

Exports and dispatches of goods

(Lecture B1090 – 23.03 minutes)

Place of supply of goods

The place of supply is where the goods are located at time of supply (when dispatched to the customer or made available if customer collects). Assets that cannot be dispatched (such as buildings) are supplied where they are located.

Goods supplied in the UK are taxable supplies – they might qualify for zero-rating (see later).

Goods supplied outside the UK are outside the scope of VAT and are generally not reportable on a UK VAT return. There may be a need to register for VAT in the country where goods are supplied from, though.

Common practical problem

A UK supplier has a UK customer who orders goods to be delivered to them in the UK. The supplier sources the goods from a supplier in Hong Kong and they are sent directly from the supplier to the customer.

Where does the supply of goods take place?

A good rule of thumb to use is to look at whether the supplier or the customer is responsible for the importation of the goods to the UK. If it is the customer (i.e. the customer's name is on the import documentation) the supplier has made a supply in Hong Kong which is outside the scope of UK VAT.

If the UK supplier's name is on the import documentation, it has imported the goods and will be liable for any duty and import VAT payable. It will then make domestic UK supply to its customer, charging 20% VAT as the goods are sent to the customer until they are in the UK.

Exports of goods

Exports are where the goods are delivered to a country outside the EU. They are taxable supplies (because they are in the UK at the time of supply), but are zero-rated if certain conditions are met (covered later). If they fail any of the conditions, the goods are treated as supplied within the UK and the appropriate rate of VAT will have to be applied.

Dispatches of goods

Dispatches are where the goods are delivered to another EU member state. Again they are taxable supplies because they are in the UK when they begin their delivery process.

Dispatches are generally only zero-rated when the supplier obtains the customer's VAT registration number and quotes it on the sales invoice. If this is not done (either because the customer is not VAT registered or the supplier fails to obtain the VRN) it is treated as a domestic supply within the UK and the appropriate rate of VAT must be applied.

The one exception to needing the customer's VAT registration number is for the supply of new means of transport (e.g. new cars). In this case, dispatches are always zero-rated and the customer has to pay VAT in the country in which the car is delivered (in the UK, this VAT must be paid before the car can be registered here).

Conditions for exports and dispatches to be zero-rated

Apart from the customer's VRN mentioned above for dispatches, there are several other conditions that must be met for both exports and dispatches to be zero-rated.

The goods must be removed from the UK within three months of the time of supply (which is the earlier of dispatch or cash received). This is extended to six months for goods involved in processing or incorporation into other products prior to removal.

The supplier must obtain either official evidence (i.e. customs generated) or commercial (from a courier or freight forwarder, for example) evidence of removal within the same time limits.

For dispatches, it is important to verify the customer's VAT number. This can be checked by logging onto: http://ec.europa.eu/taxation_customs/vies/vieshome.do

Normally this has full details of who holds the VRN but not always. If not, then contact HMRC to verify by telephone.

Failure to verify can expose the supplier to total tax losses if customer is involved in VAT fraud or if customer fails to account for acquisition VAT in their country.

Indirect exports and dispatches

This is where the customer picks up goods in UK and then dispatches or exports them.

HMRC is concerned that this gives scope for the customer to tell the supplier they are removing them from the UK but they could actually enter free circulation in the UK (in which case UK VAT should have been accounted for).

It is still possible to zero-rate the goods but in this case the supplier must have both official and commercial evidence that the customer actually transported the goods to the intended country within the time limits prescribed.

As the customer contracted with a courier/transport company, the supplier will need to obtain written evidence from that company.

It may be worth asking the customer to pay a 20% refundable deposit on top of the invoice value in case they do not provide the necessary information in time to cover the VAT that will become payable.

Distance selling rules

Because of the way the above rules operate, if a UK supplier sent goods to unregistered customers in (say) France, it would charge UK VAT at the appropriate rate. This money would go to HMRC and be available to the UK Government and the French government would receive nothing.

To protect EU countries in this situation, once a supplier has made supplies of goods to unregistered customers in another EU country above a set threshold in that country (normally either €30,000 or €100,000 at the country's option) during a calendar year, the supplier must register in that country.

From that point, the supplier will have to charge the appropriate rate of VAT for the destination country, file VAT returns in that country and pay the VAT over to the tax authority.

They must also contact the VAT authority in other EU member state at least thirty days before making the first supply to be covered by the option, and register by the date of this supply.

This might be beneficial where, for example, the domestic rate of VAT in the customer's country is below the rate in the UK (because the customers are unregistered, they cannot recover any VAT charged).

Goods lost, destroyed or stolen

If this happens in the UK before the goods have been dispatched there has been no supply so there is nothing to report.

If it happens in the UK after leaving the supplier, while being transported to a customer in another EU member state, VAT is payable at the normal rate unless the supplier holds evidence of the loss (such as an insurance claim or police report). This is to ensure that the goods are not just reported as lost, destroyed or stolen, but then actually enter free circulation in the UK.

If it happened while the goods are being transported to the customer but are now outside the UK, the supplier can continue to zero-rate the supply (if they hold proof of removal from UK and quote the customer's VAT number on the invoice). There may be a VAT liability in member state of where the loss occurs, so this would need to be checked as different countries may have different rules in this situation.

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