

## HMRC Guidance – No Deal Brexit

### (Lecture B1099 – 14.28 minutes)

On 23 August 2018 HMRC published VAT guidance for a “no deal” Brexit scenario. The government expect a Brexit deal to be reached but feel it prudent to have a contingency plan in place just in case!

*After 29 March 2019 if there's no deal*

The UK will continue to have a VAT system after it leaves the EU. The VAT rules relating to UK domestic transactions will continue to apply to businesses as they do now.

If the UK leaves the EU on 29 March 2019 without a deal, the government aim to keep VAT procedures as close as possible to what they are now. There will however be unavoidable compliance changes that the government is aiming to mitigate as far as possible.

The guidance note summarises the main VAT issues that will affect UK businesses trading with the EU in goods and services if the UK leaves the EU without an agreement on 29 March 2019.

*UK businesses importing goods from the EU*

If the UK leaves the EU without an agreement, the government will introduce postponed accounting for import VAT on goods brought into the UK. This means that UK VAT registered businesses importing goods from the EU to the UK will be able to account for import VAT on their VAT return, rather than paying import VAT on or soon after the time that the goods arrive at the UK border.

To ensure equity of treatment, in a no deal scenario, businesses importing goods will be able to account for their import VAT from non-EU countries in the same way.

Customs declarations and the payment of any other duties will still be required at point of entry to the UK. This is the change that concerns most businesses under a no-deal Brexit i.e. Customs procedures and Customs Duty for EU acquisitions. A no-deal Brexit offers no easements here!

*VAT on goods entering the UK as parcels sent by overseas businesses*

If the UK leaves the EU without an agreement, VAT will be payable on goods entering the UK as parcels sent by overseas businesses.

The guidance note confirms that if the UK leaves the EU without an agreement then Low Value Consignment Relief (LVCR) will no longer apply to any parcels arriving in the UK. This means that all goods entering the UK as parcels sent by overseas businesses will be liable for VAT (unless they are already relieved from VAT under domestic rules, for example zero-rated children's clothing).

For parcels valued up to and including £135, a technology-based solution will allow VAT to be collected from the overseas business selling the goods into the UK.

Overseas businesses will charge VAT at the point of purchase and will be expected to register with an HMRC digital service and account for VAT due.

The digital service is an online registration, accounting, and payments service for overseas businesses. On registration, businesses will be provided with a Unique Identifier which will accompany the parcels they send in to the UK. They will then declare the VAT due on those parcels and pay this via their online account. This ensures the process of paying VAT on parcels does not become burdensome for UK consumers and businesses. To give overseas businesses sufficient time to familiarise themselves with their new obligations, the online service will be available for businesses to register in early 2019, prior to 29 March.

On goods worth more than £135 sent as parcels VAT will continue to be collected from UK recipients in line with current procedures for parcels from non-EU countries. VAT will also continue to be collected in line with current procedures for all excise goods sent as parcels and potentially in cases where their supplier is not compliant with HMRC's new parcels policy. HMRC is working with the relevant industry stakeholders and will provide further information in due course.

#### *VAT on vehicles imported into the UK*

If the UK leaves the EU without an agreement, businesses should continue to notify HMRC about vehicles brought into the UK from abroad as they do now. The Notification of Vehicle Arrival Procedures (NOVA) system will continue to be used for this purpose.

NOVA is an online service that businesses should continue to use to notify HMRC about vehicles brought into the UK from abroad and ensure that VAT is correctly paid on imported vehicles. The Driver Vehicle Licencing Agency (DVLA) will not register a vehicle brought into the UK for use on UK roads unless it has a valid NOVA notification or it has been registered using the DVLA secure registration scheme.

The rules on the movement of goods to the UK from the EU will change when the UK leaves the EU and as a result, import VAT will be due on vehicles you bring into the UK from EU member states. Certain reliefs will also be available as with current imports of vehicles from non-EU countries. Businesses will need to continue to use NOVA to verify that VAT is correctly paid on imported vehicles.

#### *UK businesses exporting goods to EU consumers*

If the UK leaves the EU without an agreement, distance selling arrangements will no longer apply to UK businesses and UK businesses will be able to zero rate sales of goods to EU consumers.

Current EU rules would mean that EU member states will treat goods entering the EU from the UK in the same way as goods entering from other non-EU countries, with associated import VAT and customs duties due when the goods arrive into the EU.

#### *UK businesses exporting goods to EU businesses*

If the UK leaves the EU without an agreement, VAT registered UK businesses will continue to be able to zero-rate sales of goods to EU businesses but will not be required to complete EC sales lists.

As UK VAT registered businesses will not be required to complete an EC sales list, there will be changes to how these sales are recorded. Those UK businesses exporting goods to EU businesses will need to retain evidence to prove that goods have left the UK, to support the zero-rating of the supply.

Current EU rules would mean that EU member states will treat goods entering the EU from the UK in the same way as goods entering from other non-EU countries with associated import VAT and customs duties due when the goods arrive into the EU. Individual EU member states may have different rules for import VAT for non-EU countries and import VAT payments may be due at the border when importing goods. UK businesses should check the relevant import VAT rules in the EU Member State concerned.

#### *UK businesses selling their own goods in an EU Member State to customers in that country*

If the UK leaves the EU without an agreement, UK businesses will be able to continue to sell goods they have stored in an EU Member State to customers in the EU in line with current Rest of World rules.

Current EU rules would mean that UK businesses will continue to be required to register for VAT in the EU member states where sales are made in order to account for the VAT due in those countries.

#### *Place of supply rules for UK businesses supplying services into the EU*

The rules around 'place of supply' will continue to apply in broadly the same way that they do now, areas of potential change are flagged below.

For UK businesses supplying digital services to non-business customers in the EU the 'place of supply' will continue to be where the customer resides. VAT on services will be due in the EU Member State within which their customer is a resident.

For UK businesses supplying insurance and financial services, if the UK leaves the EU without an agreement, input VAT deduction rules for insurance and financial services supplied to the EU may be changed. Input tax is currently deductible when it relates to insurance and financial services sold to non-EU customers so Brexit may prompt a change in UK law in this area. HMRC will update businesses with more information in due course.

#### *UK VAT Mini One Stop Shop (MOSS)*

If the UK leaves the EU without an agreement, businesses that sell digital services to consumers in the EU will be able to register for the MOSS non-union scheme.

MOSS is an online service that allows EU businesses that sell digital services to consumers in other EU member states to report and pay VAT via a single return and payment in their home Member State. Non-EU businesses can also use the system by registering in an EU Member State of their choice.

If the UK leaves the EU with no agreement, businesses will no longer be able to use the UK's Mini One Stop Shop (MOSS) portal to report and pay VAT on sales of digital services to consumers in the EU.

Businesses that want to continue to use the MOSS system will need to register for the VAT MOSS non-Union scheme in an EU Member State of their choice. This can only be

done after the date the UK leaves the EU. The non-union MOSS scheme requires businesses to register by the 10th day of the month following a sale. You will need to register by 10 April 2019 if you make a sale from the 29 to 31 March 2019, and by 10 May 2019 if you make a sale in April 2019.

Alternatively, a business can register in each EU Member State where sales are made.

#### *EU VAT refund system*

If the UK leaves the EU without an agreement, then UK businesses will continue to be able to claim refunds of VAT from EU member states but in future they will need to use the existing paper based processes for non-EU businesses.

UK business will no longer have access to the electronic EU VAT refund system. UK businesses will continue to be able to claim refunds of VAT from EU member states by using the existing processes for non-EU businesses. This process varies across the EU and businesses will need to make themselves aware of the processes in the individual countries where they incur costs and want to claim a refund.

#### *EU VAT Registration Number Validation – accessed via the EU Commission’s website*

If the UK leaves the EU without an agreement, UK businesses will be able to continue to use the EU VAT number validation service to check the validity of EU business VAT registration numbers.

UK VAT registration numbers will no longer be part of this service. In the event of no agreement HMRC is developing a system so that UK VAT numbers can continue to be validated.

*Summarised from HMRC Guidance*