

VAT on gifts and samples (Lecture B1325 – 16.16 minutes)

Business gifts

Many clients will buy gifts with a view to giving them to valued customers, or even suppliers, in an attempt to improve their business relationship. Provided their business is fully taxable, the input tax on such gifts is recoverable as the items are bought for a business purpose.

However, where the goods cost more than £50 (net), a gift to a customer is treated as a deemed supply with the value of the supply being the cost of the goods. As a result, output tax must be accounted for which negates the original input tax claim.

Where the cost of the gift exceeds £50, output tax is due in the quarter that the gift is made.

Note it is irrelevant whether the goods are branded or not.

The £50 limit is per customer and works on a rolling 12-month basis so businesses must consider cumulative gifts to the same person in a 12-month period. Where the £50 limit is exceeded in this rolling 12-month period, the deemed supply rules will be in point.

Example

ESN Limited is a regular buyer of business gifts and on 20 March 2022 the company bought 100 boxes of golf balls, costing £40 plus VAT per box.

In the quarter to 31 March 2022, input tax of £800 was recovered in respect of golf balls bought.

Their accountants identify this golf ball purchase and ask to see their gifts register. The client will rarely have such a register. At this time, ESN Limited still has 92 boxes in stock and the directors are able to verbally recall where the other eight boxes went:

- One box was given to the director of their biggest supplier, XYZ Limited. No output tax is due as the business gift cost less than £50;
- Two boxes were given to the two directors of a key customer and again no output tax is due as the business gift costs less than £50 per director;
- The director took two boxes for himself and gave another to his brother. These boxes are not business gifts and so £24 (£8 x 3) of output tax must be accounted for as they do not qualify for the £50 business gifts exemption;
- Two boxes were given to the managing director of a potential new customer, making gifts to the same person of £80. With the £50 gifts to the same person limit exceeded, output tax is due of £16 (£8 x 2).

Gifts register

Where a client recovers input tax on business gifts, they should keep a gifts register, so as to establish whether a deemed supply is in point. HMRC will need proof of where the golf balls have gone.

If the business chooses not to recover input tax on the business gifts, there is no deemed supply when those goods are given away and there is no requirement for a gifts register.

Where a business only makes a small number of business gifts with cost of less than £50, the input tax at stake will not be significant. Such business may choose not to recover the input tax on these gifts, removing the administrative burden of maintaining a gift register.

Further gifts

Remember, in the earlier example, the director of XYZ Limited was given one box of golf balls and with the cost of the gift falling below £50, there was no deemed supply at that point. But what would happen if he was given another box six months later?

By giving this director a second box of golf balls, the cost of goods given to that director in a rolling 12-month period is now £80, and the rolling £50 limit per person has now been exceeded. Consequently, output tax of £16 ($£8 \times 2$) is due in the VAT quarter in which the second box is gifted.

Note that the £50 limit is for goods given in a 12 month period and so the type of goods given might not be golf balls. Where the total cost of any goods given exceeds the £50 limit and input tax has been reclaimed, there will then be a deemed supply.

Samples

Giving stock away with a view to it promoting further sales of that item is a sample and regardless of the value of the sample, no output tax liability arises. However, giving away end of season or end of line stock is not a sample as there will be no further stock to sell. In this case, output tax will be due unless the cost is less than £50.

Barter transactions

Barter transactions are often confused with gifts. Barter is when something is supplied in return for something else. This is a VAT supply for both parties.

Be careful if you are giving stock to a celebrity or influencer in return for marketing exposure as this is a barter transaction where:

- the supplier has sold goods and has an output tax liability on the sale of goods;
- the influencer has provided advertising services and has an output tax liability on these services.

The value of a barter transaction needs looking at very carefully.

Example

A VAT registered accountant provides accountancy services to a VAT registered electrician. Rather than raising an invoice, the electrician agrees to re-wire the accountant's home.

The accountant has still supplied his accountancy services and must account for output tax on those services. The value received for those services is the value of the electrician's work for rewiring his home. The electrician can make an input tax claim based on this value provided that the accountant issues a VAT invoice to reflect this transaction.

The electrician must account for output tax on the rewire services provided based on the value of the accountancy services received in return. This would be what they normally pay their accountants for the accountancy services provided. The accountant is unable to reclaim the input tax on the electrician's invoice as the rewire is in respect of their home.

Barter and the non- VAT registered trader

A non- VAT registered trader, who undertakes a large number of barter transactions, could inadvertently breach the VAT registration threshold.

What if the electrician in our earlier example is not VAT registered? For the electrician, the rewire work undertaken will count as income for VAT registration threshold purposes and will be valued as the value of the accountancy services.

Article created from the online seminar presented by Dean Wootten