CHAPTER 8
VALUE OF THE SUPPLY

In this chapter we shall look at how you value a supply. The chapter will cover:
- the definition of consideration;
- special rules for valuing supplies in certain situations;
- prompt payment discount;
- multiple and single supplies.

8.1 Introduction

The general rules for determining the value of a supply of goods or services are to be found in:

- VATA 1994, s19(2) where the consideration for the supply is wholly in money; and
- VATA 1994, s19(3) where the consideration is not wholly in money.

These general rules are, however, subject to any special valuation rules made by or under VATA 1994. These special rules are considered below. VATA 1994, s.19(1)

8.2 Consideration Wholly in Money

The gross value of the supply, or VAT inclusive value, is the value of the “consideration” that is given for it. VATA 1994, s.19 (2)

“Consideration” = Price of the item + the VAT

\[
\frac{120\% - 100\% + 20\%}{6} = \frac{5 + 1}{6}
\]

Remember, the VAT fraction for a standard rate of 20% VAT is 1/6. Consideration is 6 parts, the net selling price of the item is 5 parts and the VAT is 1 part. Therefore 5/6 of the consideration is the net price and 1/6 is the VAT.

When the VAT rate was 17.5% the VAT fraction was 7/47 rather than the current 1/6.

Example 1

Outlined below are three items or services being sold; you have to calculate the tax to the nearest penny.

a. Marks & Spencer sell a ladies coat at £99.00

VAT due is £

b. A plumber charges £250 plus VAT to repair a leaky tap

VAT due is £
c. A book costs £12.00 in Waterstone’s Book Shop

VAT due is £

8.3 Consideration Not Wholly in Money

If a supply is for a consideration not consisting, or not wholly consisting, of money, its value is to be taken to be such amount in money as, with addition of the VAT chargeable, is equivalent to the consideration. **VATA 1994, s.19(3)**

In other words, it is necessary to:

- determine the amount that would have been given in money for the supply if goods or services had not instead been used for all or part of the payment; and then

- multiply that amount by the VAT fraction \( \frac{1}{6} \) to establish how much VAT is due.

It is important to distinguish between non-monetary consideration and no consideration. Non-monetary consideration exists when a supply is made in return for payment in the form of goods or services.

Where there is only non-monetary consideration, a “barter transaction” takes place. In some cases there may be both a monetary consideration and a non-monetary consideration.

When goods or services are provided for no payment in any form (monetary or non-monetary), there has been no consideration. It is then only necessary to value such a provision of goods or services where **VATA 1994** deems a taxable supply to have taken place. The most common cases are:

- supplies of business goods/assets for no consideration; and

- deemed supplies of business goods/assets on hand at the time of deregistration.

8.4 Special Rules

**Schedule 6 of VATA 1994** contains special rules for valuing supplies in certain situations. HMRC can direct that an open market value is used for supplies between certain connected persons. This will normally apply where the purchaser cannot recover all of the input tax being charged (for example, an exempt or a partially exempt trader). For the rule to apply the consideration must be wholly in money for less than open market value. There must therefore be some consideration for the open market value to be applied between connected persons. If there is no consideration, for example, it is some sort of barter transaction, this rule cannot be applied. **VATA 1994, Sch 6 Para 1**

Open market value can also be used when fuel is provided for private use for consideration. **VATA 1994, Sch 6 Para 2A**

Where there is a supply of goods by virtue of:

- a Treasury order under VATA 1994, s 5(5) (self-supply of goods.),
• VATA 1994, Sch 4 para 5(1) (gifts of business assets),

• VATA 1994, Sch 4 para 6 (removal of business assets from one EC country to another), or

• VATA 1994, Sch 4 para 8 (deemed supply on deregistration and termination of business),

then, (subject to exception in Sch 6 para 10) the value of the supply is:

a. such consideration in money (excluding any VAT) as would be payable by the person making the supply if he were, at the time of the supply, to purchase goods identical in every respect (including age and condition) to the goods concerned;

b. where the value cannot be determined as under (a) above, such consideration in money (excluding any VAT) as would be payable by that person if he were, at that time, to purchase goods similar to, and of the same age and condition as, the goods concerned; and

c. where the value cannot be determined as under (a) or (b) above, the cost of producing the goods concerned if they were produced at that time. VATA 1994, Sch 6 Para 6

8.5 Prompt Payment Discount

Some traders offer a prompt payment discount to encourage customers to pay on a timely basis. VATA 1994, Sch 6 Para 4

When raising an invoice, VAT should be charged on the full price of the goods or services. If the customer takes advantage of the prompt payment discount the VAT would be adjusted to reflect the discount taken.

This adjustment could be by way of a credit note.

Illustration 1

A trader sells goods for £500 (exclusive of VAT). The trader offers a 10% discount if payment is made within 7 days.

Calculate the VAT assuming that payment is made outside 7 days.

Full VAT is calculated on the discounted amount as follows;

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Sales price</td>
<td>500.00</td>
</tr>
<tr>
<td>Add: VAT @ 20%</td>
<td>100.00</td>
</tr>
<tr>
<td>Consideration due</td>
<td>600.00</td>
</tr>
</tbody>
</table>

The invoice will state that a prompt payment discount of £60 can be deducted from the amount due if payment is made within 7 days. If the trader takes the discount the supplier must then issue a credit note for £60 i.e. £50 + VAT.

HMRC offer an alternative to the credit note. The original invoice could bear the words, “A discount of X% of the full price applies if payment is made within Y days of the invoice date. No credit note will be issued. Following payment you must ensure you have only recovered the VAT actually paid”. This option avoids the
need to issue a credit note and may be preferred by traders offering such a
discount.

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❖ **Example 2**

Joe sells goods for £1,000 (exclusive of VAT) to ABC Ltd.

Joe offers a 2% discount for payment within 10 days.

**Calculate the VAT due if ABC Ltd pays 30 days later.**
ANSWERS

✔ Answer 1

a. £16.50

The first item is for sale in Marks & Spencer and the price shown will be the consideration, i.e. the VAT inclusive price. Thus 1/6 of £99 gives us £16.50.

b. £50.00

The second item is a plumber charging £250 plus VAT for services, so the price being shown is not the consideration because the VAT is not included and has to be added on top to get to consideration. To work out the VAT we charge 20% of £250 and get £50.00.

c. Nil

The third item is a book being sold for £12. It is a shop, so the price shown is the consideration. However, books are zero-rated supplies so 0% VAT is added to this price paid to give both a price paid and a consideration of £12 and zero VAT.

✔ Answer 2

The correct answer calculates VAT on the full amount. If the customer pays within 10 days they can reduce the amount due by the discount of £24. Joe will then need to issue a credit note for £20 + VAT unless their invoice contained the narrative within R&C Brief 49/2014.

✔ Answer 3

A box of Earl Grey tea is the main supply here. The china teapot, which probably costs a lot more than the tea, is just a promotional incidental supply. This is very similar to the case with the biscuit tin in United Biscuits Limited. This is a single supply of Earl Grey tea which will be zero-rated.

A language school selling a course and books will probably be making a multiple supply because you will be able to apportion VAT between the two elements provided, i.e. the course and the books.

If you buy a ticket to fly somewhere and they provide a meal, the meal is generally just an incidental part of the main supply. So this would be a zero-rated single supply of air transport services, with the standard-rated catering meal being incidental the main supply, and hence ignored.