

2015 VAT Changes - Are You Ready?

Results of 2015 VAT changes survey

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SECTIONS

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The UK treasury could benefit by around £300m per year from 2015 as the majority of e-services (e-books, apps, music downloads etc.) bought by UK consumers are currently not subject to UK VAT. Our survey considers how ready businesses are to collect this extra VAT.

AMANDA TICKEL
PARTNER AT KPMG

Highlights

Purpose and scope

From 1 January 2015, the VAT rules are changing for sales of telecoms, broadcasting and e-services to EU consumers. In light of these changes, businesses will generally need to charge and account for VAT in the EU country where customers are resident.

The purpose of the VAT changes is to level the playing field for suppliers regardless of where they are established. VAT rates across the EU presently range from 3% to 27% (average is 21.54%) with many e-service suppliers currently located in Luxembourg due to its low VAT rate.

Please click [here](#) to view our VAT 2015 brochure.

Survey approach

In an effort to understand how this is impacting UK businesses, KPMG commissioned a survey of decision makers in the online, retail, telecoms and media industries during September and October 2014. 156 businesses responded including small-sized (less than £10m turnover), mid-sized (turnover of between £10m-£500m), and larger businesses (turnover of over £500m).

We asked these businesses a range of questions in relation to their awareness around the new rules, commercial considerations and how they intend to comply.

Highlights of survey findings

Pricing strategy

75%

Over 75% of businesses surveyed are considering increasing their prices from 2015.

Commercial strategy

61%

Of businesses with turnover of £50m-£100m are considering reducing the number of EU territories into which they sell affected products.

Compliance and costs

31%

Nearly one in three businesses with turnover of £50m-£100m do not believe that they will be ready to comply with the changes by 1 January 2015.

Education and awareness

62%

Of small-sized businesses were not aware that the changes to VAT are happening.

Highlights

75%



Over 75% of businesses surveyed are considering increasing their prices from 2015.

Commercial Strategy

Change anticipated across a number of areas in respect of the new VAT rules



1. Pricing Strategy

72% of small-sized businesses, nearly **90%** of mid-sized businesses and around **70%** of larger businesses are likely to increase their prices from **2015**.

Of those businesses considering price increases, more than half (**53%**) would increase prices somewhere between **2-3%**, over a quarter (**26%**) indicating price increases of **5%** or more.

2. Consumer Reactions

65% of businesses are worried that consumers will reduce their spending if prices increase as a result of the changes.

The additional costs of compliance together with the increase in VAT, if fully passed on to customers, would result in an increase in prices of up to **11%**. With **53%** saying their prices will only rise by **2-3%**, this indicates that the majority of suppliers will be partially absorbing the costs.

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Businesses need to face the reality that consumer spending will fall if prices increase, and that this should be something that all businesses consider in the run up to the changes.

SIMON TRUSSLER
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Commercial Strategy

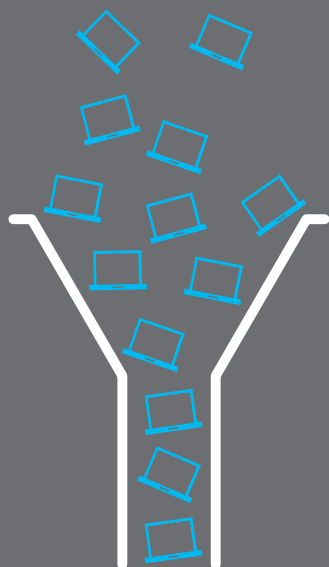
Change anticipated across a number of areas in respect of the new VAT rules

Highlights

61%



Of businesses with turnover of £50m-£100m are considering reducing the number of EU territories into which they sell affected products.



3. Reducing Operations

28% of affected businesses are considering restricting e-services in particular EU member states (where they are not a major part of their business) in order to reduce their compliance burden.

This increases to **61%** when only considering businesses with turnover of **£50m-£100m**.



In light of these findings, the new rules may have the effect of reducing consumer choice for e-services. SMEs that cannot attract customers while charging higher prices and cannot sustain smaller margins may consider restricting their global reach.

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Highlights

31%

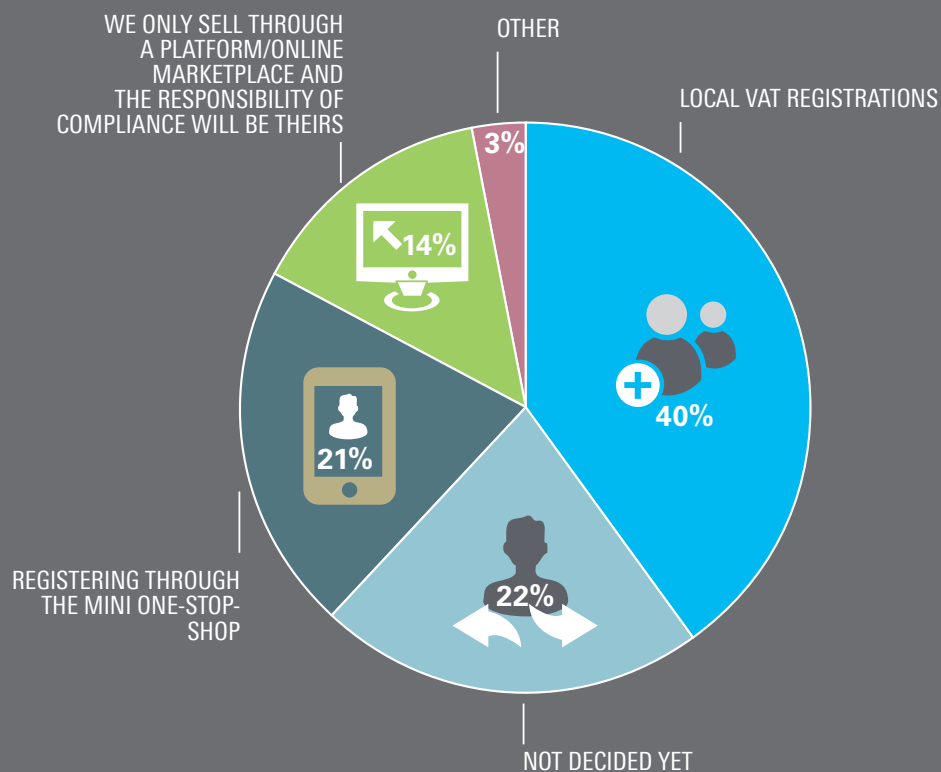


Nearly one in three businesses with turnover of £50m-£100m do not believe that they will be ready to comply with the changes by 1 January 2015.

Compliance and Costs

Additional spend required to comply and to make changes to systems

How will you be complying with the new 2015 VAT changes?



Only **21%** of businesses have decided to use the Mini One Stop Shop (MOSS). The MOSS gives businesses the option of VAT registering in just one Member State, through which they will account for VAT on supplies to their customers in other EU Members States.

12% of businesses have indicated that they will outsource their compliance obligations to a third party.

More than **1 in 5** businesses are yet undecided, however the MOSS or third party outsourcing may be their only realistic option with so little time remaining to set up local registrations.

1 in 6 businesses do not think they will be ready to comply with the 2015 **VAT** changes by **1 January 2015**.



It is surprising that so few businesses have decided to use the **MOSS**, given the opportunity to simplify the registration requirements.

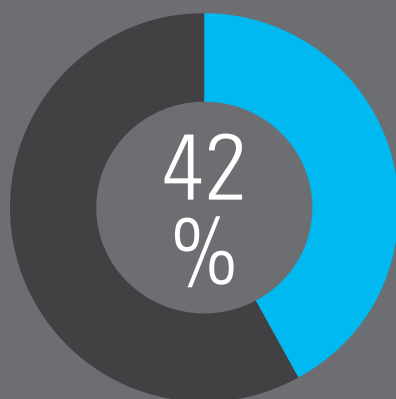
Please [click here](#) to read more about KPMG's outsourcing options.

MIKE CAMBURN
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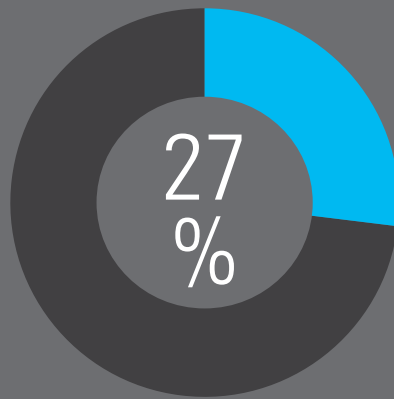
Compliance and Costs

Additional spend required to comply and to make changes to systems

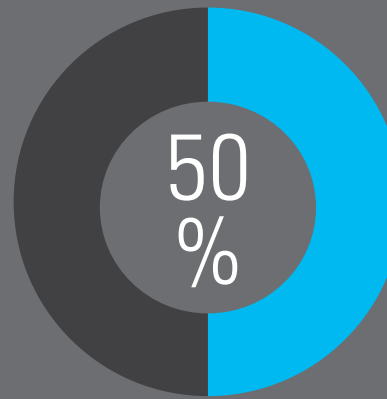
What are the costs of preparation and compliance?



More than **42%** of larger businesses expect to spend more than **£50,000** getting their business ready for the VAT changes.



Overall, more than **27%** of businesses are not sure how much it will cost their business in order to comply with the **2015** changes.



50% of businesses selling direct to consumers will be making changes to their online retail check-out process to determine where their customers belong. As a result, we can expect to see retailers asking us for more information at the check-out.



The impact of the 2015 VAT changes are wide-ranging and will often require changes to customer-facing and back office systems. Improvements to master data management and consideration of data protection implications are key.

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Highlights

62%



Of small-sized businesses were not aware that the changes to VAT are happening.

Education and Awareness

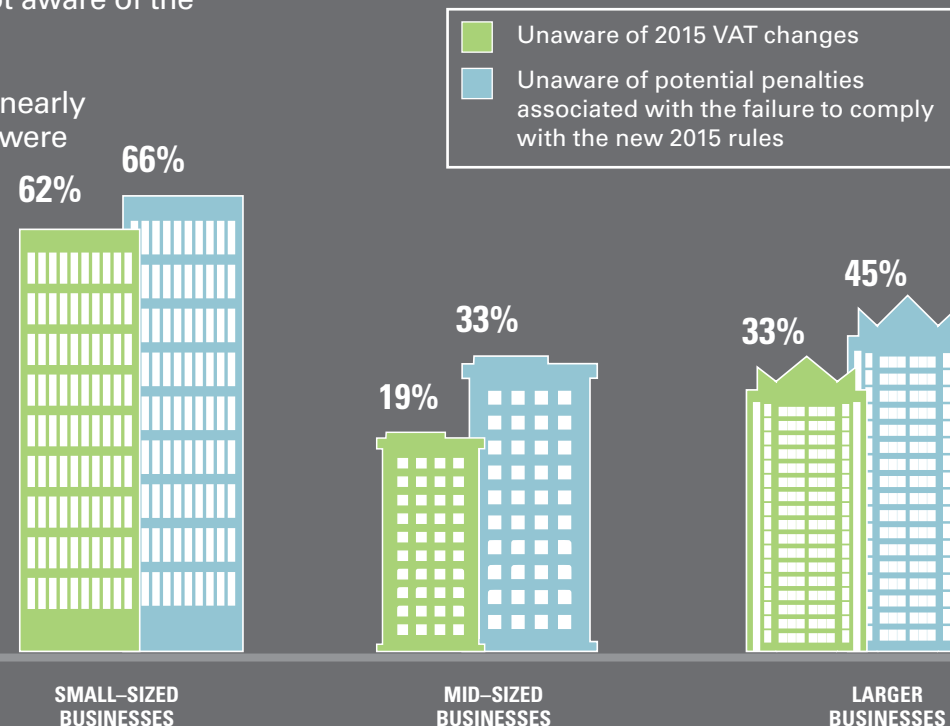
Larger businesses more aware than small-sized businesses

Are you aware of the new 2015 VAT rules?

Are you aware of the potential penalties and other costs associated with the failure to comply with the new rules?

62% of small-sized businesses did not know about the upcoming 2015 VAT changes and 66% are not aware of the potential costs of non-compliance.

More than 80% of mid-sized businesses and nearly 70% of larger businesses indicated that they were aware of the changes.



Despite efforts by tax authorities and advisors to notify and educate businesses, with less than three months before implementation of the new rules, there remain a significant number of affected businesses that are not aware of the 2015 VAT changes.

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