Secretary to the Treasury</i>) |
| † Harper, Mr Mark (<i>Forest of Dean</i>) (Con) | † Stuart, Graham (<i>Beverley and Holderness</i>) (Con) |
| † Lee, Ms Karen (<i>Lincoln</i>) (Lab) | Gail Bartlett, <i>Committee Clerk</i> |
| † Malthouse, Kit (<i>North West Hampshire</i>) (Con) | † attended the Committee |
| † O'Mara, Jared (<i>Sheffield, Hallam</i>) (Lab) | |

Second Delegated Legislation Committee

Monday 23 October 2017

[STEWART HOSIE *in the Chair*]

Value Added Tax (Place of Supply of Services) (Telecommunication Services) Order 2017

4.30 pm

The Financial Secretary to the Treasury (Mel Stride): I beg to move,

That the Committee has considered the Value Added Tax (Place of Supply of Services) (Telecommunication Services) Order 2017 (S.I., 2017, No. 778).

May I say what a pleasure it is to serve under your chairmanship, Mr Hosie?

The order introduces a change to the VAT place of supply rules for telecommunications services supplied to non-business customers. From 1 November 2017, such services, when supplied to UK residents, will be subject to UK VAT regardless of where they are consumed. That will bring the UK in line with the revised international approach agreed at the OECD.

Most telecommunications services supplied to consumers resident in the UK are subject to UK VAT. However, if those services are effectively consumed outside the UK, “use and enjoyment” rules mean that they are treated as being outside the scope of UK VAT. Some telecommunications companies have sought to exploit that use and enjoyment provision to pay less than their fair share of VAT. They seek to use a rule designed to relieve from VAT supplies consumed outside the EU to avoid paying VAT on their domestic supplies. Different rules apply to business-to-business supplies of telecommunications services, and those are not being changed.

The Government consulted on a draft order in April 2017 and have taken on board industry concerns. The order will remove the use and enjoyment provisions for business-to-consumer telecommunications supplies. That means that the place of supply will always be where the consumer belongs. For UK residents that will be the UK, and UK VAT will be due regardless of where telecommunications services are used and enjoyed. That will align UK VAT rules with the guidelines recommended by the OECD and with the rules in many other countries, including most EU member states. Telecommunications providers will no longer have to make an adjustment in their VAT returns to account for use and enjoyment outside the UK. That will reduce administrative burdens on mobile phone providers and simplify UK tax law.

Removing the use and enjoyment rules will also remove any uncertainty about the place of supply, preventing attempts by a few to avoid tax, which potentially threatens around £1 billion of tax revenue. Her Majesty’s Revenue and Customs estimates that this measure will yield £25 million of additional VAT in 2017-18 and £65 million

per annum after that. This proposal is expected to have a negligible impact on business expenditure, but will affect telecommunications businesses providing services to consumers travelling outside the EU. The impact on consumers will depend on whether telecommunications companies choose to pass on the VAT.

The order will bring the UK’s rules in line with international standards and support the Government’s aim of making the UK tax system simpler for businesses. It will also prevent tax avoidance and ensure that everyone pays their fair share. I therefore commend the order to the Committee.

4.33 pm

Anneliese Dodds (Oxford East) (Lab/Co-op): It is a pleasure to serve with you in the Chair, Mr Hosie. I am grateful to the Minister for his explanation of the order, which clearly, as he set out, will bring the UK’s practice in this area in line with much international practice. I just have two brief questions.

First, the commencement date of the new rules—1 November—is obviously quickly approaching, so we are on a short timescale. I wonder whether the Minister is able to comment briefly on the extent of industry preparedness for this measure. That is particularly important given that the explanatory memorandum makes it clear that there may be some uncertainty about the nature of arrangements in this regard when we leave the EU. Therefore, compliance costs and issues are particularly pertinent. It would be helpful to hear whether he believes that the industry will be ready for these changes.

Secondly, the Minister talked about the likely impact of the measure on revenues accruing to the Exchequer. He mentioned apparent evidence of some telecommunications firms in effect exploiting uncertainty about where consumers are located to retain funds that should be paid in VAT. He provided three different figures. He suggested that there would be increases in revenue of £25 million in 2017-18 and of £65 million after that. I assume that £65 million is an annual figure and that the £25 million is just because the 2017-18 tax year has a short time left to run, but I wonder where the overall £1 billion figure comes from. Is that just an estimate over time? Will he provide a little more information about that?

4.35 pm

Mel Stride: I thank the hon. Lady for her comments. She raised a few questions, which I will address. She is correct that the measure will kick in from 1 November. On the consultation, it was carried out with the industry and the Treasury is satisfied that the industry will be ready to effectively move forward with this. The £1 billion under threat is our estimate of the potential tax take that could be at risk if this avoidance were to get completely out of hand, which is clearly something the measure is designed to make sure does not occur. I hope that that satisfies the Committee and that we can agree to these measures.

Question put and agreed to.

4.36 pm

Committee rose.