

### **Changes to place of supply rules**

On 1 September 2006 France implemented sweeping changes to its place of supply rules. The changes in France are in advance of an EU wide proposal, implementation of which is imminent. It is useful to consider the experience of the French as an indicator of the issues likely to be faced by companies in the UK.

At the core of the EU changes are the place of supply rules that currently tax services between EU member states in the location of the supplier. The proposal is for most services within the EU to be taxed where the recipient of the supply is established under the reverse charge mechanism. There are clear advantages to the proposed system, particularly enhanced cash flow.

France implemented its changeover to the reverse charge system for all domestic supplies of goods and services by non-established persons on a compulsory basis and with no transitional period. Errors, such as the omission of invoice declarations, are being punished with a five percent non-compliance penalty.

In the UK we have the benefit of a short period before the proposals are brought into effect. Companies would be prudent to use this period to consider and plan for the effect the changes will have upon their business models and accounting practices.