

### VAT Treatment of Retail Vouchers

The following has been agreed with HMRC VAT Policy Team.

#### **Reward & Recognition Retail Vouchers**

When Government Departments issue retail vouchers to staff for reward and recognition purposes, then:

1. Where a GD sources vouchers from a 3<sup>rd</sup> party and does not recover VAT incurred on the voucher service supply, the GD does not need to account for output VAT on the issue of vouchers to staff given as reward & recognition.
2. GDs cannot recover VAT under the HMT Contracted-Out Scheme (COS) because no COS heading is applicable.
3. VAT can only be recovered under normal business rules and if a GD recovers VAT on the voucher service supply under normal business rules, then to the extent of VAT recovered, output VAT must be accounted for and paid to HMRC.

#### **Retail Vouchers given under a Salary Sacrifice Arrangement**

Normally GDs are limited to salary sacrifice arrangements for childcare and cycle to work schemes. The VAT treatment of the cycle to work scheme is detailed below (note: childcare vouchers are exempt from VAT).

4. GDs who provide benefits (i.e. a cycle to work scheme) under a salary sacrifice scheme to their employees, are required to account for output tax on those supplies where they are subject to VAT. This supply is a business activity.
5. GDs are required to account for output tax on the value of the salary foregone by the employee in exchange for the supply of bicycle hire and GDs can recover the VAT on the purchase of the bicycles and the voucher service, subject to normal rules (note: the VAT incurred that relates to any supply of childcare vouchers cannot be recovered as they are directly attributable to an exempt supply).
6. If the bicycle is sold on to the employee, this is a separate transaction for VAT purposes and VAT is due on the sale, the value will normally be based on the price of an identical or similar item. This [table](#) used to value bicycles for Direct tax purposes may be used in this instance to reduce administrative burdens.
7. There is no legal requirement to issue VAT invoices to customers who are not VAT registered, so GDs are therefore not required to issue VAT invoices to their employees for the supply.

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If you have any questions on the above, please get in touch with your hub contact.