RaynerEssex
chartered accountants
and business advisers

BREXIT - VAT
GOODS (EXPORTS)

GROSVENOR
WEALTH MANAGEMENT

BREXIT - VAT

Do not be distracted with media reports of "deals or no deals" or government uncertainty

Unless Brexit is cancelled, there are few uncertainties relating to VAT/custom duties

Trading with the EU will involve changes to the way businesses do business with the EU

There are few changes in relation to services

The majority of change and impact is with goods

So businesses can and should start to plan for leaving the EU from 31 December 2020

Of course, anything is possible and if an all encompassing deal is agreed, there may be some concessions in technical areas such as Northern Ireland border, import duty rates and maybe some relaxation of red tape, but equally, maybe not

Brexit has always been a business risk and all businesses should review their supply chain, and their customers with a Brexit magnifying glass to identify what, if any, pressure points exist which changes the risk aspects of the business

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BREXIT - VAT

GOODS (EXPORTS)

This presentation is one of a series of presentations.

The topic for this presentation is **GOODS (EXPORTS).**

The format is to reflect on the current, pre-Brexit, treatment of services and then compare with how the treatment will change post-Brexit.

This is a big topic, so will be split into separate presentations for imports, exports, customs duty, documentation and the future.

If there are any questions, then do please contact Jason Croke.

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WEALTH MANAGEMENT

Exports - Place of Supply of Goods

Rules until 31 December 2020

B2B

- EU Customers – Supply is where customer is
- Obtain customer VAT number
- Invoice is zero rated (with proof of removal)
- Complete EC Sales List (ECSL)
- Complete Intrastat (if applicable)
- No import duty payable by seller/recipient
- Import VAT accounted for by buyer (Reverse Charge)

- Non-EU Customers
- Invoice is zero rated (with proof of removal)
- Import duty/Import VAT is payable by customer

Rules from 01 January 2021

B2B

- EU Customers – Supply is where customer is
- ~~Obtain customer VAT number~~
- Invoice is zero rated (with proof of removal)
- ~~Complete EC Sales List (ECSL)~~
- Complete Intrastat (if applicable)
- *Import duty payable by seller or recipient*
- *Import VAT payable by seller or recipient*

- Non-EU Customers
- Invoice is zero rated (with proof of removal)
- Import duty/Import VAT is payable by customer

B2B - What is the impact?

- Goods to EU businesses no longer duty free nor VAT free
- EU business customer will have to pay import duty/VAT to domestic tax office/freight handler, before goods are delivered to them
- Duty will increase the cost of those goods as import duty is not recoverable
- VAT creates a cashflow impact, VAT is recoverable but customer may need to wait until their next (Qtrly) VAT return before reclaiming it
- UK Seller may choose to register for VAT in the EU destination to reclaim VAT/ease admin burden on customer, but import duty still not recoverable and cost to setting up and maintaining an EU VAT registration
- Cost prohibitive if requires VAT registration in every EU member state. Could consider storing goods in EU warehouse, single EU VAT registration but with warehouse and pick/pack costs to consider.

Example 1 – B2B Transaction

B2B – until 31 December 2020

- Crate of car batteries shipped to Austria
  - Zero rated invoice/proof of shipping retained
  - EC Sales List completed
  - Goods arrive with customer, no duty, no VAT
  - Customer accounts for VAT via reverse charge
    - Accounts for VAT on their own VAT return

Example.
Crate selling price is £10,000

Austrian business converts invoice to Euros

Declares 20% (Austrian VAT) output tax and reclaims same as input tax on their VAT return

No duty is payable, VAT is in/out on return

B2B – from 01 January 2021

- Crate of car batteries shipped to Austria
  - Zero rated invoice/proof of shipping retained
  - ~~EC Sales List completed~~
  - Goods arrive with customer no duty, no VAT
  - Duty is 3.7% for goods entering the EU
  - Austrian standard rate of VAT is 20%

Example.
Crate selling price is £10,000

Austrian business converts invoice to Euros

Incurs import charges of €370 (€10,000 x 3.7%)

Incurs import VAT of €2,074 (€10,370 x 20%)

Cannot reclaim the £370 but reclaims the £2,074 on next return/next quarter

Duty is cash out of business, VAT is cash out of business until it is reclaimed afterwards

Other Aspects to Consider

- We will cover import duty in a separate session but to summarise, it is a tax on goods entering the UK or EU, it is not recoverable
- Every item has a commodity code and a duty rate applicable to it, you must know your commodity codes if you are to correctly calculate the rate of duty applicable to your products
- Consider where your customers are and what kind of experience you want them to have, seamless as before or the new normal?
- This works in reverse, so an EU business, selling to a UK business will now see UK duty and UK VAT apply at the UK border, either the UK customer or the EU seller has to pay the duty/VAT and we return to the concept of customer experience, cost and cashflow for the UK buyer/EU seller
- Let us look at another example where the (UK) seller acts as importer of the goods into the (EU) destination.

Example 2 – B2B Transaction

B2B – Customer (EU) is importer

- Crate of car batteries shipped to Austria
  - Zero rated invoice/proof of shipping retained
  - Goods arrive with customer
  - Duty is 3.7% for goods entering the EU
  - Austrian standard rate of VAT is 20%
  - Shipper may pay this and invoice customer or email customer and request payment first, before goods are delivered

Example.
Crate selling price is £10,000

1. Austrian business converts invoice to Euros
2. Incurs import charges of €370 (€10,000 x 3.7%)
3. Incurs import VAT of €2,074 (€10,370 x 20%)
4. Cannot reclaim the £370 but reclaims the £2,074 on next return/next quarter.

B2B – Seller (UK) is importer

- Crate of car batteries shipped to Austria
  - Zero rated invoice/proof of shipping retained
  - Goods arrive at port (i.e., Netherlands)
  - Duty is 3.7% for goods entering the EU plus 21% (Netherlands std rate)
  - UK seller “receives” the goods at destination port (i.e., Netherlands)
  - Shipper pays duty/VAT and invoices to UK seller
  - UK has a Netherlands VAT registration and reclaims import VAT
  - Onward shipped to customer from Netherlands to
  - Netherlands supply for VAT purposes, output tax declared on Netherlands VAT return, zero rated intra-EU supply (Netherlands to Austria) – this is just a suggestion, please take formal advice

In this scenario, the Austrian customer enjoys the same experience as before, accounting for VAT on their VAT return and without duty. However, duty is incurred in Netherlands which UK seller can absorb or add to selling price. VAT is reclaimed in Netherlands but with added cost of local Accountant, extra shipping costs (UK>Netherlands>Austria)

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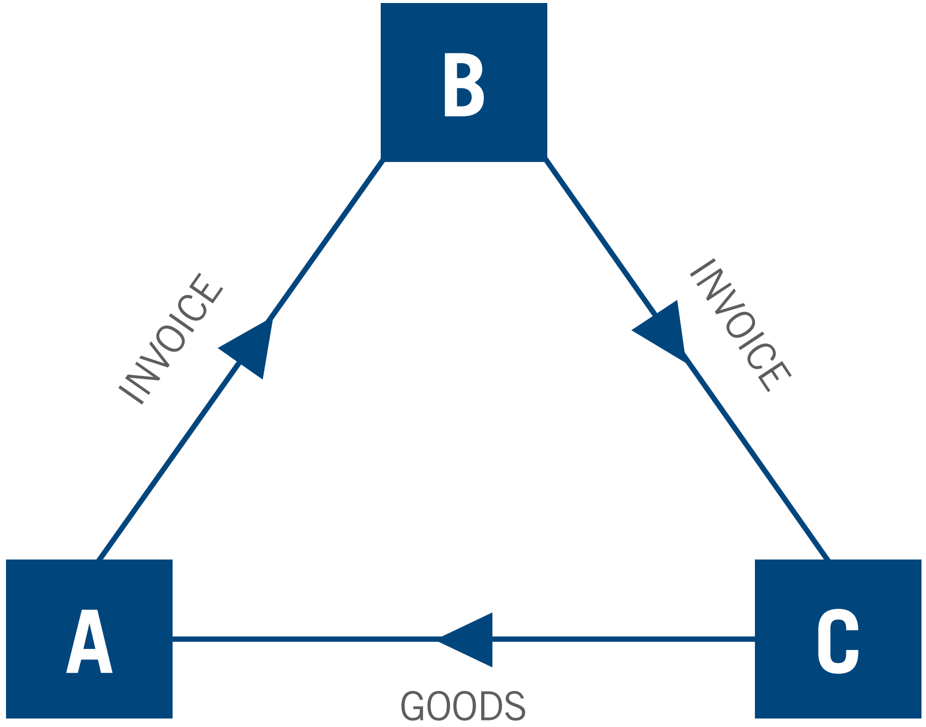
Other Aspects to Consider

- We will cover import documentation in a separate session but to summarise, when exporting goods, certain paperwork and documents must be filed for the goods to smoothly undertake their journey
- You can either do this yourself by registering to use the HMRC system (CHIEF/CDS) and filing your own export documentation or…
- You can engage with an agent to perform these filings for you. An agent will charge you for this service
- Popular postal providers such as TNT, DPD, UPS and Royal Mail can all offer a service to manage the filing of export paperwork, there will be a charge. HMRC publish a list of freight forwarders.
- It may be practical to use an agent initially post Brexit until able to recruit and train internally or use an agent permanently, it all depends upon volume, cost and capability.

www.gov.uk/guidance/appoint-someone-to-deal-with-customs-on-your-behalf

No More EU Simplifications

- Triangulation ends 31st December 2020
- It was an EU simplification where there was a seller, an intermediary and a customer – each in a different EU member state
- Removed need for seller or intermediary to register for VAT in final destination.



Triangulation

- A UK supplier (A) takes an order for a machine from a customer in France (C)
- A doesn't actually make or stock the machine, they place an order with the manufacturer in Germany (B)
- France places order with UK, UK places order with Germany and Germany ships direct to France
- Technically, UK takes possession/legal title to those goods in Germany and would have to register for VAT in Germany for the onward sale to France but Triangulation negates that by allowing UK supplier to zero rate their sale to France and Germany zero rates their sale to UK
- Post Brexit may see the UK supplier having to register for VAT in Germany to make the onward sale to France, with additional.

Place of Supply of Goods

Rules until 31 December 2020
B2C

- EU Customers – Supply is where supplier is
- UK VAT charged
- No import duty payable by seller/recipient
- No import VAT as VAT charged at point of sale
- If sales exceed "distance selling threshold" the seller registers for VAT in the EU Country and stops charging UK VAT

- Non-EU Customers
- Invoice is zero rated (with proof of removal)
- Import duty/Import VAT is payable by customer

Rules from 01 January 2021
B2B

- EU Customers
- Zero rated sale
- *No "distance selling" threshold/regulations*
- *Import duty payable by seller or recipient*
- *Import VAT payable by seller or recipient*
- Similar therefore to B2B rules post Brexit

- Non-EU Customers
- Invoice is zero rated (with proof of removal)
- Import duty/Import VAT is payable by customer

B2C - What is the impact?

- Goods to EU consumers now zero rated (instead of standard rated
- But EU consumers will have to pay import duty/VAT to domestic tax office/freight handler, before goods are delivered to them
- Duty and VAT will increase the cost of those goods as neither import duty nor VAT is recoverable
- UK Seller may choose to register for VAT in the EU destination to reclaim VAT, but import duty not recoverable and cost to setting up and maintaining an EU VAT registration may be prohibitive
- Maintaining a stock in EU retains the familiar EU rules but not without costs. If selling via Amazon or other Online Market Places (OMPs) they will likely require a domestic VAT registration if you are to sell on their platform.

Example 1 – B2C Transaction

B2C – until 31 December 2020

- UK ships handbag to consumer in Spain
  - Standard rated (UK VAT Applies)
  - Goods arrive with customer, no duty (UK VAT charged)
  - Example – UK charges £100 + £20 VAT (£120) and handbag is delivered to Spanish customer
  - If UK sales to Spain exceed €35,000
    - UK supplier registers for Spanish VAT
    - Charges Spanish VAT to Spanish customer
    - Accounts for this VAT on Spanish VAT return
    - Sale not accounted for on UK VAT return

B2C – from 01 January 2021

- UK ships handbag to consumer in Spain
  - *Zero rated export*
  - Goods held at Spanish customs depot
  - Customer pays import duty/VAT and goods are then released
  - No distance selling rules
  - Example – UK seller charges £100 and handbag is delivered after import duty (2%) and VAT (21%) is added by Spanish customs before delivery = £123.42

But this is about the customer experience, the price they pay on your website may not be the final price they pay, your price does not include import duty or VAT, to the consumer buying from the UK is now same as buying from China.

B2C - What is the impact?

- Consider how prices are shown on your website. Do you want customer to pay duty/VAT or will you pay it?
- Your website advertises product at £100.00 is customer aware that they may have to pay import VAT/duty in addition?
- You could act as importer, shipping agent (i.e., TNT) pays the duty/VAT on your behalf, goods delivered to customer with nothing else for customer to pay. Does your shipping agent allow this kind of transaction?
- Shipping agent invoices you for duty/VAT, neither are recoverable but you increase your prices to factor in these costs
- For example, pre-Brexit sold a product for £100 + £20 VAT (£120 total)
- Post Brexit, you know import duty will be 3% and you know the average VAT rate in EU is between 20% - 22%, so you could increase your price by 25% with negligible impact on customer
  - EU price is £125. There is no VAT here payable to HMRC, it is zero rated for UK VAT purposes, but you want to collect the duty/VAT your shipping agent will pay at destination, the average duty/VAT is 25% so EU price £100 + 25% "VAT" = £125.00
  - Your customer was used to paying £120 including UK VAT pre-Brexit, now they are paying £125 which includes their domestic VAT which you have factored into price. How do you show two separate prices on your website (UK price plus UK VAT and EU/rest of world zero rated but with EU VAT factored into price? This is just a suggestion, please take formal advice.

B2C – Import One Stop Shop (IOSS) & Online Market Places (OMP)

- Applies only to B2C sales of goods to EU consumers under £135 (€150) and only the VAT element (no duty on goods < £135)
- Implementation was to be 01st January 2021 but due to Covid19, the OMP rules have been delayed until 01st July 2021
- UK/Non-EU sellers selling to EU consumers will need to register for “OSS” (One Stop Shop), also known as Import One Stop Shop (IOSS)
- Like MOSS (Mini-One Stop Shop) which is for digital services, IOSS is a single EU VAT registration that covers sales to all EU member states
- Sellers who sell vias Online market places (eBay, Amazon), must either prove their IOSS VAT number or else the OMP is obliged to charge VAT, collect from customer and remit to the appropriate VAT authority
- It is expected most OMP’s will simply not allow non-VAT registered traders on their platform or may collect the VAT via their marketplace for additional fees
- The UK will implement a similar version so that EU/Non-UK sellers will have to register for UK VAT or the OMP will become liable for the VAT be default.

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