

# VAT Brief

## In this edition ...

of VAT Brief we highlight the potential VAT issues for businesses to consider in respect of the new VAT rules concerning supplies consisting of separately identifiable goods and/or services and how the new provisions will apply in practice.

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### Removal of package rule

As you may be aware, the 2006 Finance Bill had in effect removed the package rule as it is currently applied and introduced the concepts of "Composite" and "Multiple" supplies. This provision has come into operation on 1 November 2006.

### Package rule

Previously under the package rule, where goods and /or services were sold as a package for a single consideration, the VAT rate applicable to the package was the rate appropriate to the highest rated item contained therein. For example, if a magazine was sold with a cover mounted CD, the standard rate of VAT, namely 21%, would be levied on the sale.

## "Composite" and "Multiple" supplies

The package rule has now been replaced with the concepts of "Composite Supply" and "Multiple Supply".

In summary, the VAT rate applicable on a composite supply (i.e. a supply which comprises of a principal and an ancillary element) will now be the rate appropriate to the principal element. Whereas, the VAT rate/s applicable to a multiple supply (i.e. a supply comprising of a number of individual supplies that are physically and economically dissociable for a single consideration) will be the VAT rate/s appropriate to each individual supply.

The following are the examples of a multiple supply as listed by the Revenue Commissioners in their information leaflet; food hampers, a meal made up of food and soft drink sold for single price, car repair services with the fitting of a set of tyres for a single price. The example of a composite supply listed in the information leaflet includes a supply of a mobile phone with an instruction booklet.

## What is the effect of "Composite" and "Multiple" supplies on VAT?

Ever since the start of VAT there have been problems in deciding the proper VAT treatment of supplies consisting of separately identifiable goods and/or services. This is particularly relevant where some elements are taxable at the standard rate of VAT and others which, if supplied on their own, would qualify for the reduced rate of VAT, the zero rate or VAT exemption.

Taking our earlier example of a magazine sold with a cover mounted CD. Is this to be treated as a composite or a multiple supply? Under the new rules, a magazine supplied with the CD should be taxed as a multiple supply (i.e. at the separate rates applicable to the magazine and the CD).

Taking our example further, previously under the package rule, the sale of a magazine with cover mounted CD for

a single price of € 6 would historically be recorded as net € 4.96, VAT € 1.04, gross € 6. However, if we apply the new rules and we treat this transaction as a multiple supply, we would record the same transaction for VAT as the separate sale of a magazine subject to VAT at the 13.5% and the separate sale of a CD subject to VAT at 21%.

If a value of € 3 is attributable to both the magazine and CD respectively, the sale of magazine would be recorded as net € 2.64, VAT € 0.36, gross € 3 and the sale of CD would be recorded net € 2.48, VAT € 0.52, gross € 3. This means that VAT payable on the sale of magazine with cover mounted CD for a single price of € 6 is now € 0.88 compared to € 1.04 previously; giving a composite rate of VAT of 17%.

Another example to consider would be the sale of spectacles supplied together with eye testing for a single price. The sale of spectacles is subject to VAT at 21% and eye testing is VAT exempt. Under the package rule, the sale of spectacles together with the eye testing for the single price of, for example, € 100 would be recorded as net € 82.65, VAT € 17.35, gross € 100. This transaction is treated as a multiple supply under the new rules and the sale of spectacles and eye testing services is treated separately for VAT. If a value of € 50 is attributable to spectacles and eye testing respectively, the sale of the spectacles would be recorded as net € 41.32, VAT € 8.68, gross € 50 and the sale of eye testing would be recorded net € 50, VAT € 0, gross € 50, reducing VAT payable from € 17.35 to € 8.68 and giving a composite rate of VAT of 9.5%.

Over the years there have been several precedent European Court of Justice cases concerning this issue that have produced general guidelines on how to approach the problem. However, these precedents have not provided any certainty on the issue and this has generally led to cases being considered in isolation. The new legislation brings some clarity on the issue, but also some confusion when determining VAT rates.

The following list illustrates some of the areas on which the issue of single and multiple supplies could have an impact:

- Glasses provided with eye testing
- Linked promotional goods
- Installed goods
- Programme listing magazines and broadcasting services
- Cover mounted goods supplied with magazines

## De minimus rule and its effect on "Multiple" supplies

The new legislation provides for a simplification measure in circumstances where the cost (to the supplier) of an individual supply (or supplies) in a multiple supply is less than € 1 and, at the same time, it does not exceed 50% of the selling price of the multiple supply. In that case, the individual supply can be disregarded and the VAT rate applicable to the multiple supply is the rate appropriate to the remaining individual supply.

For example, where a jar of coffee is sold with a bar of chocolate for a single price € 4, this is treated as a multiple supply. Accordingly, we would record the transaction for VAT as the separate sale of a jar of coffee subject to VAT at the 0% and the separate sale of a chocolate bar subject to VAT at 21%

If the cost of the chocolate bar to the retailer is for instance € 0.30 (i.e. less than € 1 and less than 50% of the selling price of € 4), this individual supply can be disregarded and the sale of a jar of coffee with a bar of chocolate for a single price € 4 is taxed by reference to the VAT rate appropriate to the jar of coffee (i.e. to VAT at 0%).

## Conclusion

If you make any supplies to which you think the same considerations apply, the VAT treatment of these supplies should be reviewed in the light of the new legislation and any necessary changes will need to be implemented with effect from 1 November 2006. For example, accounting systems will need to be reviewed to ensure that the new rules and associated composite VAT rates can be adopted.