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# Brexit – VAT implications

## 1. Exports

### 1.1. Introduction

- Currently goods sold to EU VAT registered customers are zero rated (the customer's VAT number should be quoted on the sales invoice and evidence of dispatch retained).
- Goods sold to non-registered customers are subject to UK or EU VAT depending on whether the supplier is registered in the destination member state.
- Post Brexit:
  - All sales to the EU will be exports;
  - Exports are zero-rated in the UK. Import VAT and duty must be paid for them to cross the tariff wall surrounding the EU;
  - Exporters may need to register for VAT in the EU in order to recover import VAT and, possibly, charge EU VAT on the sale (depends on who the importer of record is);
  - EC sales lists will no longer be required. HMRC has not made an announcement regarding Intrastat supplementary declarations.

#### **Weblink:**

- HMRC have published a partnership pack regarding the changes to export and import processes. Although focusses on a no-deal Brexit much of the content will also be applicable in the event that a transition deal is agreed with the EU.
- The pack can be accessed here:

<https://www.gov.uk/government/publications/partnership-pack-preparing-for-a-no-deal-eu-exit>

NOTE: HMRC's announcements to date include facilitation and simplification measures aimed at minimising the disruption caused by a no-deal Brexit. Many of these announcement do not apply to the Northern Ireland – Ireland border.

### 1.2. Exporting Goods

- There are two aspects to the export of goods from the UK:
- Report the **departure** of the goods to UK Customs:
  - Exporter must register for an EORI number;
  - Ensure goods are correctly classified for Customs purposes;
  - Apply for any licences which may be required.
  - Declare export on National Export System.
- Declare the **arrival** of the goods when they reach their destination country:
  - Complete Customs declaration in arrival country;
  - Pay import VAT and duty due

- If relief from VAT and duties can be claimed, enter goods for correct customs procedure.
- If goods will travel through an EU Member State or States before destination enter them into transit.

### 1.3. Report Departure

#### EORI Number

- **E**conomic **O**perator and **R**egistration **I**dentification number.
- This is the exporter's VAT number plus a prefix.
- The EORI number must be quoted on export (and import) declarations.
- Apply via HMRC website, very straightforward application form (takes ~10 mins to complete). Turnaround normally 2-3 days
- Exporters will also need a government gateway user ID and password.
- **Weblink:**
- Application form for an eori number can be accessed here:
- <https://www.gov.uk/eori>

#### Classify Goods

- All goods have a customs code –available in the Tariff.
- Correctly classifying the goods ensures that:
  - The export can be reported;
  - Any licencing requirements fulfilled;
  - The correct rate of duty is applied when they arrive at their destination.
- Commodity codes internationally agreed so the code will apply for import documentation on arrival.
- Classification of goods for customs purposes is a very technical area and the advice of a duty specialist may be needed.
- Customs duties (payable when goods are imported at their destination) are ad valorem. Therefore goods must be properly valued.
- **Weblinks:**
- The tariff and guidance on commodity codes is available here:
  - <https://www.gov.uk/trade-tariff>
  - <https://www.gov.uk/guidance/finding-commodity-codes-for-imports-or-exports>
- Guidance on valuing goods is available here (the rules are standardised under international agreement)
  - <https://www.gov.uk/guidance/imports-and-vat-notice-702>

## Licences

- Export licences are required in order to remove certain goods from the UK.
  - E.g antiques, works of art, plants, medicines, explosives, firearms etc.
- The requirements can be checked by looking up the goods' classification code in the tariff.
- HMRC publish guidance on the goods which are subject to export licences.
- Licensing requirements can differ depending on the destination of the goods, e.g goods with a military application cannot be sold to some countries.
- **Weblink**
- Guidance on licences is available here:
  - <https://www.gov.uk/guidance/export-and-import-licences-for-controlled-goods-and-trading-with-certain-countries>

## National Export System

- Goods leaving the UK must be entered onto the NES.
- Declarations are made via the Customs computer system, CHIEF (Customs Handling of Import and Export Freight).
- CHIEF is currently being replaced by the new Customs Declaration Service (CDS)
- CDS is being phased in over 2018 and 2019. All importers should be using CDS by 'early 2019' and exporters will follow after that.
- Declaration usually filed by the shipper. Exporters should liaise with their shipper to ensure that they have all necessary information.
- **Weblink:**
- Guidance on the NES is available here
  - <https://www.gov.uk/guidance/export-declarations-and-the-national-export-system-export-procedures>

### 1.4. Arrival of goods

#### Customs Declaration

- Goods must clear the border in the country of arrival.
- Goods must be:
  - Correctly classified;
  - Correctly valued;
  - Have the correct importer of record.
- Shipping company should ensure that they have all the necessary information in order to complete formalities on the exporters behalf.
- If relief from duties will be claimed the correct information will need to be included on the import declaration.

- If a duty relief or suspension is claimed goods must be entered to the correct procedure.

### **Pay import VAT and duty**

- Provided goods are correctly classified and valued, the correct amount of VAT and duty should be paid.
- The shipper will normally pay the import VAT and duty on the exporter's behalf and then claim reimbursement.
- Normally paid at the point of import when goods clear customs.
- To recover import VAT the correct evidence must be held (e.g in the UK a C79 certificate is needed, see next section).
- To avoid incurring an irrecoverable VAT cost exporters must confirm evidence requirements and processes rules in country of arrival.
- In some cases it may be best for the customer to be the importer of record.

### **Customs procedures**

- Exporters should confirm whether goods will be entered for a particular customs procedure, e.g:
  - Temporary import relief – enables import VAT and duty to be suspended/reclaimed on temporary imports;
  - Inward processing relief – enables import VAT and duty to be suspended / reclaimed on goods entering a country for the purposes of manufacturing products for export;
  - Transit – the community transit procedure enables goods to travel through EU and EFTA countries
  - Local advice regarding the procedures may be needed.
- If goods are going to enter transit they will be accompanied by a Transit Accompanying Document and enter the Europe wide New Computerised Transit System. The exporter's shipper should be able to assist with this.

#### **1.5. Preparation**

- Brexit will require businesses that have, to date, only traded goods with the EU to change their procedures.
- For most exporters, the process shouldn't be onerous provided that
  - 1) their goods are correctly classified and valued;
  - 2) they have an EORI number; and
  - 3) they have taken advice as to who should be importer of record and how import VAT may be recovered.

A reputable shipping company should be able to file the necessary paper work.

- Exporters of goods which are subject to licensing requirements or who want to use a special procedure (e.g inward processing relief etc) will have additional regulatory requirements.

- There may be special procedures at the Northern Ireland - Ireland border. Not all HMRC's current guidance will apply to this location.

### **1.6. Exports by post**

- Postal packages sent to the EU will also become subject to import rules.
- Suppliers who dispatch goods to the EU via the post must be aware that there is a risk that customers will receive a demand for import VAT and duty from their local post office, which must be paid before the goods are delivered.
- HMRC have announced that, in the event of a no-deal Brexit a new procedure which will enable postal importers to register and pay import taxes will be introduced.
- A similar scheme may apply if a transition deal is agreed.
- Other EU countries may have the facility for postal importers to pay import VAT and duty instead of their customers. UK business will need to check the rules in every country to which they send postal packets.

## **2. Imports**

### **2.1. Introduction**

- Goods arriving in the UK must be presented to Customs at the UK border.
- Goods can enter the UK when they have cleared Customs and all necessary import VAT and duty has been paid.
- As with exports the physical clearing of the goods and reporting to HMRC and Border Force will be done by the shipper.
- Like exporters, importers must:
  - Have an **EORI** number
  - **Classify** their goods correctly for customs purposes and have all necessary licences etc.
  - The tariff has relevant information for each commodity code.
  - **Value** their goods correctly for customs purposes.
  - Confirm who the **importer of record** will be and whether any Customs procedure will be used.

### **2.2. Entry of goods**

- On arrival an import entry is made, electronically, to the Customs Declaration Service (CDS)
- The information is contained on the C88 or SAD form (Single Administrative Document) which accompanies the goods when they are transported across international borders.
- Import VAT and duty is paid at this point, unless the importer has a deferment account or qualifies for a form of duty suspension

- The importer of record's details are confirmed to Customs at this point as they appear on the SAD.

### **2.3. Recovery of import VAT**

- At month end HMRC issue importers with a C79 import VAT certificate. This is a print out of imports reported to the CDS.
- Without the C79 the import VAT is not recoverable. This is why ensuring that the C88/SAD (the forms which accompany the imported goods) has the correct information on it is vital.
- The C79 will not be issued if the importer's EORI number is not quoted on the import documentation.
- Post Brexit UK businesses purchasing goods from the EU must agree with the supplier who the importer of record will be.

### **2.4. Brexit processes**

- The processes which will apply at the UK border depend upon the terms of any transition deal.
- HMRC have announced Transitional Simplification Procedures (TSPs) which will, in the event of a no-deal Brexit, permit importers to defer declarations.
- Registered importers can complete simplified declarations when goods arrive at the border and file full declarations at a later date.
- Procedures which will apply in the event of a no-deal Brexit at the Northern Ireland – Ireland border have not been announced. Current HMRC guidance does not apply to this location.
- **Weblink:**
  - Guidance on the proposed TSPs is available here.
  - <https://www.gov.uk/guidance/register-for-simplified-import-procedures-if-the-uk-leaves-the-eu-without-a-deal>

### **2.5. Postal imports**

- Postal imports arrive in the UK with a Customs declaration attached (completed by sender at their local post office).
- Post Office and Border Force inspect packages and notify the recipient.
- The package is delivered subject to the recipient paying import VAT and duty.
- There are reliefs for postal imports based on value:
  - ≤£15 – no import VAT or duty;
  - ≤£135 - no duty
  - Above £135 import VAT and duty are due on postal imports to the UK
- UK businesses receiving postal imports from the EU post Brexit must;
  - Be aware of the need to pay import VAT & duty and the Royal Mail handling charge; and

- Retain the parcel packaging with its HMRC stamp as evidence to support recovery of the import VAT.
- Business sending parcels to the UK need to
  - Complete customs declarations correctly;
  - Understand that their customers have an import VAT and duty liability.
- There are schemes which permit registered importers to pay import VAT due on parcels in advance. HMRC may extend these to EU suppliers post Brexit.
- In the event of a no-deal Brexit HMRC will introduce a scheme allowing deferment of import VAT due on parcels of ≤£135.
- Weblink:
  - <https://www.gov.uk/government/publications/notice-143-a-guide-for-international-post-users/notice-143-a-guide-for-international-post-users>
  - <https://www.gov.uk/guidance/register-for-simplified-import-procedures-if-the-uk-leaves-the-eu-without-a-deal>

### 3. MOSS

- Suppliers of digital services to EU consumers are required to charge VAT according to where the customer is located.
- The MOSS (mini one stop shop) return allows UK suppliers to register with HMRC and file a single return declaring VAT due in all EU Member States
- Post Brexit, suppliers will remain liable to EU VAT on supplies of digital services to EU consumers
- Non-EU suppliers must register in an EU Member State for the “non Union MOSS”
- Post Brexit UK suppliers will need to register in another EU Member State to file their MOSS return there under the non-Union scheme
- **Weblink:**
  - HMRC’s guidance on the MOSS scheme is here:
  - <https://www.gov.uk/guidance/register-and-use-the-vat-mini-one-stop-shop>
  - Although some details will be different in each Member State, the essential principles of the non-Union MOSS scheme will be the same in whatever EU Member State UK suppliers chose to register.

### 4. EU VAT Refunds

- UK businesses which incur EU VAT on expenses can use the EU wide electronic refund scheme to claim a refund.
- Under the EU wide refund scheme claims are submitted to the business’s local tax authority, so UK businesses submit claims via HMRC.



- Access to the scheme will be lost following Brexit. Post Brexit UK businesses must rely upon the paper based refund scheme available to non-EU claimants.
- Claims must be submitted on paper forms, in the local language, direct to each EU Member State's tax authority.
- UK businesses who incurred EU VAT in 2018 or before 29 March 2019 should submit their claim electronically 11pm on 29 March 2019. This is the time that access to the electronic system will cease if there is a no-deal Brexit.
- Unless the issue is specifically addressed in a transition deal (if any) claims submitted after Brexit must be made on paper forms.