

Imports and acquisitions of goods

(Lecture B1089 – 20.12 minutes)

Imports

Goods imported from outside the EU are subject to import duty and VAT by HMRC when they arrive in the UK. Generally the customer must pay these before Customs will release the goods, but it is possible to apply for Duty Deferment.

If the business signs a direct debit mandate for HMRC and gets a bank guarantee for the import duty (not the VAT) HMRC will release the goods without immediate payment. It will send the business a statement of all goods imported each month and the duty and VAT payable. This amount will then be collected by direct debit.

The import VAT can be reclaimed in the same way as VAT charged by a supplier but the duty is not recoverable.

Goods with a value of less than £15 are zero-rated on import, unless they come from the Channel Islands.

Acquisitions

A supplier of goods from another EU country will zero-rate the supply if the UK customer gives them its VAT registration number to quote on the invoice.

HMRC will not charge VAT when the goods arrive.

Instead the UK customer will account for the acquisition in its own VAT return by including output VAT at 20% of the value of the goods in Box 2 and reclaiming this as input VAT as appropriate in Box 4.

Exception to input VAT recovery in Box 4

If a UK business sources goods from one EU member state and delivers direct to a third EU state, and uses its UK VAT number to ensure zero-rating by supplier, it cannot recover the acquisition VAT in box 4 unless acquisition VAT has been accounted for in EU state where goods arrived.

Triangulation

A simplification procedure can be used for a chain of intra-EC supplies of goods where three parties are involved.

Instead of goods passing through the chain they are delivered from the first party to the last party in the chain.

Example

A UK client takes an order from an Italian customer and sources the goods from a Polish supplier (the UK client is an 'intermediate supplier').

The Polish company sends the goods directly to Italian company and invoices the UK company for the goods.

The UK company invoices Italian company for the goods

Without triangulation, the Polish supplier will zero-rate the supply if the UK client gives it its VAT registration number.

The UK client is then treated as acquiring the goods in Italy and selling them locally to an Italian customer. This requires the client to register in Italy, file Italian VAT returns, etc.

If the transaction qualifies for triangulation simplification, the Polish supplier will still zero-rate the supply to the UK client, but this time the Italian customer will account for the goods as an acquisition from the UK client. It will already be VAT-registered in Italy so this is not a problem for it.

This saves the UK client from registering in Italy and its invoice to the customer will be zero-rated using the customer's VAT registration number and stating that the invoice is using the simplification procedure.

Some destination countries' tax authorities (including the UK) require the intermediate supplier (your client) to inform them they will be using the simplification procedure and also to inform the customer in writing (with a copy sent to the tax authority). You may need to take local advice about specific countries' requirements.

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