BREXIT - VAT

GOODS (IMPORTS Part1)

RaynerEssex
chartered accountants
and business advisers

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

RaynerEssex

BREXIT - VAT

GOODS (IMPORTS)

This presentation is one of a series of presentations.

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

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.

Jason Croke
Director VAT

direct dial: +44(0)20 7554 9567
e: jason.croke@rayneressex.com
www.linkedin.com/in/jasoncroke/

GROSVENOR
WEALTH MANAGEMENT

RaynerEssex

Imports - Place of Supply of Goods

Rules until 31 December 2020

B2B

- EU Suppliers – Supply is where customer is
- Obtain customer UK 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

GROSVENOR
WEALTH MANAGEMENT

B2B - What is the impact?

- Goods from EU businesses no longer duty free nor VAT free
- UK business customer will have to pay import duty/VAT to HMRC/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 and there is a new rule that allows UK VAT registered businesses to account for impart VAT on their VAT return (postponed accounting)
- EU Seller may choose to register for VAT in the UK to reclaim VAT/ease admin burden on UK customer, but import duty still not recoverable and cost to setting up and maintaining a UK VAT registration
- EU Supplier could consider storing goods in a UK warehouse, but with additional costs incurred.

RaynerEssex

Example 1 – B2B Transaction

B2B – until 31 December 2020

- Crate of shoes from Italian supplier
  - 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

UK customer converts invoice to GBP

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

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

B2B – from 01 January 2021

- Crate of shoes from Italian supplier
  - Zero rated invoice/proof of shipping retained
  - ~~EC Sales List completed~~
  - Goods arrive with customer no duty, no VAT
  - Duty is 0.00% for these goods entering the UK
  - UK standard rate of VAT is 20%

Example.
Crate selling price is £10,000

UK business converts invoice to GBP

Incurs import charges of £0.00 (€10,000 x 0.00%)

Incurs import VAT of £2,000 (£10,000 x 20%)

No duty for this product type (leather shoes) but sports trainers/shoes of non-leather material the duty is 16%!

Pays and reclaim the £2,000 VAT via VAT return

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, 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
- EU suppliers need to consider where their customers are and what kind of experience they want them to have, seamless as before or the new normal?
- Let us look at another example where the (EU) seller acts as importer of the goods into the (UK) destination.

Example 2 – B2B Transaction

B2B – Customer (EU) is importer

- Crate of textile (not leather) shoes from Italian supplier
  - EU issued Zero rated invoice
  - Goods arrive with UK customer
  - Duty is 16.00% for these goods entering the UK
  - UK standard rate of VAT is 20% (unless children shoes, then 0%)
  - Shipper may pay this and invoice UK customer or email customer and request payment first, before goods are delivered

Example.

Crate selling price is £10,000

1. UK business converts invoice to GBP
2. Incurs import charges of £1,600 (£10,000 x 16%)
3. Incurs import VAT of £2,320 (£11,600 x 20%)
4. Cannot reclaim the £1,600 but reclaims the £2,320 VAT on next return/next quarter.

B2B – Seller (UK) is importer

- Crate of car batteries shipped to Austria
  - Zero rated invoice
  - Goods arrive at UK port
  - Duty is 16% for the goods plus 20% VAT (UK standard rate)
  - EU seller "receives" the goods at destination port (UK)
  - Shipper pays duty/VAT and invoices to EU seller
  - EU supplier not registered for VAT in the UK and incurs irrecoverable cost of UK duty and UK VAT

  Or

  - EU supplier registers for UK VAT, can reclaim the UK import VAT but not the duty which means increasing the selling price by only the duty 16% instead of 36% (16% duty + 20% VAT)
  - The above is just a scenario, seek formal advice beforehand

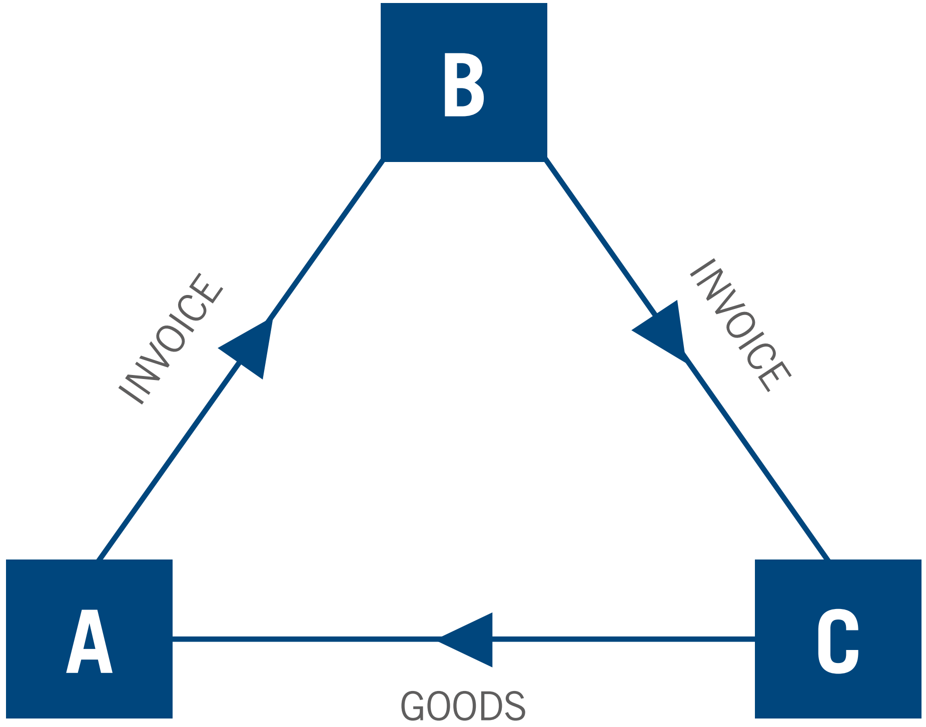
Other Aspects to Consider

- 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 accounting costs – this is just a suggestion, obtain formal advice.

Place of Supply of Goods

Rules until 31 December 2020
B2C

- UK Customers
- EU VAT charged *distance selling rules
- 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 UK consumers now zero rated (instead of standard rated
- But UK 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
- EU Seller may choose to register for VAT in the UK to reclaim UK VAT, but import duty not recoverable and cost to setting up and maintaining a UK VAT registration may be prohibitive
- Maintaining a stock in UK may be useful if selling via Amazon or other Online Market Places (OMPs) who will likely require a UK VAT registration if you are to sell on their platform in the UK.

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 across UK/EU is between 20% - 25%, so you could increase your price by 23% (20% to cover VAT and 3% to cover duty) with negligible impact on customer
  - EU website price is £125, EU seller zero rated sale (previously EU VATable). EU seller will incur import VAT and duty in UK if seller is the importer so the seller could keep their price at £125 to cover cost of the duty/VAT they cannot reclaim in UK and to save customer having to pay duty/VAT to receive their goods
  - The customer was used to paying £120 including EU VAT pre-Brexit, now they are paying £125 which includes UK VAT now factored into price. How do you show two separate prices on your website? 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)
- 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.

RaynerEssex
chartered accountants
and business advisers

LONDON OFFICE

Tavistock House South
Tavistock Square
London WC1H 9LG
t: 020 7388 2641
f: 020 7387 8969
e: th@rayneressex.com

ST. ALBANS OFFICE

Faulkner House
Victoria Street
St. Albans
Herts AL1 3SE
t: 01727 833222
f: 01727 864752
e: fh@rayneressex.com

www.rayneressex.com

GROSVENOR
WEALTH MANAGEMENT