



Tax Centre of Excellence

Government Procurement Card use: Tax implications (and COVID-19 risks) Supplementary Guidance – [09/07/2020]

Introduction

The Tax Centre of Excellence (CoE) is a central resource for departmental tax advice and services available to government departments. Further information on the Tax CoE can be found at the [Tax CoE website](#).

The Government Procurement Card (GPC), which may also have other names and abbreviations (e.g. ePCS), is a corporate purchasing card which can be used by departmental staff, usually for low value transactions which comply with individual departmental policy. Activity on the card may have certain tax implications related to VAT and direct tax which must be handled in accordance with tax legislation and HMRC guidance.

This document highlights various tax implications that may arise from the use of GPCs. It is always important to ensure that tax implications have been given due consideration, and this is more so the case in recent times following the recent Cabinet Office directive [Procurement Policy Note 03/20: Use of procurement cards - COVID-19](#) to relax restrictions on the use of GPCs; this is to help suppliers deal with COVID-19 pressures. There is also the potential for more frequent use of the GPC in future due to its utility and efficiency compared to usual government purchasing methods, and so this guidance will remain relevant outside of the COVID-19 period.

This guidance does not cover all potential tax implications, but highlights prominent areas for your department to consider, and does not represent a departmental GPC policy – i.e. your departmental GPC policy will apply in terms of what users can and cannot spend on using GPCs.

This is supplementary guidance and does not replace or modify HMRC's own guidance which is available on gov.uk. References to related public-sector guidance can be found below and more specific links are provided in each section: [Cross-government GPC policy paper](#)

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1. VAT implications

When making purchases on a GPC, and as with other procurement routes, there are certain VAT implications related to VAT recovery and the VAT reverse charge (for overseas supplies) that must be accounted for.

UK supplier purchases

When making purchases from a UK supplier, the supplier may charge VAT on the net cost of the good or service, depending on the nature of the supply and whether the supplier is VAT registered. For further information on the types of goods and services that attract VAT please refer to the [HMRC VAT notice list](#).

Where VAT has been charged by the supplier, a process will be needed to identify any purchases that are eligible for VAT recovery, either under the [usual HMRC business rules for VAT recovery](#), or under the [Contracted Out Service \(COS\) headings](#) which apply to government departments. The Tax CoE has published explanatory COS heading guidance which can be found at the [Tax CoE COS headings page](#).

Overseas supplier purchases

When making purchases from an overseas supplier, the supplier should not charge UK VAT, however your department may need to self-charge VAT depending on the 'place of supply' and the nature of the supply (this is known as the 'reverse charge'). For information regarding the place of supply VAT rules for overseas supplies please refer to [HMRC VAT Notice 741a for services](#), and [HMRC's internal manual on the place of supply for goods](#). Your department needs to have a process in place to account for the reverse charge on any overseas GPC purchases.

In addition to the above, and akin to UK supplier purchases, your department should have a process in place to identify any self-charged VAT that may be recoverable. Recommended high level processes are outlined in section three of this document.

2. Taxable benefits and expenses implications

When a department provides/pays for certain items for use by employees there may be tax, National Insurance (NI) and reporting obligations to comply with. Highlighted below are purchases that are commonly made through the GPC which may be taxable.

Working lunches

When working lunches are provided for employees by a department, there may be tax and NI liabilities depending on the circumstances. If your department is providing working lunches that are free or subsidised (to a reasonable value), at a workplace canteen open to

all staff, or if your department provides vouchers to employees that cover the cost of such meals, then there are no tax and NI liabilities and no need for reporting to HMRC.

Otherwise, there are likely to be tax and/or NI liabilities for staff that are ordinarily based at or close to this location. For further information regarding working lunches and when there may be tax and NI liabilities, please refer to [HMRC's expenses and benefits guidance for meals for employees](#).

Equipment supplied for home working

When equipment is provided by a department to employees for home working, these will not be liable for tax where:

- The supplies or services are provided for the sole purpose of enabling the employee to perform the duties of employment; and
- the individual uses these to perform the duties of employment; and
- private use is not significant.

There will be tax and NI liabilities if ownership is transferred to the employee or if there is private use rather than sole business use. This is especially pertinent in the current COVID19 climate where home-working is widespread and where GPCs may be used to procure equipment. Please refer to the [Tax CoE COVID-19 taxable expenses guidance](#) and the [HMRC taxable expenses guidance for working from home due to COVID-19](#) for further information.

Travel to places of work

When costs of travel from home to the employee's permanent workplace are met by a department, there will be tax and NI implications.

This will also be applicable to travel from home to dual workplaces and locations broadly in the same direction as a permanent workplace which are also considered to be ordinary commutes. For further information please refer to the [Tax CoE COVID-19 taxable expenses guidance](#) and [HMRC's expenses and benefits guidance for travel and subsistence](#).

3. How to manage tax – best practice outline

VAT

Depending on the capabilities of your finance system, and the accuracy of reporting data, your department may be able to automate the VAT treatment determination and related accounting process, as outlined below:

1. The GPC provider's system should have the capability to report to your department the nature of your purchases and related spend and supplier details.

- a. This reporting information should include Merchant Category Code (MCC) data which describes the nature of the purchase based on the supplies that the supplier normally makes.
2. MCCs can be mapped to procurement categories which describe purchases, and would enable your finance system to automate the VAT treatment and accounting for supplies procured from both UK and overseas suppliers (overseas suppliers should be identified using the supplier record).
3. This automation would not be suitable for suppliers that provide a wide range of goods and services but are reported under a single MCC. Note: the MCC is determined by the payment network (e.g. VISA) based on the supplier and what they supply, the department or GPC provider does not set this.

Alternatively, if your finance system is not capable of automating this process, your department will need to manually inspect the data provided by the GPC provider. For UK suppliers you should identify what has been supplied to understand whether it is a VATbearing transaction (as the GPC provider data may only provide gross figures), and to decide on VAT recovery. If VAT appears to be recoverable, you would need to request a VAT invoice from the supplier, unless the GPC provider data includes a valid electronic VAT invoice. For overseas suppliers, you should consider what has been purchased and decide whether the 'reverse charge' would apply, and if so, whether the VAT can be recovered. If the reverse charge does apply, you would need to request a copy of the supplier invoice.

Taxable benefits and expenses

There can be personal taxation implications regarding certain types of GPC procurements as outlined in section two. Normally departmental policies require alternative routes for travel and subsistence expenses, however you should be mindful of exceptions where GPCs are used for these types of expenses. Due to the extensive and complex scenarios which give rise to personal tax liabilities it would not generally be possible to automate the tax treatment and reporting of these transactions to HMRC.

As such, your department would need to manually inspect the data provided, and identify the types of purchases that will have tax and NI implications and that need to be reported and taxed either through PAYE, the PAYE Settlement Agreement (PSA), or P11Ds. The team handling this process may need to contact the GPC user to understand the context of the expense, and query the individual's circumstances (e.g. to understand dual workplace implications). Where automation is possible using finance systems, this should be adopted by your department.

There should be ongoing assurance reviews to confirm that tax implications are being identified and accounted for appropriately.

4. GPC use risks and mitigations

Due to the nature of GPCs, there are certain associated risks that your department should be aware of.

MCC data may not be accurate

As mentioned in section three, there is a risk that MCC data is not accurate in describing a purchase. This would normally be the case where you have suppliers who provide a range of goods and services, which means that it would not be reliable to use MCC descriptions to make tax determinations for such suppliers. Your department should make informed decisions, ensuring you have accurate information on the supplies you are buying, the locations of suppliers and the purpose/recipient of any goods or services being procured.

Valid VAT invoices, tax points and VAT recovery

To ensure your department can recover VAT (where eligible), you will need to receive a VAT invoice with the sufficient level of detail. This will be either a Line Item Detail (LID) VAT invoice or a summary VAT invoice. For LID VAT invoices, the invoice report is sufficient for VAT recovery purposes, and the 'transmission date' would be the tax point. For summary VAT invoices, they must contain the required information as per paragraph 4.3 of the [HMRC VAT Notice 701/48 Corporate Purchasing Cards](#); you should request a full VAT invoice should the summary not have enough detail.

Refunds of GPC payments

The department needs to scrutinise refunds of GPC payments, and reverse the original tax treatment applied.

Increased use of GPCs

GPCs are being recommended as one of the preferred methods of payment by central government in recent times. The [Procurement Policy Note 03/20: Use of procurement cards – COVID-19](#) linked earlier, enables and permits departments to use GPCs more freely and so it is likely that departments would see an increased use of GPCs. For example, it is advised that the single transaction spending limit should be raised to £20,000 for key card holders. This presents a challenge as departments must ensure that appropriate processes are in place to deal with tax despite increased volumes of transactions i.e. it is important that the processes adopted are scalable and able to accurately treat and account for tax. Note: the departmental GPC policy regarding card usage and limits should still be followed.

Your feedback is important to us to understand how helpful our guidance is and how we can develop these so that they support you effectively in the future. Please email the [Tax CoE inbox](#) if you have found this useful, if you have any questions or would like further assistance from us.

This topic will also be covered as part of future Tax CoE upskilling calls, please get in touch via our inbox if you would like details for these calls.