

**Outsourced services
Zurich loses in Court of Appeal**

This is an important case for businesses receiving outsourced services from non-EU locations e.g. India.

Initially Zurich won at Tribunal on the basis that a consultancy contract between Zurich in Switzerland and PWC in Switzerland was neither in the EU or UK and was not therefore subject to UK VAT. However the high Court and now the Court of Appeal have said that the work orders covering Zurich UK software were performed by supplying the service to Zurich's UK offices. Thus PWC AG were supplying Zurich UK and Zurich UK had to account for VAT under the reverse charge procedure.

It was not suggested that PWC UK were supplying Zurich UK the result of which would be that PWC UK would have to charge UK VAT, (as sometimes happens with some Indian branches or subsidiaries), because the contract was between two Swiss entities. However amongst other things the judgement said "VAT is not charged on the supply of the service of making a contract for services. It is charged on the supply of the services which have been contracted to be supplied" and that was to the UK.

Originally the reverse charge was operated on 21% of the supply only with the illusive 79% seeming not to attract VAT. The reverse charge is the mechanism by which input VAT is self accounted for and is intended to stop businesses from saving VAT by buying services from outside the EU.

N.B. If you are in similar circumstances and you have an extra VAT cost you should not forget the possibility of capital allowances if you capitalise the cost.