

STARGAZER

It often amazes me how astronomers spot things in the universe when it is easy to miss events with all the stars looking identical. The same thing could apply to advisers and platforms as they face a potential administrative issue if the services they provide to investors are caught by new EU VAT rules they may not have noticed. The new rules, if they are to apply to platform services, could require platforms to account for varying VAT rates in 28 different countries.

The application of the rules to platforms would hinder the use of technology reducing accessibility and impacting costs in the investment market. Digital services provided by banks and insurance companies will be subject to increased scrutiny to determine whether their services should also fall subject to the new VAT rules.

Under the rule changes, the supply of broadcasting, telecommunications and electronically supplied services by businesses to consumers will be subject to VAT in the country where the individual lives. At the moment, platforms are not currently taxed in a uniform manner across the EU, and those businesses could face a significant additional compliance burden if the services they provide are classed as 'electronically supplied services'.

Under current EU law, supplies of services to individuals or non-business recipients are generally subject to VAT in the country where the supplier is located. However, the increasing size of the business to consumer (B2C) digital economy has led to a revision of these rules. In particular this has caused concern about the sale of e-books, music downloads and other digital content.

The application of VAT rules for 'electronically supplied services' on a point of consumption basis could have significant implications for platforms. Deloitte has said that platforms could be classed as 'electronically supplied services', with the effect being that a UK platform supplier could be required to charge VAT on any clients living in France, for example.

Currently, the UK generally exempts from VAT the services supplied by investment platforms whereas in France such services are usually subject to VAT. Essentially there are two options available to businesses. A business may register for VAT in each EU country in which it supplies relevant services to consumers. Local VAT may then be charged and accounted for normally. The downside to this is that administering 28 VAT registrations and tax returns is a compliance burden.

I guess this all depends upon how platform services are viewed. In its legislation and guidance the EU views electronically supplied services as being those delivered over the internet or electronic network, the nature of which means that they are largely automated and involve minimal human intervention. Further, it states that in the absence of information technology those services would be impossible to provide.

In terms of whether or not to apply VAT to platform services, HMRC recently consulted with the UK industry to understand the nature of the services supplied. HMRC's conclusion was that platforms supply services, online, which are designed to transact, administer and safeguard financial investments. In particular they noted that platforms undertake activities such as: acting as nominee for investors; acting as distributor for investment product providers and executing orders received from investors. Platforms may be accessed by the investor directly or only via an adviser or other regulated intermediary.

It would seem that at the heart of these services are the financial transactions themselves, including specialised functions such as nominee services and execution. The platform is a way for the investor, or his adviser, to better access the underlying financial services. However, the platform is merely a channel to access the services desired by the investor.

It will be of interest to all in UK financial services distribution how this issue now develops.

Peter Smith, Head of Distribution Engagement