

Northern Ireland Protocol

(Lecture B1234 – 12.31 minutes)

Background

The Northern Ireland Protocol means that Northern Ireland maintains alignment with the EU VAT rules for goods, including on goods moving to, from and within Northern Ireland. However, Northern Ireland is, and will remain, part of the UK's VAT system.

UK VAT rules related to transactions in services will apply across the whole of the UK. HMRC will continue to be responsible for the operation of VAT and collection of revenues in Northern Ireland.

Under the obligations in the Protocol, import VAT will be due on goods that enter Northern Ireland from Great Britain (England, Scotland and Wales). The same will also broadly apply to goods entering Great Britain from Northern Ireland.

Under the Protocol, transactions in goods between Northern Ireland and EU businesses and consumers will continue as they do today. The same processes and reporting requirements will apply and Northern Ireland businesses intending to make transactions under the Protocol should ensure they are able to continue to operate in this way.

The only change is related to the use of the 'XI' prefix when trading under the Northern Ireland protocol.

Registering for VAT

There will be no requirement for a new VAT registration for sales of goods in Northern Ireland. Existing VAT registrations will be unaffected and there is no need to get another VAT registration.

Businesses will continue to account for VAT on all sales across the UK through their single UK VAT return, which will contain the same boxes as now.

VAT on goods sold between Great Britain and Northern Ireland

VAT will continue to be accounted as it is currently on goods sold between Great Britain and Northern Ireland. This means that the seller of the goods will continue to charge its customers VAT and should show this on its invoices.

The VAT charged will be accounted for as output VAT on the VAT return in the same box as it is now.

Where the customer receives an invoice from the seller showing that VAT has been charged, it may use this as evidence in order to reclaim the VAT as input VAT, subject to the normal rules.

There are a small number of exceptions to this where goods are:

- declared into a special customs procedure when they enter Northern Ireland or Great Britain;
- currently subject to domestic reverse charge rules including on sales of gold or gas and electricity to a VAT registered business;

- subject to an Onward Supply procedure;
- sold by an overseas seller through an online marketplace.

Where the movement of goods is declared into a special customs procedure, the customer or importer will be liable to account for the VAT.

Where goods are sold between Great Britain and Northern Ireland by an overseas seller to a consumer through an online marketplace, the online marketplace will be liable to account for the VAT on these goods.

VAT on goods sold from Great Britain, transported via Northern Ireland, to EU member state

Similar to accounting for a direct movement from Great Britain to Northern Ireland, the seller will be liable to account for the import VAT into Northern Ireland and zero-rating the goods on export to the EU. The VAT charged will be accounted for as output VAT on the UK VAT return by the seller.

VAT on goods sold to Great Britain from an EU member state via Northern Ireland

Where goods are sold and moved via Northern Ireland to Great Britain from a VAT-registered business in an EU member state (including the Republic of Ireland), the seller will be liable to account for the import VAT to HMRC.

The EU business will have to register with HMRC and account for the VAT on a UK VAT return. The UK customer will be able to reclaim the VAT as input VAT, subject to the normal rules.

Businesses moving their own goods from Great Britain to Northern Ireland

When a VAT registered business moves goods from Great Britain into Northern Ireland, VAT will be due. The business will need to account for VAT on the movement. This should be included as output VAT on the VAT return.

Where the goods are being used for taxable sales, the VAT may also be reclaimed as input VAT on its UK VAT return, subject to the normal rules.

Where a business uses the goods for exempt activities, or where the goods are put to partially exempt use, it may be required to make an adjustment to its partial exemption calculations.

Businesses moving their own goods from Northern Ireland to Great Britain

A business will not be required to account for VAT when it moves its goods from Northern Ireland to Great Britain unless these goods have been subject to a sale or supply.

Sales of goods from Great Britain to Northern Ireland, and within Northern Ireland, by members of a UK VAT group

UK VAT groups will continue to operate largely as they do now. VAT groups will continue to be able to include members that are established in Northern Ireland as well as members that are established in Great Britain.

Usually, supplies of goods between members of a VAT group are disregarded for VAT. This means that the group does not have to account for VAT on the supply.

However, where goods are supplied by members of a VAT group, and those goods move from Great Britain to Northern Ireland, VAT will now be due in the same way as when a business moves its own goods.

Where supplies of goods are made between members of a VAT group, and those goods are located in Northern Ireland at the time that they are supplied, these will only be disregarded if both members are established, or have a fixed establishment, in Northern Ireland.

Where one or both members only have establishments in Great Britain, the disregard will not apply and VAT must be accounted for by the representative member. This VAT may be reclaimed subject to the normal rules.

Where a business moves goods from Great Britain to Northern Ireland, after not having reclaimed the associated input VAT in full, then there is a possibility that there will be irrecoverable input VAT incurred again on the same goods.

To prevent this, businesses will be able to reattribute the previously unrecovered input VAT on the original purchase in Great Britain as if the goods had been used for a taxable purchase. This may be taken into account by businesses when making their annual adjustment.

HMRC will be introducing rules to prevent this from being used for avoidance purposes.

Intra-EU simplifications

Intra-EU rules and simplifications, such as triangulation, will not be available for movements of goods involving Great Britain.

Such simplifications will be available for movements of goods involving EU member states and Northern Ireland or where the intermediary is identified as moving goods in, from, or to, Northern Ireland in the course of its business.

Margin Scheme

In line with EU rules, margin schemes involving goods, such as the second-hand margin schemes, will not usually apply for sales in Northern Ireland where the stock is purchased in Great Britain. The VAT on these sales will be subject to the normal rules and must be accounted for on the full value of the supply.

Margin schemes will remain available for sales of goods that are purchased in Northern Ireland or the EU, whether sold to customers in Northern Ireland, Great Britain or the EU.

Margin schemes will remain available for sellers in Great Britain selling stock originally purchased in Northern Ireland or Great Britain.

Fiscal Warehouses

A fiscal warehouse is a facility where certain goods can be traded VAT-free.

Fiscal warehouses will continue to operate in both Great Britain and Northern Ireland and in most cases, transactions within, or between, UK warehouses will be able to continue to be treated as VAT-free.

Where goods are moved between a fiscal warehouse in Great Britain and a fiscal warehouse in Northern Ireland, this will not be treated as a VAT-free movement. The goods would have to exit the fiscal warehouse in Great Britain and be subject to the appropriate VAT, before entering the fiscal warehouse in Northern Ireland.

Contributed by Malcolm Greenbaum