

Foreword

This notice cancels and replaces Notice 701/49 Finance and securities (March 2002). It also cancels or replaces all or part of the following publications: paragraphs 2.1, 2.3, 2.4.2, 2.4.3 and 2.5 of Notice 701/9 Derivatives and Terminal Markets; Business Briefs 07/99, 10/03, section 5 – VAT: Court of Appeal decision in the case of Electronic Data Systems Ltd (EDS) of 11/03, section 2 – VAT: Exemption of intermediary services provided in the Finance Sector of 18/03, section 5 – VAT: Exemption of ‘debt negotiation services’ of 30/03, 04/04 and section 2 – VAT: Treatment of services supplied by Independent Financial Advisors (IFA) of 26/04; and Information Sheets 10/99, 02/03 and 15/03. Details of any changes to the previous version can be found in paragraph 1.2 of this notice.

Further help and advice

If you need general advice or more copies of HM Revenue and Customs’ notices, please ring the **National Advice Service** on **0845 010 9000**. You can call between **8.00 am and 8.00 pm, Monday to Friday**.

If you have **hearing difficulties**, please ring the **Textphone** service on **0845 000 0200**.

If you would like to speak to someone in **Welsh**, please ring **0845 010 0300**, between **8.00 am and 6.00 pm, Monday to Friday**.

All calls are charged at the local rate within the UK. Charges may differ for mobile phones.

Other notices on this or related subjects

[701/9 Derivatives and Terminal Markets](#)

[701/21 Gold](#)

[701/21A Investment Gold Coins](#)

1. Introduction

1.1 What is this notice about?

This notice explains the VAT liability of certain financial services in the United Kingdom (UK). You will find this notice useful in determining whether:

- the financial transaction in which you are involved is a supply for VAT purposes and
- the transaction has the characteristics of a supply that is exempt from VAT under the finance exemption.

The content of this notice assumes that you have knowledge of the principles of VAT explained in Notice 700 *The VAT Guide* and have read Notice 700/15 *The ins and outs of VAT*.

Commodity derivatives and terminal markets are covered in Notice 701/9 *Derivatives and terminal markets*. Gold and investment gold coins are covered in Notices 701/21 *Gold* and 701/21A *Investment gold coins*.

1.2 Are there any changes from the previous edition?

This notice cancels and replaces Notice 701/49 *Finance and securities* (March 2002). The notice has been updated and restructured for easier readability and to reflect changes in both UK law and policy.

Significant changes in this edition include:

Section	Change
2	The addition of a sentence on platinum nobles in the first paragraph of section 2.
	Clarification of foreign exchange transactions following the tribunal decision in Willis PLC – paragraph 2.7.
	Clarification of ATM site rental following the ECJ judgement in the case of Sinclair Collis Ltd – paragraph 2.9.
	Clarification of the VAT treatment of charges made for dishonoured cheques or direct debit payments – paragraph 2.11.
3	Clarification of when a face value voucher becomes a security for money – paragraph 3.2.
4	Clarification of supplies of services relating to instalment credit finance – paragraph 4.2.
	A new paragraph concerning the VAT treatment of finance agreements that do not run their full course and the goods are returned or repossessed – paragraph 4.3 "What if the finance agreement does not run its full course and the goods are returned or repossessed?"
	A new paragraph dealing with outsourced services provided to a loan provider – paragraph 4.11.
5	Clarification of the VAT treatment of debt assignment and factoring.
	A new paragraph on the VAT treatment of debt negotiation services – paragraph 5.9.

	A new paragraph on the VAT treatment of debt collection services – paragraph 5.10.
	A new paragraph on the VAT treatment of Insolvency Practitioner services – paragraph 5.11.
6	Change to the VAT treatment of the issue of securities etc. following the ECJ judgement in the case of Kretztechnik AG – paragraph 6.1.
	Clarification of services provided by underwriters and sub-underwriters in regard to issues of securities – paragraph 6.4.
	Clarification to the VAT treatment of Share Registrar services following the ECJ judgement in the case of Abbey National PLC – paragraph 6.7.
	A new paragraph dealing with the VAT treatment of fees charged by regulatory bodies – paragraph 6.8.
	A new paragraph dealing with the VAT treatment of fees charged by stock exchanges – paragraph 6.9.
	Clarification to the VAT treatment of specialist services following the ECJ judgement in the case of Abbey National PLC – paragraph 6.14.
	Clarification of the "easement" following the release of Business Brief 21/05 – paragraph 6.16.
7	Clarification of the VAT treatment of the management of AUTS, TBSs and OEICs following the ECJ judgement in the case of Abbey National PLC – paragraph 7.3.
	A new paragraph setting out the VAT treatment of Depository and Trustee services – paragraph 7.4.
	A new paragraph setting out the VAT treatment of administrative services supplied to a fund following the ECJ judgment in the case of Abbey National PLC – paragraph 7.5.
	Removal of the sub-paragraph concerning Tax Exempt Special Savings Accounts (TESSA).
	A new paragraph dealing with Child Trust Funds – paragraph 7.9.
8	A new section on financial derivatives.
9	Clarification of the liability of introductory services concerning securities following the ECJ judgement in the case of Kretztechnik AG – paragraph 9.4.

	A new paragraph on Independent Financial Advisors (IFAs) – paragraph 9.9.
	A new paragraph on IFA networks – paragraph 9.10.
10	A new section setting out the relevant UK legislation.

1.3 Who should read this notice?

Financial services have relevance to every business and are not confined to banks, building societies, other financial institutions or financial intermediaries. If you are a business and you supply or receive financial services this notice will be relevant to you.

1.4 Further information

You can access details of any changes to this notice since August 2006 either on our website at www.hmrc.gov.uk, or by telephoning our National Advice Service on 0845 010 9000.

This notice and others mentioned are available both on paper and our website.

1.5 The law

UK law is contained in the Value Added Tax Act 1994, which is referred to in this notice as the VAT Act. Relevant extracts from the VAT Act can be found in section 10.

1.6 What supplies are not covered by the finance exemption?

In general, financial services are exempt from VAT. However, the following list contains examples of services that, although connected to financial services, are not themselves exempt:

- bookkeeping services
- debt collection (see paragraph 5.10) and credit control
- depository and trustee services (see paragraph 7.4)
- equipment leasing
- executor and trustee services and the administration of estates
- investment, finance and taxation advice (see paragraphs 6.10 and 6.14)

- management consultancy
- merger and take-over advice (see paragraphs 6.14 and 9.7)
- portfolio management (subject to paragraph 7.1)
- registrar services (see paragraph 6.7)
- safe custody (see paragraph 6.6) and safe transportation services (see paragraph 2.2)
- service companies' activities, for example administration, payment of salaries and wages (see paragraphs 2.4 and 2.13)
- the issue by a bank of a note payable to bearer on demand (but taxable at the zero-rate – see paragraph 2.3).

Where these services merely form one element of the service being provided, it will be necessary to look at the whole service being provided in order to determine the correct supply position and the liability of that supply or those supplies. Paragraph 1.7 below looks at the question of single supply or multiple supplies.

1.7 Single or multiple supply

Certain financial services, such as the provision of intermediary and sub-contracted ("outsourced" – see paragraph 1.8) services, can constitute a number of component services that, if supplied separately, may have different VAT liabilities. In order to establish the correct liability of such packaged services you may need to apply certain tests to ascertain the overall liability of your supply. You can find further information in VAT Information Sheet 2/01 Single or multiple supplies – how to decide or by contacting our National Advice Service.

1.8 Outsourced services

If you provide sub-contracted (or "outsourced") services to a supplier of exempt financial services, such as a bank, the liability of your supply depends on the nature of the service you perform. It does not become exempt simply because your customer uses your service in making its own exempt supplies.

You must determine the exact nature of your supply. For it to be exempt, it must, when viewed broadly, form a distinct whole, fulfilling the essential functions of a supply described within the finance exemption set out in the VAT Act, Schedule 9, Group 5 (see paragraph 10.5).

If you are acting as an intermediary you should read section 9 of this notice.

If you are providing outsourced services to a loan provider you should read paragraph 4.11 of this notice.

1.9 Input tax

You are entitled to deduct the input tax incurred that you use or intend to use in making taxable supplies. You cannot normally deduct input tax where this relates to exempt supplies (although special rules apply to supplies of financial services made to persons located outside the EU – see paragraphs 1.10 and 9.13, and section 8 of Public Notice 706 *Partial exemption*). If your input tax relates to both taxable and exempt supplies, you can normally deduct only the amount of input tax that relates to your taxable supplies. You can find further information in Notice 706 *Partial exemption*.

If you purchase capital items for business use you may need to make adjustments of input tax in subsequent years. Capital items are assets that are capable of being used in your business over a period of years. The items concerned for which adjustments may be necessary include computer equipment, land, buildings and refurbishments. You can find further information on this in Notice 706/2 *Capital Goods Scheme*.

1.10 Financial services made to, or received from, persons belonging outside the UK

If you make financial services to or receive them from people who belong outside the UK you should read Notice 741 *Place of Supply of Services*. It explains when you can treat services that are supplied to a person belonging outside the UK as outside the scope of VAT. It also explains how you should account for VAT on the receipt of certain financial services from outside the UK (reverse charge).

You should note that not all the finance related services mentioned in Notice 741 *Place of Supply of Services* are exempt from VAT when supplied within the UK (see paragraph 1.6).

2. Money and related services

References to money in this notice include currency, bank notes and coins, in sterling or any other currency used as legal tender in a financial transaction, but not, with effect from 1 July 2006, platinum nobles.

Securities for money are dealt with in [section 3](#).

2.1 Dealing with money

Dealing with money includes financial transactions of a kind routinely, but not necessarily, carried out by banks, building societies, bureaux de change and similar institutions. To be dealing with money you must be carrying out a financial transaction. Financial transactions that involve dealing with money include:

- the acceptance of money on account

- money transfer services
- exchange of legal tender.

This list is not exhaustive.

2.2 Sorting and counting money

When supplied on their own the following are taxable:

- carriage of cash
- re-stocking of cash machines and
- sorting or counting of money.

This is because the services being applied to the money are the same as those that could be applied to any type of goods that can be counted, packed, delivered, collected and reconciled.

Services that include an element of making payments or transfers between bank accounts are exempt. Where a supply has a mixture of taxable and exempt elements, its overall character will determine the liability.

2.3 Certain supplies of bank notes

The first issue, by the bank of issue, of Bank of England, Scottish and Northern Irish banknotes is zero-rated. This provision overrides the exemption allowed for dealings with legal tender banknotes.

2.4 Preparatory services

Preparatory services that are carried out separately, before an exempt financial transaction concerning money, are taxable. An example is the preparation and delivery of data such as a wages roll, which is then put into effect by someone else.

Preparatory services carried out by an intermediary as part of their overall exempt supply are exempt (see paragraph 9.3).

2.5 Payment services for household bills

If you accept over-the-counter payments for household bills and charge for the service, your supply is exempt.

2.6 Dealing with numismatic and investment coins

If you sell bank notes or coins, whether or not they are legal tender, as:

- collectors' pieces
- investment articles
- items of numismatic interest,

your supply is normally taxable on the full selling price, whether or not they are sold for more than their face value. Examples include:

- bank notes
- proof coins
- Maundy money
- precious or base metal coins.

However, if you make supplies of collectors' items of numismatic interest, you may be able to use the special scheme explained in Notice 718 *Margin Scheme for second-hand goods, works of art, antiques and collectors' items*. Sales in some gold coins are exempt as investment gold. Further information is provided in Notices 701/21 *Gold* and 701/21A *Investment gold coins*.

2.7 Foreign exchange transactions

Foreign exchange transactions are normally exempt supplies. If you act as principal, then the consideration is the net result of your transactions over a given period of time plus any fees or commission charged. However circumstances may arise where you enter into a foreign exchange contract that does not provide for a consideration in any form. In this instance there may not be a supply for VAT purposes. For further information please see Business Brief 21/05.

If you act as an intermediary in a foreign exchange transaction you should refer to [section 9](#).

2.8 Clearing and settlement services

A service supplied by a clearing-house for settling indebtedness between members is an exempt supply.

2.9 Automated Teller Machines (ATMs)

The provision of an ATM and software

Supplies of an ATM itself or the software required to run it are both taxable, whether or not the consideration is based on the ATM's use.

ATM replenishment

Services provided in connection with the routine operation of an ATM, including filling with cash, maintenance and repair, are taxable supplies.

Convenience, interchange and reciprocity fees

ATM providers sometimes make charges that are described as convenience fees, interchange fees or reciprocity fees. Where the charge is for:

- the facility to obtain money
- the provision of money
- transaction processing or
- the operation of accounts,

the supply is exempt.

Site rental

The granting of a right to permanently attach an ATM to the ground, or for its incorporation into the fabric of a building, is an exempt supply unless the grantor has elected to waive exemption. Further guidance can be found at section 2 of Notice 742 *Land and property*.

2.10 Current, deposit and savings accounts

Many of the charges made by banks, building societies or similar organisations in connection with the operation of a current, deposit or savings account will be exempt. Exceptions include charges made for:

- the issue of certain types of financial certificate (for example, audit and balance certificates supplied to third parties)
- the extra cost of special printing or overprinting of cheque books and paying-in books.

Please note that the above list is not exhaustive.

2.11 Charges made for dishonoured cheques or direct debit payments

As either a bank or a supplier of goods or services, you may charge your customers, because:

- they have failed to honour their cheques or direct debit payments

- and, if you are the supplier, you have borne the cost of bank charges.

If you are a bank making such a charge to your customer, the charge will be a part of your overall service for running the customer's account and will be exempt from VAT.

If you are a supplier making such a charge to your customer, the charge will be outside the scope of VAT.

2.12 Electronic banking and cash management services

We have an agreement with the British Bankers' Association that sets out the VAT liability of certain electronic banking and cash management services. Notice 700/57 *Administrative agreements entered into with trade bodies* provides further information.

2.13 Deductions from pay

If, as an employer, you charge for deductions from the pay of your employees for items such as:

- insurance premiums
- mortgage repayments or
- union subscriptions,

your supply is exempt.

If you charge for the deduction from the pay of an employee in compliance with an attachment of earnings order, this is seen as reimbursement for expenses incurred in carrying out a statutory duty and is outside the scope of VAT.

3. Securities for money

3.1 Securities for money

A security for money can be described as a document under seal or under hand for consideration containing a covenant, promise or undertaking to pay a sum of money. Securities for money are not restricted to a specific type of document: examples include bills of exchange, financial guarantees and promissory notes.

The issue of a security for money is exempt.

If you deal with securities for money as an intermediary or broker you should read [section 9](#).

3.2 Face value vouchers

Face value vouchers that give a right to goods or services are not seen as securities for money. However, at the point the voucher can be exchanged for money it is a security for money and any consideration for it is exempt. For example, where the voucher is presented to a retailer as payment for goods or services it is not a security for money, but when the retailer presents the voucher to a third party to be exchanged for money, it becomes a security for money at that point. You can find further information on face value vouchers in VAT Information Sheets 03/2003 and 12/2003 and Notice 700/7 *Business promotion schemes*.

3.3 Guarantees and surety bonds

The VAT liability of these types of products depends on the precise nature of the arrangements in place. In order to qualify for exemption, they must be financial instruments that are securities for money as defined in paragraph 3.1. This means that an exempt guarantee or surety will involve a third party providing a guarantee or security for payments to be made under a contract. Exemption does not extend to "performance guarantees" whereby a third party performs a service or makes payment if a contractual party fails to fulfil their obligations (to perform a service or supply/repair goods) under a contract.

The finance exemption will not apply to the supply of warranties or contracts for the supply, repair or maintenance of goods even though these are sometimes referred to as guarantees. However, you should also read Notice 701/36 *Insurance*.

3.4 Travellers' cheques

The issue or encashment of travellers' cheques is exempt. Un-issued or unsigned travellers' cheques are neither securities for money nor notes for the payment of money, and their supply to or importation by the issuing bank is taxable on their value as stationery.

4. Credit and related services

4.1 Loans, granting of credit and advances

If in the course of your business for a consideration you

- supply credit
- advance money in the form of loans
- provide overdrafts or other advances

your supply is exempt. The charge you make for a loan, advance or credit facility is usually described as interest. The value of the exempt supply in the grant of credit or loan is the gross interest or other sum received, but not the repayment of capital loaned.

Interest received on money deposited is consideration for an exempt supply.

4.2 Instalment credit finance

This type of credit is usually advanced in connection with the supply of goods, and may be under a hire purchase, conditional sale or credit sale agreement (see paragraph 4.3). The provision of instalment credit in these situations is exempt where a separate charge is made for the facility of instalment credit and disclosed to your customer.

If this condition is satisfied, the supply of credit is exempt and the supply of goods taxable, the value being the cash price stated in the agreement before any deposit or any part exchange value is deducted. If you do not satisfy this condition, the full amount paid by the customer is consideration for the supply of goods.

The full amount of VAT on the goods is accounted for at the time of supply. Usually this is when the goods are delivered, but it may be preceded by any part payment, or the issue of an invoice.

4.3 Conditional sale, hire purchase and credit sale

Conditional sale means the sale of goods where the price is payable by instalments. The goods remain the property of the seller until the full price is paid and/or the customer meets another agreed condition.

Hire purchase occurs under an agreement for the hire of goods for periodic payments, where the hirer has the option to purchase.

Credit sale means the sale of goods which immediately become the property of the customer, but the price is payable in instalments.

What if the instalment credit I provide does not involve a finance company?

If you are a supplier of goods and are financing the credit yourself, your supply of credit will be exempt if the charge is disclosed separately to your customer. Your supply of goods must be under a conditional sale, hire purchase, or credit sale agreement (see paragraph 4.3). The consideration for the taxable supply of the goods is the price stated in the agreement.

What if a third party finances the instalment credit?

If a third party finances your supply of instalment credit, for example hire purchase or conditional sale, your supply of goods is to the finance company, which takes title to the goods, and not to your customer who is allowed to use the goods. Thus your supply is one of goods and not one of financial services. The third party supplies the financial services and the goods, to the user/customer.

What if the instalment credit I provide is interest free?

If by arrangement between yourself and your customer you supply goods or services and your customer pays for these goods or services over a set period without paying interest, there is no supply of credit for VAT purposes (see paragraph 4.5).

What if the instalment credit is interest free and provided by a third party?

When you supply goods to customers on interest free credit terms, you may receive an amount from a finance company, which is less than the amount due from your customer for the goods. This does not affect the value of the supply to the customer and you must still account for VAT on the full sales price invoiced to your customer for the goods. The difference between the full selling price, and the amount you receive is consideration for an exempt supply by the finance house to you, the supplier.

Are my supplies of services relating to instalment credit finance exempt?

Exemption normally applies to any supplies connected to credit charges unless the charge relates, wholly or partially, to the supply of goods.

Fees, such as for administration, documentation, or transfer of title, fall within the above exemption when they are ancillary to the principal supply of credit.

How do I account for VAT on commission received from finance companies?

You may receive commission for introducing your customers to finance houses that provide them with credit. This supply is exempt if you are acting as an intermediary (see [section 9](#)).

What if the finance agreement does not run its full course and the goods are returned or repossessed?

Where goods are delivered under finance agreements on or after 1 September 2006 the following treatment should be applied. For goods delivered prior to this date the guidance in VAT Information Sheet 05/04 should be followed.

(a) Reduction in VAT charged on first sale

Where goods are supplied under hire-purchase or conditional sale agreements title does not pass in the goods until all payments under the agreement have been made. If an agreement ends early, and the agreement includes terms that result in the customer becoming liable to pay nothing more on returning or repossession of the goods, or liable to a lesser amount (for example the proceeds realised by the re-sale of the goods) this will result in an adjustment of the VAT accounted for at the outset of the agreement.

Where the reduction in price contains elements of capital and interest any reasonable method for apportioning the value of the reduction may be used. The method of allocation should be consistent and reflect the accounting methods used within the business.

There may be circumstances where no VAT was accounted for on the sale of the goods – such as the sale of certain second hand goods where no margin is achieved. If no VAT was originally accounted for there is no adjustment (of the VAT).

This treatment does not apply to goods sold under a credit sale agreement. Here title passes at the outset of the agreement and the return of the goods is treated as a supply from the customer to the finance company. Therefore the value of the original sale is not affected by the return.

If you are entitled to reduce the VAT you originally accounted for and your customer is VAT registered you must send them a document effecting the adjustment, to ensure that your customer makes a corresponding adjustment to any input tax they may have claimed.

Where goods are repossessed (following default by a customer), you may be entitled to claim bad debt relief on any amount outstanding following the adjustment. Notice 700/18 Relief from VAT on bad debts contains detailed guidance on the relief.

(b) Treatment of re-sale of returned or repossessed goods

When the returned or repossessed goods are sold for a second time they will be subject to VAT unless they are specifically treated as neither a supply of goods nor services. The most common example is likely to be the second sale of margin scheme goods where no VAT was accounted for on the first sale; providing they are sold in the same condition, no VAT was recoverable by the first customer and the second sale price does not exceed the purchase price paid for the goods.

4.4 What supplies are not considered exempt credit?

The provision of the following to your customers are not supplies of exempt credit:

- **Late payment penalties** - if you do not explicitly allow your customers to defer payment (see paragraph 4.5) and impose a penalty because they have not paid by the due date, the penalty is not consideration for a supply and is outside the scope of VAT or

- **Discount for prompt payment** - if you offer a discount on condition that your customer pays for your supply of goods or services within a specific time, the value for VAT is the discounted amount whether or not your customer takes up the offer. Further details can be found in Notice 700 *The VAT Guide*.

4.5 Deferred payments

You may allow customers to defer payment but make an extra charge for allowing them to do so. If the charge relates to periods before and up to the time of the supply (see Notice 700 *The VAT Guide*) it is not a charge for credit, but is further consideration for the supply of the goods or services. Alternatively where you agree to defer payment beyond the time of supply and make an additional charge for doing so, such a charge will be consideration for an exempt supply of credit.

4.6 Credit, debit and charge cards

Credit, debit and charge cards include MasterCard, Visa, American Express, Diner's Club, Connect and Switch. Banks and financial services institutions issue these cards under the umbrella of these organisations. In addition, certain companies provide in-house card schemes for retailers or retail outlets.

4.7 Accounting for VAT on retail credit, debit and charge card sales

If you are a retailer:

- you must account for VAT at the **time of supply** (see Notice 700 *The VAT Guide*) on the full price charged to the customer for the goods/services supplied and
- if you charge for accepting payment by one of the above cards, the charge is further consideration for the supply of goods/services. VAT is chargeable at the same rate as the goods or services supplied.

4.8 What is the liability of various services associated with credit, debit and charge cards?

With credit cards and other forms of payment cards the cardholder can either pay their outstanding balance on the receipt of their statement or pay on an instalment basis, interest being charged on the outstanding amount. The following charges are consideration for exempt or taxable supplies:

Exempt	Taxable
• interest charged on the outstanding	• imprinter/terminal rental charges

balance on a card account;	when an optional or additional service by card company to retailer;
<ul style="list-style-type: none"> annual membership, joining and subscription charges or charges made by card companies to the cardholder for the issue of the card; 	<ul style="list-style-type: none"> the consideration for a sale of goods for example imprinters/terminals in connection with any card scheme.
<ul style="list-style-type: none"> the charge made to merchants (retailers) by credit card companies. This charge usually takes the form of discounts from the amounts the card companies reimburse the merchant; 	
<ul style="list-style-type: none"> joining fees charged to merchants by card companies; 	
<ul style="list-style-type: none"> interchange fees; 	
<ul style="list-style-type: none"> imprinter/terminal rental charges when provided as an ancillary part of other exempt card services. 	

4.9 Affinity credit cards

Where a third party endorses a credit card and recommends its use to its members, supporters or customers, the organisation endorsing the credit card may receive commission or similar income from the credit card provider. Whether this income is exempt from VAT will depend on the nature of the service supplied to the credit card provider.

If you are introducing your members, supporters or customers to a credit card provider and you bring the two parties together, carrying out independent negotiation services as a distinct act of mediation, then you are providing exempt intermediary services (see section 9).

The following are always standard rated:

- marketing and promotional services supplied in isolation
- clerical functions such as providing a list of names or access to a database.

Special rules apply to charities and you can find further information about this in Notice 701/1 *Charities*.

4.10 Credit management services

If you provide credit management, and you do **not grant** the credit, your supply is taxable. If, on the other hand, you grant the credit **and also** manage that credit, your supply will be exempt.

A supply by a third party of taxable credit management could typically include the following features:

- credit checking, this includes debt profiling, assessing credit worthiness, electoral roll checks and obtaining references
- valuation of assets such as property, land, vehicles
- authorisation services (including those that go beyond just checking the applicant's signature or agreeing credit or payment within limits set by the person providing the credit)
- taking decisions on credit applications on behalf of the credit provider
- creating and maintaining records on behalf of the credit provider in order to enable them to fulfil their legal obligations, such as those relating to credit applications, payments and credit transactions
- monitoring a payment record or dealing with overdue payments (although read [section 5](#) on debts and related services).

The above list is not exhaustive.

4.11 Provision of outsourced services to a loan provider

If as a business you provide a package of outsourced service to a loan provider that consists of services prior to and after the granting of a loan, your supply to the loan provider is exempt if you provide **all** of the following services as a central part of that supply:

- the operation of bank accounts on behalf of the credit provider
- arranging the transfer of funds to the borrower and
- the processing of loan repayments (and any additional charges or fees) by direct debit or cheque.

It is possible that your supply will be exempt where you provide one or more of the above services in addition to other taxable services (such as those detailed in paragraph 4.10) but this will depend on the nature of the whole service being provided (see paragraph 1.7).

5. Debts and related services

5.1 Sale of debts

The unencumbered sale of debt for a consideration is exempt. The value of the supply is the gross amount that the purchaser pays for the debt.

5.2 Factoring (including invoice discounting)

Factoring, including invoice discounting, is essentially a form of debt collection and is a taxable supply. However, factors and invoice discounters offer a number of services to their clients and these usually include the prepayment of part of the value of the debt. Consideration attributable to the latter is in respect of an exempt supply of credit.

5.3 The factoring process

The client assigns his debts to the factor but this is not a supply for VAT purposes. This assignment is of an equitable interest that enables the factor to fulfil his contracted functions. The factor opens a client account to which he credits the face value of the debts he has been assigned and debits his charges. These charges may be consideration for a number of standard rated administrative, clerical and accounting services. The balance, less an agreed retention, is available for the client to draw upon. To the extent to which he does so the factor debits a further charge, often described as "discount". This is consideration for the exempt supply of credit.

5.4 Recourse and non-recourse factoring

The factor may operate on a **recourse** or **non-recourse** basis.

In a **recourse** agreement the factor will put the responsibility for bearing any loss on the client. If the debtor defaults the factor will re-assign the debt to the client.

In a **non-recourse** agreement the factor will accept the risk of default. A charge for this service is standard rated although it will usually be reflected within an enhancement to the administration, factoring or service charge.

5.5 VAT treatment of factoring services

Supply	Liability
Assignment or re-assignment of debt	<ul style="list-style-type: none">• Not treated as a supply for VAT purposes
Discount or interest charge	<ul style="list-style-type: none">• Exempt supply by the factor
Administration or service charge (this may cover the provision of a full sales	<ul style="list-style-type: none">• Standard rated supply by the factor

ledger management service, credit advice, debt collection service and the provision of management information)	
Guarantee of payment	<ul style="list-style-type: none">• Standard rated supply by the factor
Electronic transfer of funds (if charged for separately)	<ul style="list-style-type: none">• An exempt supply by the factor to the client

5.6 Factoring and partial exemption

The factor will make both taxable and exempt supplies and will therefore be partly exempt. Where he provides significant administrative or accounting services to the client his standard rated supplies will allow him a high input tax recovery. Where, as in invoice discounting, the credit facility is the predominant feature of the agreement his input tax recovery will be lower.

For further information concerning partial exemption please see Notice 706 *Partial exemption*.

5.7 Factoring and bad debt relief

A factor cannot claim bad debt relief for debts assigned to him by his client. The client cannot claim bad debt relief for a debt assigned to a factor but can do so if the factor re-assigns the debt to him (see Notice 700/18 *Relief from VAT on bad debts*).

5.8 Factoring and cash accounting

Please see Notice 731 *Cash Accounting* for details on how to treat the debt for cash accounting purposes.

5.9 Debt negotiation

You are providing exempt debt negotiation services if you bring together the credit provider with the debtor and act between them in an attempt to mediate a change to the payment terms. However, please also read paragraphs 5.10 and 5.11.

For more information on intermediary services read [section 9](#).

5.10 Debt collection

The supplies made by a debt collection agency, or by someone involved in debt collection, are taxable.

Although debt collection service undertaken on behalf of a creditor company may involve some negotiation of the repayment of a debt by the debtor to the creditor this will not be an exempt debt negotiation service. For example if you:

- issue letters to the debtor on behalf of the creditor demanding payment or
- seek to chase the debt in some other form (e.g. trying to contact the debtor by telephone etc.) or
- seek to locate a debtor on behalf of the creditor or
- provide accounting services to the creditor (that is you monitor the debtor's payment account and notify the creditor of any defaulted payments)

these services will be taxable. Any debt negotiation services will be ancillary to the principal service of debt collection.

The above list is not exhaustive.

5.11 Insolvency Practitioner services

The supplies made by Insolvency Practitioners are taxable.

Whilst the services of an Insolvency Practitioner do, on occasion, require some negotiating of the suggested repayment terms of the voluntary arrangement between the debtor and the creditors, this service will be ancillary to the principal service provided.

6. Securities and related services

6.1 Shares, securities and other financial instruments

The issue of securities such as shares, bonds, loan notes, debentures etc., are not supplies for VAT purposes when the purpose of that issue is to raise capital. This includes the issue of units or shares in an investment fund.

Input tax incurred that relates to an issue of shares or other securities will be recoverable to the extent that the issuer's business activities generate taxable supplies.

Business Briefs 12/05 and 21/05 provide further details on this. For further guidance on input tax recovery please read Notice 706 *Partial exemption*.

Transactions in securities that are already in existence are exempt when they are sold or transferred in the course of a business activity and the normal partial exemption rules apply.

If you are an intermediary in a transaction concerning shares etc, please read paragraph 9.4.

6.2 VAT liability

Exempt	Taxable
<ul style="list-style-type: none"> • stock lending (see paragraph 6.5); 	<ul style="list-style-type: none"> • safe custody services (see subparagraph 6.6);
<ul style="list-style-type: none"> • underwriting services for the issue of securities (see paragraph 6.4); 	<ul style="list-style-type: none"> • registrar services (see paragraph 6.7, unless you are supplying your service to an authorised unit trust or an open ended investment company, in which case please see paragraph 7.5);
<ul style="list-style-type: none"> • nominee services (see paragraph 6.5); 	<ul style="list-style-type: none"> • advisory, research and valuation services (see paragraph 6.14, unless you are supplying your service to an authorised unit trust or an open ended investment company, in which case please see paragraph 7.5).
<ul style="list-style-type: none"> • global custody (see paragraph 6.6); 	
<ul style="list-style-type: none"> • intermediary and broking services for transactions in securities (see section 9). 	

This list is not exhaustive.

For the liability of corporate finance services please see paragraph 9.7.

6.3 Stock lending

Stock lending describes a situation where one person, the "lender", transfers to a second person, the "borrower", the legal title, along with all the dividends and rights, to securities. The borrower agrees to return to the lender, at a later date, an equivalent number of the same securities as those received.

Stock lending is an exempt supply, the consideration being the fee charged to the borrower.

Where stocks are loaned, the borrower who holds legal title receives dividends, which are not consideration for a supply.

The borrower should not account for the value of securities returned to the lender.

6.4 Share underwriting

A share underwriter guarantees to buy a proportion of any unsold shares when a new issue is offered to the general public, and usually receives either commission or charges a fee. A share underwriter may also underwrite an issue by agreeing to guarantee that buyers will be found. In either case the supply is exempt.

There is not a supply for VAT purposes by the issuer who sells the securities to the underwriter (see paragraph 6.1), but there is a subsequent exempt supply by the underwriter when those securities are sold.

If, as an underwriter, the commission or fee received for your services is adjusted to reflect the entitlement to purchase your allotted securities at a special price, the value of the adjustment (or "discount") must be regarded as part of the consideration for your exempt supply of underwriting services. However as an underwriter you may be **obliged** to buy further securities that remain unsold. The underwriting agreement may allow you to buy these unsold securities at a price lower than the offer price. This reduction is not regarded as consideration for the underwriting service and you, as the underwriter, should treat it as outside the scope of UK VAT.

Exemption also applies to supplies made by a sub-underwriter who agrees to underwrite a proportion of the sale, whether the sub-underwriter's services are supplied to the underwriter or to the issuer.

6.5 Nominee services

You are a nominee if you hold securities in your own name on behalf of a third party (the beneficial owner). Your services of acting as nominee are exempt.

6.6 Custody services

There are two types of custody services, safe custody and global custody.

Safe custody

Safe custody services are taxable. These services include the provision of the purely physical service of safekeeping, sometimes referred to as safe deposit facilities. A supply of safe custody services is taxable if you, as a business in the UK, contract to supply the service to your client irrespective of whether the securities are held in the UK, an overseas branch of your business or elsewhere.

If you lease or hire a specific site to your client rather than provide a service of secure storage within your premises, the supply is in the UK if the site is in the UK, but outside the scope of UK VAT if the site is overseas. You may have to account for VAT in another Member State if the place of supply is elsewhere in the EU.

Global custody

Global custody services are a package of services that may include safe custody, the collection of dividends or interest on securities held, dealing with scrip and rights issues and payment against delivery of stock. This package of services including the safe custody element is exempt.

6.7 Services of a share registrar

Services of a share registrar may include some or all of the following:

- all aspects of operating company share registers
- administration of scrip schemes, share option schemes, profit sharing schemes and dividend reinvestment plans
- arrangements for advertising the closure of the share offer
- attending shareholders' meetings and organising polls at such meetings
- arranging "break out" for bulk nominee accounts
- capital gains enquiries, and other correspondence and enquiries
- conversion of loan stock
- preparation, designation and despatch of certificates, correction of errors on certificates, and issuing of duplicated documents
- administrative services in relation to mergers, placings, rights issues, reorganisations and acquisitions
- processing forms of proxy
- registration of grants of probate
- regular reports on share movements
- administrative services in relation to savings plan schemes.

This list is not exhaustive.

The liability of a share registrar service is taxable at the standard rate of VAT.

Where the share registration service is provided as one element of a single composite supply featuring other services with a different VAT liability the liability may change (see paragraph 1.7). Where the share registration service is provided to either an authorised unit trust or open-ended investment company please see paragraph 7.5.

The services of a share registrar are not financial services for place of supply purposes and therefore are not supplied where the supplier belongs. Notice 741 *Place of supply of services* provides further information.

6.8 Listing fees charged by regulatory bodies

Fees charged by regulatory bodies, such as the Financial Services Authority, for listing companies that wish to float on an exchange are outside the scope of VAT.

6.9 Fees charged by stock exchanges

Many exchanges charge fees to their members for admission to the exchange, as well as market maker charges, transaction charges and exchange charges.

Basic admission or membership charges are taxable at the standard rate, with the place of supply being where the supplier belongs.

The liability of other charges depends on exactly what is being done by the exchange for the charge. If the service is not an intermediary service (see [section 9](#)) then the fee will be taxable at the standard rate.

6.10 Arranging the issue or placement of securities

If you arrange the issue or placements of securities, whether as offers for sale, rights issues, cash offers, vendor placings or bids with underwritten cash alternatives, including the service of co-ordinating an issue when a number of participants are involved in the share or other placings, your service is exempt.

The provision of advice is taxable (see paragraph 6.14).

6.11 Execution only services

If you supply execution only services, for example buying or selling securities on your client's instructions, but do not offer advice on securities, your supply is exempt. (If you purely provide advice see paragraph 6.14.)

If you provide advice and this advice is incidental to transactions in securities then your supply will be exempt. For single supply or multiple supply questions see paragraph 1.7.

If you arrange a securities transaction, you may split the contract note to show as separate items the basic charge for your execution service and any compliance and regulatory charges which you make to cover the cost of meeting regulatory requirements. These additional charges are part of the consideration for your exempt supply. This rule does not apply to any statutory levies such as stamp duty that are a liability of your client. These are outside the scope of VAT and need not be accounted for as part of your exempt supplies.

6.12 Dealer systems

Many transactions in securities are effected by electronic means. If you operate a dealing system that allows a user to insert a bid and offer quotes for securities, another user to insert an acceptance and for the system to match and sell deals, your supply of the dealing system is exempt, but only where you run that system. However, if you supply data services please see paragraph 6.13.

6.13 Data services

If you:

- lease or sell software, or the system itself or
- provide electronic data services that simply provide subscribers with a message facility or an information service, for example on share price movements or financial news,

your service will be taxable.

6.14 Specialist services

In most cases, the exemption for intermediary services (see [section 9](#)) does not cover:

- the professional services of accountants and lawyers
- services of advice in general (for example, to investors deciding whether to accept or reject a take-over bid).

Services supplied in connection with share issues, acquisitions or disposals that do not bring together the buyer and seller are also taxable. This includes such supplies as:

- valuation of assets
- assessing the direct tax liabilities of a holding
- investment analysis
- market sector research
- share consultancy
- general financial or investment advice
- accountancy services
- tax and legal advice
- supplying a draft prospectus.

This list is not exhaustive.

If one or more of the above services are provided as part of a complete service that would include an exempt financial service you should see paragraph 1.7.

Where the service is provided to either an authorised unit trust or open-ended investment company please see paragraph 7.5.

6.15 International security transactions

If you have clients based outside the UK, you will need to determine where your supply is made for VAT purposes. The place of supply affects both the VAT liability of a service, and whether you can recover input VAT relating to that service. You can find detailed guidance on place of supply in Notice 741 *Place of supply of services*. If you cannot establish the identity of the purchaser of securities refer to paragraph 6.16.

If you belong in the UK and supply financial services to a:

- client who belongs in the UK
- private client or someone acting in a non-business capacity in another EU Member State
- government body, municipal authority or similar body of another Member State and the supply is not for the business activity of that organisation,

your supply is within the scope of VAT and subject to UK rules on liability, invoicing, accounting and partial exemption.

If you supply services to someone who belongs in:

- another EU Member State **and** receives the supply for business purposes or
- a country outside the EU,

your supply is outside the scope of UK VAT. You may also be able to recover input tax on your supply in some circumstances. Paragraphs 1.9 and 9.8 give further guidance on this.

6.16 The "easement"

If:

- your place of belonging is the UK
- you sell securities to a customer and
- you cannot identify your customer or their place of belonging,

you may

- treat the supply as being in the UK and exempt or
- use the place of belonging of a nominee account for the purchaser to determine the place of supply or

- use a special rule known as "the easement". This works by using the following tests in sequential order:

(a) Where the place of transaction, that is the relevant security exchange, is known then a sale transacted:

- in the UK is treated as made to a person belonging in the UK and exempt
- in any other EU Member State is treated as made to a taxable person belonging in that Member State, and is outside the scope of UK VAT, but without recovery of your related input tax
- outside the EU is treated as made to a person belonging outside the EU and is outside the scope of UK VAT. You can recover related input tax subject to normal rules.

(b) Where the place of the transaction is not known, then the place of supply is deemed to be a place where the security is listed.

(c) Where the place of transaction is not known and the security is not listed or is listed on both a EU and non-EU exchange, then the place of supply is deemed to be the place where the last known broker in the transaction "belongs".

7. Management of investments and portfolios, funds, and "wrapper" products

7.1 Investment/portfolio management

The management of a client's holding of securities is taxable, as is advice provided to the client concerning investments. The purpose and substance of the service is to make available the professional skill needed to acquire, hold and dispose of securities in the way that best meets the investment needs of a client.

As a fund or portfolio manager, you may incur broking or dealing charges that assist you in carrying out your service. These charges are, in this case, simply a part of the single composite taxable management service you provide to your client and are not separate exempt supplies by you to your client. However, where you supply a separate service of broking, this will be exempt.

Also, as a fund or portfolio manager you might receive commission from fund managers – sometimes called "trail commission" – for introducing or maintaining a client's investment with the fund manager. This is consideration for an exempt introductory service (see [section 9](#), including paragraph 9.9 concerning Independent Financial Advisors (IFAs)).

In some cases it may be that the arrangements between manager and client involve both management services and broking services. The VAT liability of your services will depend on whether you are acting as an intermediary and whether you meet the conditions set out in section 9. Examples include the following:

- The contract provides for investment management for a periodic fee. This is taxable. Broking services are commissioned for the client who must bear the separate transaction charges of the broker. The fund manager passes on to the client the exact amount of broking charges incurred on the client's behalf. The onward charge for broking services is outside the scope of VAT, provided the disbursement criteria in Notice 700 *The VAT Guide* are met.
- The contract provides for investment management for a periodic fee. This is taxable. The manager also makes a separate charge for arranging a securities deal. Provided the charge is specific to an actual securities transaction undertaken by the manager for the client, the supply is exempt.

7.2 Management of investment funds

In general the management of any investment fund is taxable. However, there are exceptions with regard to the management of authorised unit trusts (AUTs), trust-based schemes (TBSs) and open-ended investment companies (OEICs).

7.3 Management of AUTs, TBSs and OEICs

If you manage an AUT, TBS or OEIC, your supply of management is exempt. This management service can be made up of a variety of elements including:

- monitoring the performance of the scheme property
- making investment decisions
- dealing with the paperwork and book-keeping
- offering advice on the growth of the portfolio
- contracting with dealers to buy and sell assets on behalf of the fund.

In some cases, this service is contracted out to a third party. Where the management function is delegated, and the sub-contracted third party makes a supply to the fund manager that forms a distinct whole fulfilling in effect the specific essential functions of fund management the supply will be exempt.

For third party fund administration see paragraph 7.5 and Business Brief 07/06.

7.4 Provision of Trustee services to an AUT or Depository services to an OEIC

AUTs and OEICs are authorised collective investment schemes, which are required to appoint either a trustee or a depository. Your services as either a trustee or a depository are taxable.

7.5 Provision of third party fund administration services to AUTs and OEICs

Fund administration may consist of one or more of the following services, which are generally required by Financial Services Authority rules and regulations:

- legal and fund management accounting services
- customer inquiries
- valuation and pricing (including tax returns)
- regulatory compliance monitoring
- maintenance of unit-holder register
- distribution of income
- unit issues and redemptions
- contract settlements (including certificate dispatch) and
- record keeping.

If you provide a service which, viewed broadly, forms a distinct service of fund administration fulfilling in effect the specific essential functions of fund management then it will be exempt.

However, just because a particular service is a requirement of regulations it does not necessarily mean that it is exempt if provided in isolation. For example, legal services such as advice or drafting may be required to ensure that certain documents, e.g. a trust deed or fund prospectus, are valid and comply with the regulations, but this does not mean that the legal service is one of administrative fund management. Similarly, an external audit of accounts does not itself assume the characteristics of a fund administration service.

Business Brief 07/06 deals with this issue in greater detail.

7.6 Intermediaries involved in Authorised Unit Trusts (AUTs) and Open-Ended Investment Companies (OEICs)

A person who brings together a customer with a manager of either an AUT or an OEIC will not be exempt as an intermediary. This is because the intermediary exemption does not extend to the management of an AUT or an OEIC (but see paragraph 9.4).

7.7 "Wrapper" products

"Wrapper" products are investment products, some of which are free of income and capital gains tax, aimed at trying to stimulate the general public into saving and investing money. Examples of these products (current and historical) include Individual Savings Accounts (ISAs), Child Trust Funds (CTFs) and Personal Equity Plans (PEPs).

7.8 Individual Savings Account (ISA)

An ISA is a tax-free annual investment product and was launched on 6 April 1999 to replace the Personal Equity Plan (PEP – see paragraph 7.10) and the Tax Exempt Special Savings Account (TESSA). It is made up of three "components" – cash, insurance, or stocks and shares and can be a mix of these components. An ISA comprising of one component only is called a "mini" ISA, whilst an ISA allowing for more than one component is referred to as a "maxi" ISA.

(a) Cash mini ISA. There are usually no charges connected with a cash ISA. The ISA manager's service to the investor is exempt as the operation of a bank account. But where the ISA is based on cash unit trusts it is treated as a stocks and shares mini ISA for VAT purposes and management charges are taxable (see paragraph 7.11).

(b) Insurance mini ISA. An insurance ISA is an investment linked to a life insurance policy insuring the life of the ISA holder. For information on the liability of insurance related services please see Notice 701/36 *Insurance*.

(c) Stocks and shares mini ISA. A stocks and shares mini ISA is generally intended for savers who do not need immediate access to their savings. The VAT treatment for the stocks and shares components of both ISAs and PEPs is the same (see paragraph 7.11).

(d) Maxi ISA. This can comprise a mixture of cash, insurance and stocks and shares components but most tend to consist solely of stocks and shares. Where a maxi ISA consists of multiple components, each component, although packaged together for tax purposes, is usually managed and charged for separately. The VAT liability of supplies made in respect of the stocks and shares component of a maxi ISA is the same as that for a stocks and shares mini ISA (see paragraph 7.11).

7.9 Child Trust Fund (CTF)

The CTF was introduced in April 2005 and is an account that may be either a "stakeholder account" or a "non-stakeholder account". This account must be held with an "account provider" who is approved as such by the relevant section within HMRC.

The Government provide the initial contribution in the form of a voucher and others may also contribute to the account.

The VAT liability of supplies made in respect of the account provider are the same as those for an ISA and PEP (see paragraph 7.11).

7.10 Personal Equity Plan (PEP)

A PEP was a way to encourage people to invest in shares by offering a tax-free method of investment. It was introduced in 1987 and replaced by the ISA from 6th April 1999. As with an ISA, a PEP was used for investing for a specific purpose such as a mortgage or retirement. A PEP is treated the same as a stocks and shares ISA for VAT purposes (see paragraph 7.11).

7.11 Administrative agreement

An agreement exists between HMRC and the Investment Management Association (formerly the Association of Unit Trusts and Investment Funds), which originally covered the VAT liability of charges made in connection with PEPs.

The agreement now applies to charges made in connection with ISAs and CTFs. In these cases "Plan Manager" should also read "Account Provider" and "Unit Trust" will also apply to "OEIC".

AGREEMENT WITH THE ASSOCIATION OF UNIT TRUST AND INVESTMENT FUNDS (AUTIF) ABOUT THE VAT LIABILITY OF PEP MANAGERS' CHARGES EFFECTIVE 1 APRIL 1994

This table should be read together with the Notes that follow it. All the numbers shown in brackets refer to the Notes.

Description	Non Self-Select (1)	Self-Select (2)
(a) Unit Trust Manager and Plan Manager are the same company, that is unit trust only plan (3)		
Initial charge	Exempt (4)	Exempt (4)
Periodic charge	Exempt (4)	Exempt (4)
Additional PEP periodic administrative/management charges, if	SR (4)	SR (4)

any		
(b) Unit Trust Manager and Plan Manager are separate entities in the same VAT group (5)		
Initial charge by the plan manager:		
unit trust only plan	Exempt (5)	Exempt (6)
share linked plan	SR	Exempt/SR (6)(7)
unit trust/share plan	SR (8)	Exempt/SR (6)(7)
Periodic charges by the plan manager:		
unit trust only plan	SR	SR
share linked plan	SR	SR
unit trust/share plan	SR	SR
(c) Unit trust manager and plan manager are wholly separate entities		
Initial charge by the plan manager:		
unit trust only plan	Exempt (5)	Exempt (6)
share linked plan	SR	Exempt/SR (6)(7)
unit trust/share plan	SR (8)	Exempt/SR (6)(7)
Periodic charges by the plan manager:	SR	SR
unit trust only plan	SR	SR
share linked plan	SR	SR
unit trust/share plan	SR	SR
(d) Other Charges		
Transaction charges	Exempt (9)	Exempt (9)
Charge for cash withdrawal	Exempt (10)	Exempt (10)
Charge for receiving dividend and passing this charge on to plan holder	Exempt (10)	Exempt (10)
Charge for transfer of assets	Exempt	Exempt

Charge for attending shareholder's meetings	SR	SR
Charge for provision of companies annual reports	SR	SR
Introductory fees paid to brokers/agents	SR (11)	SR (11)
Exit Charges	Exempt (12)	Exempt (12)

Notes

(1) Non self-select covers the situation where the plan manager invests client money in a general personal equity plan, the mix of instruments within the plan being determined by the plan manager.

(2) Self-select indicates where the investor selects the securities and the plan manager arranges the purchase of the securities as agent for the investor. Normally the contract will provide for the investor to bear the cost of transaction charges. These charges can be either the exact amount of brokerage charges incurred, which would be a disbursement by the plan manager (subject to the conditions laid down in Notice 700 The VAT Guide paragraph on disbursements), or the brokerage charge plus an additional amount representing the plan manager's fee for acting as an intermediary for the transaction. These transaction charges will be exempt unless they relate to sales of securities outside the EU. For further details see section 9 on intermediaries.

(3) Please see paragraph 7.2 on unit trusts and unit trust management companies.

(4) Normally only the unit trust manager levies initial and periodic charges. However, if the company marketing the PEPs is the same as the unit trust management company, and the charge is not more than the normal unit trust management fee, then the PEP management fee is exempt. If an additional PEP management charge is made over and above the normal unit trust management fee, then the additional charge to the investor is standard-rated.

(5) Where the plan manager makes an initial charge, the service provided by the plan manager would not normally be fund management as it is the unit trust manager who provides that service. Where such a charge is made, it will be for the plan manager to demonstrate that the services for which the charge is levied fall within the VAT Act, Schedule 9, Group 5. Where the contract provides for the supply of intermediary services in acquiring the unit trust units for the investor and tax accounting services, we accept that the supply is the provision of intermediary services for a purchase of units (the VAT Act, Schedule 9, Group 5, item 5) and the charges will be exempt. If the plan manager treats this initial charge as exempt, this must be reflected in the contractual arrangements to the extent that in non self-select plans the investor is expected to bear the dealing charge. However, where any initial charge exceeds the normal bid/offer spread on units, the difference between the spread and the initial charge should be treated as standard-rated PEP management fee.

(6) Where the service provided consists of acting as an intermediary in acquiring the unit trust units or shares for the investor and incidental tax accounting services, we accept that the service is acting as an intermediary for the purchase of units or shares and the charges will be treated as consideration for an exempt supply. If an initial charge for a unit trust based PEP exceeds the normal bid/offer spread, however, the difference between the spread and the initial charge should be treated as payment for a standard-rated supply of PEP management.

(7) Where the initial charge exceeds the normal dealing charge for the procurement of the securities then the difference between the initial charge and the dealing charge is liable to VAT.

(8) An initial charge in such circumstances includes the investment management service associated with the selection of shares to be included in the PEP and as such the charge is taxable at the standard rate.

(9) The VAT Act, Schedule 9, Group 5, item 5 exempts from VAT the provision of intermediary services for the issue, transfer, receipt of, or any dealing with securities. Usually such services are supplied by an intermediary who has been given instruction to acquire or dispose of securities. Transaction fees charged by a plan manager falling within the above framework are therefore exempt from VAT. With non self-select PEPs, the intermediary is not specifically instructed. However if, under the terms of the contract, the client is expected to bear dealing charges, and these charges are passed to the client by the PEP manager, these supplies may be treated as exempt.

(10) Exempt under the VAT Act, Schedule 9, Group 5, item 1.

(11) Where the PEP investor is charged an initial fee, which is exempt from VAT, any commission (including renewal commission) paid to brokers/agents for the introduction of the investor will also be exempt. In other circumstances introductory commissions will be liable to VAT at the standard rate. When no initial charge is levied, any introductory fee (including renewal fees) will be exempt as long as it is levied for the service of an introduction to a plan manager who is arranging for units to be purchased.

(12) Where these charges represent the consideration for disposal of the securities held in the plan, they are exempt from VAT under the VAT Act, Schedule 9, Group 5, item 5. In other circumstances exit charges are taxable at the standard rate.

8. Financial derivatives

8.1 Introduction

Derivatives are financial instruments, the price of which is directly dependant upon the value of the underlying commodity, financial instrument or currency. To establish the VAT liability of the derivative, you first need to know what the "underlying" product is.

This part of the notice is concerned with financial derivatives, that is to say, instruments traded on financial services such as currencies, interest rates or securities rather than an underlying raw material or commodity. It also concerns contracts, which are financial services such as contracts for difference and weather derivatives. Commodity derivatives are covered in Public Notice 701/9 *Derivatives and terminal markets*. The trading of gold is covered in Public Notice 701/21 *Gold*.

8.2 Futures contracts

Financial futures are exempt from VAT. If you are an agent or intermediary involved in the sale or purchase of a financial future you should see paragraph 8.12 and section 9 for more information about the liability of your supply.

(a) Cash settled contracts

Cash settled contracts are those contracts where there are no underlying deliverable securities or contracts, which are only capable of financial settlement.

These include:

- short-term interest rate futures
- FT-SE 100 futures
- other stock index futures
- weather derivatives and
- other cash settled contracts.

The supply of cash settled contracts for a consideration is exempt from VAT. If the purchaser is a business based outside the UK, your supply is outside the scope of UK VAT and input tax is recoverable subject to the normal rules.

Where a futures contract runs to maturity, there is no further supply for VAT purposes. Cash settlements under these contracts are not consideration for a supply and must be excluded from partial exemption calculations and VAT returns.

(b) Non-cash settled contracts

Non-cash settled contracts are those contracts where there are underlying deliverable securities.

These include:

- gilts
- T-bonds and
- other securities (not being securities for money).

The supply of a non-cash settled contract is exempt.

If the purchaser is a business based outside the UK, the supply is outside the scope of UK VAT and input tax is recoverable subject to the normal rules.

If a contract runs to maturity there is a separate exempt supply of the underlying security. Transactions on exchanges are treated as being made between either the member and the client or the member and the relevant clearing-house. The value of the supply of the securities is the price that was agreed when the contract was made.

8.3 Financial futures – exchange trading

(a) Fees charged by members

Members of certain exchanges deal as principals and the "turn" (sometimes described as "commission") charged by the member to a client for transacting a financial futures contract represents the value of the member's supply. A member may charge for each leg, or for a "round trip" in a closed-out transaction; the full value of each charge will be the measure of the supply for VAT purposes. Whether it is called the "turn" or "commission", you are a principal and the charge is consideration for an exempt supply of financial futures. If your client is a business and belongs outside the UK, your supply is outside the scope of UK VAT. Input tax may be recovered if your client is also outside the EU.

If you are a member and act for another member in executing a transaction then you are a principal and the "turn" or "commission" you charge is exempt. The value of the supply is the amount you charge to the member.

Clearing fees charged by a clearing member to a non-clearing member are also consideration for an exempt supply.

(b) Client to member transactions

There is no supply by a client to a member in a closed-out financial futures transaction. This is because the client purchases an equal and opposite contract and is the recipient rather than the supplier.

(c) Margin payments

Margin payments (whether initial or variation) fall outside the scope of VAT.

8.4 Options contracts

Financial options are exempt from VAT. If you are an agent or intermediary involved in the sale or purchase of a financial option you should see paragraph 8.12 and [section 9](#) for more information about the liability of your supply.

The sale of an option as a financial instrument is a supply of services separate from the underlying transaction to which the option relates.

There are three main types of financial options contracts (for commodity options see Public Notice 701/9 *Derivatives and terminal markets*):

(a) Options based on financial futures contracts

Options on short-term interest rate futures, index based futures and cash settled futures are exempt from VAT. (These are options on cash settled contracts.)

You do not make a further supply when an option is exercised to obtain or supply the underlying futures contracts.

(b) Equity options

These options have equities, rather than financial futures contracts, as the underlying instrument and they are exempt from VAT. If such an option is exercised there will be a further exempt supply of equities. (These are options on non-cash settled contracts.)

(c) Index-based options

Unlike equity options described at (b) above, index-based options do not provide for delivery but are cash settled. This type of option is exempt (as an option on a cash settled contract).

When you sell a financial option in return for a premium you have granted a right. The value of your supply is the premium you charge and your supply is exempt. If your customer is a business based outside the UK your supply will be outside the scope of UK VAT. You may be able to recover input tax if your customer is based outside the EU, subject to the normal rules.

8.5 Other types of trading and payments – trade by locals

Locals are traders registered to members of exchanges who act in an independent capacity to some degree, but in the embodiment of the member to whom the local is registered. Locals can be employees, self-employed or engaged in a joint venture or partnership with a member. The VAT treatment depends on the status of the local.

(a) Employee locals

Employee locals may manage or trade on an account for their member and will be on the member's payroll. The payments from the member to the local are outside the scope of VAT.

(b) Self-employed locals

Self-employed locals may trade on their own account. When the local makes a trade it is the member who is the principal to the contract. However, when the trade is completed there is another contract between the member and the local, now in the same position for VAT purposes as a third party client, in which both parties are also principals (that is to say, there is a back-to-back arrangement). The supply made by the member to the client is an exempt supply of a financial futures contract.

A self-employed local may also act as the embodiment of the member with which the local is registered. For VAT purposes the local is acting as an agent – you should see paragraph 8.12 and section 9 for further information about the liability of the agent's supplies.

(c) Joint ventures and partnerships

Where the local and the member are engaged in a joint venture or partnership, every trade executed by the local is a trade of the member to whom the local is registered and the rules regarding transactions by members discussed above will apply to this initial transaction.

The VAT liability of the remuneration received by the local under the joint venture or partnership arrangements will depend on the nature of the agreement between the parties.

8.6 Other types of trading and payments – over-the-counter (OTC)

Financial futures and options can also be traded OTC. These are non-standard contracts traded off-exchange. Both are exempt from VAT and if you are an intermediary see paragraph 8.12 and [section 9](#) for more information.

8.7 Other types of trading and payments – trading on non-UK exchanges

The value and liability of the supplies made for VAT purposes depends on whether you are a principal or an agent in respect of transactions in financial futures and options contracts traded on non-UK exchanges. The rules of the overseas exchange and the local legislation could also have a significant effect on how your transaction should be viewed for UK VAT purposes. Each transaction must be examined and the VAT liability determined on its own merits.

8.8 Other types of trading and payments – interest rate swaps

For VAT purposes, during the term of the swap there is a continuous supply of services and, to the extent that any money changes hands, there is an exempt supply under the VAT Act, Schedule 9, Group 5, item 1.

8.9 Other types of trading and payments – currency swaps

Currency swaps are similar but have a different VAT treatment.

Currency swaps provide both a currency and interest hedge. For VAT purposes no supply takes place in relation to the exchange of principal amounts of underlying loans in currency swaps.

8.10 Other types of trading and payments – financial Spread Bets (FSBs)

This is betting on financial instruments and works in the same way as sports spread betting. It involves speculating by placing a bet on an index - one that is not created by a bookmaker – for example, commodity prices or the FT-SE100 index. In the same way as sports betting, financial spread betting is liable to General Betting Duty and is exempt from VAT under the VAT Act, Schedule 9, Group 4. Duty is calculated by the bookmaker based on the total amount due from customers less any winnings paid out. The duty rate for financial spread bets is 3 per cent of the gross margin. It remains exempt from VAT under the same Group.

8.11 Other types of trading and payments – contracts for Differences (CFDs)

CFD's offer speculators the opportunity to buy or sell the performance of a share, equity etc without the need to own the underlying asset. A contract for differences provided for a consideration (turn/commission etc) is an exempt supply of financial services. The CFD is treated as a cash settled contract for the purposes of defining the VAT liability of an intermediary's supply (see paragraph 8.12 and [section 9](#)).

8.12 Intermediaries' supplies concerning financial derivatives

If you act as an agent, broker or other intermediary for supplies of financial derivatives your service may be exempt from VAT. The rules are different depending on the type of financial service that is provided and so you must find out whether you are arranging a cash settled contract or a non-cash settled contract.

(a) Cash settled contracts

Your supply will be exempt if:

- you act between a person selling and a person buying a cash settled financial derivative and
- you bring those parties together and

- you carry out some form of preparatory work to the conclusion of contracts.

(b) Non cash settled contracts falling within item 6

Your supply will be exempt if:

- you act between a person selling and a person buying non-cash settled financial derivatives and
- you bring those parties together.

For information about cash settled and non-cash settled please see paragraph 8.2.

9. Intermediaries

9.1 What is an exempt supply of intermediary services?

A supplier of an exempt intermediary service is a person who:

- brings together a person seeking a financial service with a person who provides a financial service
- stands between the parties to a contract and acts in an intermediary capacity and
- undertakes work preparatory to the completion of a contract for the provision of financial services, whether or not it is completed.

9.2 What is meant by "financial service"?

A "financial service" for the purposes of the intermediaries' exemption is a service listed in the VAT Act, Schedule 9, Group 5, items 1 to 4 and 6 (see paragraph 10.5).

9.3 What is meant by "work preparatory to the completion of a contract"?

Work preparatory to the completion of a contract refers to work done of a specialised nature. This could include helping to set the terms of the contract or making representations on behalf of a client, but would not include work done of a general nature such as administrative or clerical formalities.

9.4 What if I deal with securities?

Even though the issue of securities is not a supply for VAT purposes (see paragraph 6.1), provided you are introducing someone seeking to purchase the securities to someone issuing the securities (or vice versa) the service will still be exempt. No work preparatory to a contract need be undertaken.

9.5 Services in connection with market research, product design, advertising, promotional or similar services

Services in connection with market research, product design, advertising, promotional or similar services are not covered by the exemption. In addition, you are not an intermediary if you are making supplies of credit management to the person granting the credit. See paragraph 4.10 for further information on credit management.

9.6 Financial investigations

Financial investigation includes activities such as checking the validity of documents, normally on behalf of a financial institution. These services are taxable.

9.7 Corporate finance

If you only provide advice (e.g. on capital raising or on defending take-over bids) your supply is taxable (see paragraph 6.14). Where advice leads to or is associated with a transaction in securities by the client, then the services may themselves be exempt as a provision of intermediary services for a transaction in securities, but only if it meets the criteria set out in paragraph 9.1.

These principles may be applied to contracts that are aborted, but in some circumstances it would be necessary to apportion the liability of the supplies between taxable advice and exempt intermediary services.

You should see paragraph 1.7 for further information on ascertaining the VAT treatment of such supplies.

9.8 Soft commissions

Soft commissions are an arrangement by which an intermediary can use his income from the provider to fund (either directly or indirectly) some of his client's costs, in recognition of the amount of business the client will (or has) put his way.

Soft commissions are outside the scope of VAT as they do not represent consideration for any supply.

9.9 Independent Financial Advisors (IFAs)

If you only provide advice your supply is taxable (see paragraph 6.14).

If you act between your customer and the provider of a financial product, and you meet the criteria set out in paragraph 9.1, then your supply will be exempt.

If you provide both advice and you act between your customer and the provider of a financial product it is important to establish which of the two elements of your service predominates. Where your advice directly results in your customer taking out a financial product and you meet all the criteria for intermediary services in paragraph 9.1, the whole of your service – including the advice element – will be exempt. The advice is seen as ancillary to an exempt intermediary service. If you receive commission from the finance product provider, it is consideration for a separate exempt supply by you of intermediary services.

If, on the other hand, your advice far outweighs the work done to arrange a contract (for example, because a customer has received a general financial health-check, with advice covering a range of financial issues, but then only buys a minor product requiring minimal intermediation), the intermediary service is ancillary to the advice, and VAT is due on the whole supply.

You should see paragraph 1.7 for further information on ascertaining the VAT treatment of such supplies.

9.10 IFA networks

This paragraph applies to circumstances where IFA firms operate as networks through agreements with persons known as appointed representatives (ARs) for whom the authorised IFA firm takes regulatory responsibility. These arrangements enable the AR to carry out regulated activities without the need to be authorised directly by the Financial Services Authority (FSA).

These network arrangements are permitted under UK legislation and are subject to strict regulatory rules. In particular, the following should apply:

- the network appoints the ARs and trains them to operate in accordance with FSA requirements
- in all dealings with the client the ARs make it clear, both orally and on any paperwork, that they are acting on behalf of the network
- the network has the contractual relationship with the financial product providers and at all times the AR acts on the network's behalf
- the network maintains a high level of control over the ARs, carrying out regular checks and audits and imposing sanctions where appropriate

- the network accepts responsibility for the actions of the ARs and handles all customer complaints
- the network holds liability insurance to cover any claims resulting from the activities of the ARs and is legally liable for any sanctions imposed under the Financial Services and Markets Act 2000
- all fees or commissions for regulated activities are paid by the clients or product providers to the network and these form part of the income of the network for accounting and direct tax purposes and
- the network pays the ARs for their services and these payments can be adjusted at the discretion of the network should, for example, the AR be found to have failed to conduct the business in accordance with the regulatory requirements.

When networks operate in this way, in effect a "sub-agency" or "sub-contract" arrangement exists between the network and the ARs. The network acts as principal, making supplies of financial intermediary services to the financial product providers and of advice and/or financial intermediary services to the clients. The networks effectively sub-contract their functions to the ARs who interact directly with the client and the product providers in the provision of individual supplies on behalf of the network.

This means that:

- all payments (whether by fee or commission) received from the product providers or clients for the supplies of financial intermediary services provided via the ARs is the network's VAT exempt income and the onward payments made to the ARs is consideration for the AR's VAT exempt intermediary services supplied to the network
- fees either paid directly to the network or via the ARs, in respect of advice only services supplied via the ARs (which fall outside the exemption for financial intermediary services) is the network's standard rated income. Any onward payments made to the ARs is consideration for the provision of those services by the ARs to the network on which VAT will be due if the AR's taxable income is above the VAT registration threshold
- any optional services supplied by the network to their ARs for additional consideration (such as specific compliance or I.T. services) will be separate supplies and the relevant VAT liability will apply and
- any non-regulated services provided by ARs fall outside the network arrangements altogether and are made directly by the IFA to the client/product provider.

This VAT treatment will not apply to supplies made by networks that do not operate in the way outlined above (for example, firms, which on first appearance look like networks, but are not authorised entities and are set up to provide marketing and/or compliance support services to directly authorised IFA firms). In the event of any doubt, businesses are advised to contact the National Advice Service.

9.11 VAT liability of intermediary services supplied in the UK and their related input VAT recovery position

Services provided to UK customers or to private individuals belonging elsewhere within the EU are exempt and services provided to business customers belonging elsewhere in the EU are outside the scope of VAT. There is no entitlement to deduct related input tax in relation to such supplies except where an "underlying supply" gives rise to an entitlement (see paragraph 9.12).

Services provided to customers belonging outside the EU are outside the scope of VAT and carry an entitlement to deduct related input tax.

9.12 Underlying supplies

Where an intermediary makes exempt or outside the scope supplies to customers belonging in the EU, an entitlement to deduct input tax will also arise if the services are in relation to an underlying **supply** made to a person belonging outside the EU. For example, the services of an intermediary who arranges a sale of shares from a UK customer to a Japanese counterparty will be exempt but, because the place of the underlying supply is outside the EU, carry an entitlement to deduct related input tax.

It should be noted that there must be an underlying supply and there will be no entitlement to deduct input tax in relation to underlying transactions, such as issues of securities, which are not supplies for VAT purposes.

9.13 Frequently asked questions

What if my intermediary service contains more than one component?

If you provide services that include market research, product design, advertising, promotional or services of a similar nature, your supply may still be exempt, provided that they are ancillary to the overall exempt intermediary service (see paragraph 1.7).

What if the financial service is not completed?

If you perform intermediary services in respect of a financial transaction that is not completed, your supply is still exempt.

What if there is more than one intermediary involved?

Your supply will still be exempt provided the relevant conditions set out in paragraph 9.1 are met.

What if my service is paid for in different ways?

Regardless of the fee structure, the VAT liability will depend upon the nature of the service provided.

What if my service is not paid for?

A service provided for no consideration is not a supply and so is outside the scope of UK VAT.

10. The law

10.1 What is this section for?

The paragraphs in this section are extracts from the relevant pieces of UK legislation that cover the zero-rate for bank notes zero-rating and the exemption for financial services.

10.2 The VAT Act 1994 – Section 30

(1) Where a taxable person supplies goods or services and the supply is zero-rated, then, whether or not VAT would be chargeable on the supply apart from this section -

- (a) no VAT shall be charged on the supply but
- (b) it shall in all other respects be treated as a taxable supply

and accordingly the rate at which VAT is treated as charged on the supply shall be nil.

(2) A supply of goods or services is zero-rated by virtue of this subsection if the goods or services are of a description for the time being specified in Schedule 8 or the supply is of a description for the time being so specified.

10.3 The VAT Act 1994 – Section 31

(1) A supply of goods or services is an exempt supply if it is of a description for the time being specified in Schedule 9 and an acquisition of goods from another member State is an exempt acquisition if the goods are acquired in pursuance of an exempt supply.

(2) The Treasury may by order vary that Schedule by adding to or deleting from it any description of supply or by varying any description of supply for the time being specified in it, and the Schedule may be varied so as to describe a supply of goods by reference to the use which has been made of them or to other matters unrelated to the characteristics of the goods themselves.

10.4 The VAT Act 1994 – Schedule 8, Group 11

Item no.

1. The issue by a bank of a note payable to bearer on demand.

10.5 The VAT Act 1994 – Schedule 9, Group 5

Item no.

1. The issue, transfer or receipt of, or any dealing with, money, any security for money or any note or order for the payment of money.

2. The making of any advance or the granting of any credit.

2A. The management of credit by the person granting it.

3. The provision of the facility of instalment credit finance in a hire-purchase, conditional sale or credit sale agreement for which facility a separate charge is made and disclosed to the recipient of the supply of goods.

4. The provision of administrative arrangements and documentation and the transfer of title to the goods in connection with the supply described in item 3 if the total consideration therefor [sic] is specified in the agreement and does not exceed £10.

5. The provision of intermediary services in relation to any transaction comprised in item 1, 2, 3, 4 or 6 (whether or not any such transaction is finally concluded) by a person acting in an intermediary capacity.

5A. The underwriting of an issue within item 1 or any transaction within item 6.

6. The issue, transfer or receipt of, or any dealing with, any security or secondary security being—

(a) shares, stocks, bonds, notes (other than promissory notes), debentures, debenture stock or shares in an oil royalty; or

(b) any document relating to money, in any currency, which has been deposited with the issuer or some other person, being a document which recognises an obligation to pay a stated amount to bearer or to order, with or without interest, and being a document by the delivery of which, with or without endorsement, the right to receive that stated amount, with or without interest, is transferable; or

(c) any bill, note or other obligation of the Treasury or of a Government in any part of the world, being a document by the delivery of which, with or without endorsement, title is transferable, and not being an obligation which is or has been legal tender in any part of the world; or

(d) any letter of allotment or rights, any warrant conferring an option to acquire a security included in this item, any renounceable or scrip certificates, rights coupons, coupons representing dividends or interest on such a security, bond mandates or other documents conferring or containing evidence of title to or rights in respect of such a security; or

(e) units or other documents conferring rights under any trust established for the purpose, or having the effect of providing, for persons having funds available for investment, facilities for the participation by them as beneficiaries under the trust, in any profits or income arising from the acquisition, holding, management or disposal of any property whatsoever.

7. [Omitted by SI 1999/594, article 4]

8. The operation of any current, deposit or savings account.

9. The management of an authorised unit trust scheme or of a trust based scheme.

10. The management of the scheme property of an open-ended investment company.

Notes:

(1) Item 1 does not include anything included in item 6.

(1A) Item 1 does not include a supply of services which is preparatory to the carrying out of a transaction falling within that item.

(2) This Group does not include the supply of a coin or a banknote as a collectors' piece or as an investment article.

(2A) [Omitted by SI 2003/1569, article 2(d)]

(2B) [Omitted by SI 2003/1568, article 2]

(3) Item 2 includes the supply of credit by a person, in connection with a supply of goods or services by him, for which a separate charge is made and disclosed to the recipient of the supply of goods or services.

(4) This Group includes any supply by a person carrying on a credit card, charge card or similar payment card operation made in connection with that operation to a person who accepts the card used in the operation when presented to him in payment for goods or services.

(5) For the purposes of item 5 "**intermediary services**" consist of bringing together, with a view to the provision of financial services -

- (a) persons who are or may be seeking to receive financial services, and
- (b) persons who provide financial services,

together with (in the case of financial services falling within item 1, 2, 3 or 4) the performance of work preparatory to the conclusion of contracts for the provision of those financial services, but do not include the supply of any market research, product design, advertising, promotional or similar services or the collection, collation and provision of information in connection with such activities.

(5A) For the purposes of item 5 a person is "**acting in an intermediary capacity**" wherever he is acting as an intermediary, or one of the intermediaries, between -

- (a) a person who provides financial services, and
- (b) a person who is or may be seeking to receive financial services.

(5B) For the purposes of notes 5 and 5A "**financial services**" means the carrying out of any transaction falling within item 1, 2, 3, 4 or 6.

(6) In item 9 -

"**authorised unit trust scheme**" has the meaning given in section 237(3) of the Financial Services and Markets Act 2000;

"**trust based scheme**" means a scheme the purpose or effect of which is to enable persons taking part in the scheme, by becoming beneficiaries under a trust, to participate in or receive profits or income arising from the acquisition, holding, management or disposal of property of a kind described in section 239(3)(a) of the Financial Services and Markets Act 2000 or sums paid out of such profits or income.

(7) [Omitted by SI 2003/1569, article 2(g)]

(8) For the purposes of item 10, an open-ended investment company's scheme property is the property subject to the collective investment scheme constituted by that company.

(9) [Omitted by SI 2003/1569, article 2(i)]

(10) For the purposes of this Group -

"**collective investment scheme**" has the meaning given in section 235 of the Financial Services and Markets Act 2000; and

"**open-ended investment company**" has the meaning given in section 236 of that Act.

Do you have any comments?

We would be pleased to receive any comments or suggestions you may have about this notice. Please write to:

**HM Revenue and Customs
Financial Services (VAT & IPT) Team
3E/11
100 Parliament Street
London
SW1A 2BQ**

Please note this address is **not for general enquiries**. You should ring our National Advice Service about those.

If you have a complaint or suggestion

If you have a complaint please try to resolve it on the spot with our officer. If you are unable to do so, or have a suggestion about how we can improve our service, you should contact one of our Regional Complaints Units. You will find the telephone number under 'Revenue & Customs' or under 'Customs and Excise' in your local telephone book. Ask for a copy of our code of practice 'Complaints and putting things right' (Notice 1000). You will find further information on our website at <http://www.hmrc.gov.uk>.

If we are unable to resolve your complaint to your satisfaction you can ask the Adjudicator to look into it. The Adjudicator, whose services are free, is a fair and unbiased referee whose recommendations are independent of HM Revenue & Customs.

You can contact the Adjudicator at:

**The Adjudicator's Office
Haymarket House
28 Haymarket
LONDON
SW1Y 4SP**

Phone: (020) 7930 2292

Fax: (020) 7930 2298

Email: adjudicators@gtnet.gov.uk

Internet: <http://www.adjudicatorsoffice.gov.uk/>

Update 1 issued February 2007

This update removes the reference to an agreement between HMCE and the British Bankers' Association (BBA) in paragraph 2.12, the contents of which have now been set out as general guidance. It also corrects a few typing errors, none of which effect VAT treatment.

Section Amendments

2.12 *Delete* the paragraph beginning "We have an agreement ..." and *replace* with the following:

Electronic banking services (including account management) are supplied by banks to customers (both businesses and individuals), as an addition or alternative to conventional banking services. In the case of business customers, the business uses computer equipment, sometimes leased or purchased from the bank, to obtain services which would otherwise have been provided by the bank in the course of its operation of the business's account (such as statements of the business's current balance or transfers of funds between accounts), as well as more general finance related services (such as information about share prices or foreign exchange rates).

To determine the liability of an electronic banking service it should first be established whether it is provided as a supply in its own right or as part of a package of services (see paragraph 1.7). In principle, services which would have been treated as exempt under the VAT Act, Schedule 9, Group 5 if they had been provided by the bank by conventional means should be treated as exempt when provided within the framework of electronic banking services; other finance related services which are not covered by Group 5 should be treated as liable to VAT at the standard rate.

Where charges are made for the supplies detailed below they should be treated as follows:

Supply	Liability
Provision of information on share prices, foreign exchange rates, balances on accounts with other financial institutions	<ul style="list-style-type: none"> • Taxable at the standard rate
Provision of information on the state of the client's accounts by the bank providing the electronic banking services, bank statements, the transfer of funds and the debiting and crediting of accounts	<ul style="list-style-type: none"> • Exempt
Hire of equipment and related charges, such as training, if supplied and shown as a separate item on the invoice	<ul style="list-style-type: none"> • Taxable at the standard rate
Hire of equipment and related charges, such as training, if not shown as a separate item on the invoice	<ul style="list-style-type: none"> • Dependent on predominant or intended use when absorbed with other charges
Hire of equipment which can be used for other purposes (e.g. where the link gives access to Bloomberg etc.)	<ul style="list-style-type: none"> • Taxable at the standard rate
Sale of equipment	<ul style="list-style-type: none"> • Taxable at the standard rate

Service charges/overall service charges	<ul style="list-style-type: none">• Dependent on predominant use
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8.6 *Delete* "... over-the-counter ..." and *replace* with "... Over-The-Counter ...".

8.10 *Delete* "financial ..." and *replace* with "Financial ...".

8.11 *Delete* "contracts for ..." and *replace* with "Contracts For ...".

Update 2 issued April 2007

This update corrects two errors.

Section	Amendments
6.7	Delete the word "not" in the final paragraph after "... for place of supply purposes and therefore are ...".
6.15	Delete "Error! Reference source not found" and replace with "9.11".