

## Preparing for Brexit – practical VAT tips

**(Lecture B1230 – 14.29 minutes)**

### *Call-off stock arrangements will change*

An EU concession is that an EU business holding call-off stock in another EU country does not need to register for VAT in that country if a known customer will buy the stock and is registered for VAT in that country – the customer can account for the VAT on his own return when he calls off the stock. But that concession will no longer be available for a GB business when we leave the EU on 31 December.

### *Example*

Imagine that a GB business manufactures ice cream and has one customer in Ireland who is registered for Irish VAT. A stock of ice cream is held in Ireland by the GB supplier, which he owns until the customer needs it and calls it off as and when required. This is a call-off stock situation and means that the GB manufacturer does not currently need an Irish VAT number – a sales invoice is raised each time the customer calls off the stock and the customer accounts for the VAT on his own return. From 1 January 2021, the manufacturer's ice cream will be subject to import VAT and duty when it arrives in Ireland, or any other EU country for that matter. The manufacturer must register for VAT in Ireland, complete Irish VAT returns and charge domestic VAT on future sales. The fact that the goods will be sold to a known VAT registered customer in Ireland is no longer relevant.

### *Overseas business - nil registration threshold*

Why must the manufacturer register for VAT in Ireland? What if his total annual sales of ice cream will be less than the Irish VAT registration threshold? The reason is because an overseas business only gets a threshold in its own country, not for supplies it makes in other EU countries. A zero threshold applies in such cases.

### *EU businesses making supplies in GB*

The opposite situation will also apply from 1 January 2021 ie EU suppliers holding call-off stock in GB will need to register for VAT here. HMRC has accepted requests for registration since 1 October 2020, with the registrations going live on 1 January.

### *MOSS returns*

B2C supplies in the EU of broadcasting, telecommunication and electronic services are taxed according to the VAT rate that applies in the customer's country. The Mini-One-Stop-Shop return is the way a business pays this tax at the end of each calendar quarter. A UK business making B2C digital supplies does not currently have to worry about MOSS if total annual B2C sales in the EU are less than £8,818 ie 10,000 Euros.

If sales are less than this threshold, the supplier charges the VAT rate that applies in his own country. But there will be major changes from 1 January 2021:

- The £8,818 threshold will end - a zero threshold will apply instead;
- A UK business making MOSS sales must register in an EU country of its choice under the non-Union MOSS scheme and submit returns and pay tax in that country. The alternative is to separately register for VAT in each EU country where digital supplies are made, which will be very time-consuming;
- The final UK MOSS return will include sales up to 31 December 2020 and be submitted by 20 January 2021.

*<https://www.gov.uk/guidance/pay-vat-when-you-sell-digital-services-to-eu-customers-after-brex>*

#### *Reclaiming VAT paid in other EU countries*

From 1 January 2021, when we will become a non-EU country (third country in EU speak), procedures will change for a UK business that reclaims VAT paid in other EU countries. Until 31 December, this VAT is recovered by making a single online claim to HMRC, which is forwarded to the tax authorities in the other countries and hopefully repaid within six months. HMRC has confirmed that a business can submit claims up to 31 March 2021 for the December 2020 quarter.

But a non-EU business must submit what is commonly known as a 13th Directive claim instead. The claims must be submitted directly to the tax authority on a paper form, usually in the country's own language. Each EU country might have different deadline dates.

#### *Example*

Imagine the following situation: you travel to the Netherlands on business in 2021 to meet a client and you incur the following expenses while you are there, all include Dutch VAT: car hire, road fuel, hotel bills, food and drink for subsistence, a separate meal for entertaining the client.

As with EU refund claims, the first challenge is to check the input tax rules in the Netherlands to see if any of the above items are non-deductible under local tax law. Dutch tax law blocks input tax claims on business entertaining, as well as food and drink purchased in hotels, cafes and restaurants, so that will reduce your claim.

With regard to submitting a claim to the Netherlands, there is a useful link to get information on the refund procedures relevant to each EU country:

*[https://ec.europa.eu/taxation\\_customs/business/vat/eu-country-specific-information-vat\\_en](https://ec.europa.eu/taxation_customs/business/vat/eu-country-specific-information-vat_en)*

Note - the information for the Netherlands in the above link was very clear. A claim can be submitted each quarter and the deadline for calendar year claims is the following 30 June. And, most importantly, the form can be submitted in Dutch, English or German.

### *Practical issues*

For 13th Directive claims, it is likely to come down to a cost v benefit analysis. Will the time spent dealing with the paperwork and learning Hungarian be worthwhile to claim 100 Euros of VAT?

Alternatively, it might be worth contacting a specialist VAT refund business to deal with the claim. If their fee is based on a percentage of the VAT rather than a fixed amount, this will hopefully be worthwhile.

### *Retail export scheme*

For many years it has been possible for retailers to sell goods to visitors from outside the EU VAT-free through the 'retail export scheme' and at popular holiday destinations many retailers promote 'tax free shopping for tourists'.

The Government has announced that this scheme will cease on 31 December 2020.

Some businesses and trade organisations are pressuring the Government to reverse its decision so a change of policy is a possibility. Retailers who use the scheme must, as well as ensuring that their staff are aware of the change (shop staff may well have to deal with queries from overseas visitors who do not realise that their shopping is 20% more expensive than they had expected), keep monitoring the situation for developments.

### *Triangulation*

Imagine the following situation: Goods are manufactured in Poland (country A); sold to a UK intermediary business (country B); but the goods are shipped directly from Poland to the final customer in Germany (country C).

All customers are registered for VAT in their own country.

Until 31 December 2020, the EU simplification process of triangulation works in this situation ie the supplier in Poland invoices the UK intermediary without charging VAT – and the UK intermediary invoices the customer in Germany without charging UK VAT. The German customer deals with the VAT on his own return by accounting for acquisition tax and claiming input tax. Relevant entries are made on EU Sales Lists for the code of 'triangulation'

This procedure will end for a GB business on 31 December because the triangle is broken when we leave the EU. It only works if A, B and C are all VAT registered in different EU countries. Depending on whether the GB business takes ownership of the goods in Poland or Germany (more likely Germany) it will need to register for VAT in one of these countries ie it is making taxable supplies of goods.

*Contributed by Neil warren*