

CHAPTER 8

VALUE OF THE SUPPLY

8.1 Introduction

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

- *VATA 1994, s 19(2)* where the consideration for the supply is wholly in money; and
- *VATA 1994, s 19(3)* where the consideration is not wholly in money.

These general rules are, however, subject to any special valuation rules made by or under *VATA 1994*. These special rules are considered in 8.4 below.

[VATA 1994, s. 19\(1\)](#)

8.2 Consideration wholly in money

The gross value of the supply is the value of the "consideration" that is given for it.

[VATA 1994, s. 19 \(2\)](#)

"Consideration" = Price of the item + the VAT

Therefore **40/47ths** of the consideration is **the net price** and **7/47ths** is **the VAT**.

Now don't forget that the VAT rate is rising to 20% from 4th January 2011. Where you are given a VAT inclusive price after this date you need to take 20/120 to find the VAT, or you can scale this down to 1/6.

For the rest of the examples in this chapter please use a VAT rate of 17.5% or 7/47 as appropriate.

Example 1

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

- a) Marks & Spencer sell a ladies coat at £99.00
VAT due is £
- b) A plumber charges £250 plus VAT to repair a leaky tap
VAT due is £
- c) A book costs £12.00 in Waterstone's Book Shop
VAT due is £

8.3 Consideration not wholly in money

If a supply is for a consideration not consisting, or not wholly consisting, of money, its value is to be taken to be such amount in money as, with addition of the VAT chargeable, is equivalent to the consideration.

[VATA 1994,
s. 19\(3\)](#)

In other words, it is necessary to:

- determine the amount that **would have been given in money** for the supply if goods or services had not instead been used for all or part of the payment; and then
- **multiply that amount by the VAT fraction (7/47)** to establish how much VAT is due.

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

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

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

- non-business use of business assets for no consideration;
- supplies of business goods/assets for no consideration; and
- deemed supplies of business goods/assets on hand at the time of deregistration.

These were covered in Chapter 7.

8.4 Prompt Payment Discount

Some traders offer a prompt payment discount to encourage customers to pay on a timely basis. When valuing goods for VAT, always **assume** that if a prompt payment discount is offered, the **discount will be taken up** by the customer.

[VATA 1994,
Sch 6 Para 4](#)

Thus the VAT is **always charged on the discounted price**, whether or not the discount was actually taken.

Illustration 1

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

Because a prompt payment discount is offered, VAT is calculated on the discounted amount as follows;

	£
Sales price	500.00
Less; 10% discount	<u>(50.00)</u>
Discounted price	450.00
Add; VAT @ 17½%	<u>78.75</u>
Consideration due	<u>528.75</u>

Assume the customer doesn't pay within 7 days (and therefore doesn't receive the 10% discount. The revised position would be;

	£
Sales price	500.00
Less; discount	<u>(NIL)</u>
Discounted price	500.00
Add; VAT @ 17½%	<u>78.75</u>
Consideration due	<u>578.75</u>

Note that the VAT remains unchanged.

Example 2

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

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

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

8.5 Mixed and Composite Supplies

There are two different types of supply. The **mixed** (or multiple) supply and the **composite** (or compound) supply.

A **mixed** supply is where there are **individual elements** within the supply that are **treated separately for VAT**.

For example, assume a student purchases a correspondence course and teaching courses from Tolley, all within one price. A course is standard-rated and books are zero-rated. They are effectively treated as separate supplies, even though the student might purchase them together. The individual elements are treated separately for VAT and the price of the two separate elements has to be apportioned for VAT.

This is contrasted to the **composite** supply where there is just a **single supply** although it might be made up of lots of different things. A compound supply is a single supply with a **single VAT liability**.

For example, assume a traveller buys a plane ticket to fly to New York. The traveller will be provided with a meal on the flight. Air transport is zero-rated and catering is standard-rated. However, the traveller is buying a complete package and it is difficult to separate the two elements. In addition the meal is an incidental part of the overall flight to New York - the traveller is essentially paying to fly, not to eat. In such a case, this composite supply would just be treated as a single zero-rated supply of a plane ticket to New York.

Case law has confirmed that the purchaser's perception of what they are buying is the key factor in determining whether a supply is a mixed or composite supply. When you buy a plane ticket, the in-flight meal is ancillary to the plane ticket and therefore the supply is a composite supply of air travel. If the purchaser believes the two elements of a supply are of equal importance, the supply will generally be mixed and subject to an apportionment calculation.

Illustration 3

Tolley Tax Training offers a lecture course and study materials for £2,400 plus VAT. The cost to the training company for the study books is £400 and the cost of the course is £800.

The manuals are a zero-rated supply of printed matter and the course a standard-rated supply. This is a mixed supply.

Notice 700 published by HMRC suggests using either the **cost** of each element or the **selling price** of each element to apportion total consideration. In our illustration we shall use cost to apportion this mixed supply.

Notice 700

The total cost is £(400 + 800) = £1,200,

<u>400</u>			
1,200	x £2,400	= zero-rated output =	£800
<u>800</u>			
1,200	x £2,400	= standard-rated output =	£1,600
			<u>£2,400</u>

VAT due:

£800 @ 0%		nil
£1,600 @ 17.5%		<u>280.00</u>
Total VAT Due:		<u>£280.00</u>

Example 3

For each of these supplies decide whether there is a mixed / multiple supply or a compound / composite supply.

	Mixed/ Multiple Supply	Compound/ Composite Supply
a) A box of Earl Grey Tea comes with a china teapot as a special Christmas promotion	<input type="checkbox"/>	<input type="checkbox"/>
b) A language school sells courses and books for a total fee of £500.	<input type="checkbox"/>	<input type="checkbox"/>
c) Ticket to fly to Rome includes a standard lunch	<input type="checkbox"/>	<input type="checkbox"/>

Answer 1

- a) £14.74
The first item is for sale in Marks & Spencer and the price shown will be the consideration, i.e. the VAT inclusive price. Thus $7/47$ of £99 gives us £14.74.
- b) £43.75
The second item is a plumber charging £250 plus VAT for services, so the price being shown is not the consideration because the VAT is not included and has to be added on top to get to consideration. To work out the VAT we charge 17.5% of £250 and get £43.75.
- c) Nil
The third item is a book being sold for £12. It is a shop, so the price shown is the consideration. However, books are zero-rated supplies so 0% VAT is added to this price paid to give both a price paid and a consideration of £12 and zero VAT.

Answer 2

The correct answer calculates VAT on the discounted amount even though the discount was not taken because the company paid late. £1,000 less 2% discount is £980, which at 17.5%, gives us £171.50 of VAT. The company will pay £1,000 plus £171.50 of VAT (i.e. £1,171.50).

Answer 3

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

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

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