

VAT or sales tax

Due to the nature of the services provided by the supplier, VAT usually applies. Where the supplier and the customer are both based in the UK, the supplier charges and collects VAT in the usual way. However, depending on the nature of the services, where the supplier is based outside the UK, often both:

- It does not charge local VAT.
- The customer must operate the reverse charge procedure and account for UK VAT relating to the supply as if it had made the supply itself.

From 1 January 2010, the range of services falling within the reverse charge regime is greatly broadened and there are very few exceptions.

Where the customer's business is fully taxable, it can recover the VAT in full (whether it was paid to the supplier or accounted for to HMRC under the reverse charge procedure). However, where

the customer's business is not fully taxable, the VAT is not fully recoverable (whether paid conventionally or through the reverse charge). Therefore, the outsourcing gives rise to a significant tax cost. This is a significant issue in the financial services and insurance industries.

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