The VAT implications of Brexit

The UK has now officially left the EU and many things will be different from now on. New rules have been introduced regarding VAT for businesses who import from or export to the EU.

The UK officially left the EU on 31st January 2020 and, after the transition period, new rules were implemented on 1st January 2021.

Significant adjustments are now required for businesses that import or export to the EU and they may need to account for the VAT on those transactions.

How has VAT changed after Brexit?

Domestic VAT rules remain the same following the end of the Brexit transition period. However, VAT rules relating to imports and exports to and from the EU have changed.

As of 1st January 2021, businesses in Great Britain now treat EU countries like any other country outside the EU when importing and exporting. The rules for Northern Ireland differ and are explained separately below.

VAT on imports £135 and under

The UK has introduced additional measures for overseas goods arriving in Great Britain from outside the UK.

VAT on imports with a consignment value of £135 or lower have VAT applied at the point of sale, rather than applied as import VAT at customs.

For business to customer (B2C) transactions: the UK VAT will be charged and collected by the seller; therefore, in principle the seller must register for VAT in the UK.

For example: a French business sells a table priced at £120 (currency equivalent) to a UK based customer who pays £120 inclusive of VAT. The French business seller must register for UK VAT and pay that 20% VAT on their next VAT return for this sale.

For business to business (B2B) transactions: the VAT will be reverse charged to the customer, declaring the VAT on their next VAT Return. The recipient business should ensure the seller knows their VAT number, or the seller will have no choice but to treat it as a B2C sale and apply VAT.

For example: A French business sells the same table to a UK business, who pay £120 incl. VAT. The UK customer declares VAT on their next return. However, if the UK buyer does not notify the French seller with their VAT number, the French seller must treat the sale as a B2C and will have to pay HMRC 20% VAT on their next VAT return.

Online marketplaces (OMPs), where they are involved in facilitating the sale, are now responsible for collecting and accounting for the VAT if certain conditions are met.

VAT on imports over £135

VAT is payable upon import, although the UK government has introduced the postponed VAT payment system to avoid businesses facing cash flow issues. This system lets businesses importing goods into the UK account for the VAT on their next VAT Return, meaning the goods can be released from customs without the need for a VAT payment, using a C79 VAT certificate.

Import VAT is applied at the point the goods are to enter free circulation and this should be considered the VAT tax point. This may be at the port of entry or it could be when the goods are released from customs warehousing if customs special procedures are used. A business will need to collect evidence for HMRC regarding the point the goods entered free circulation for its VAT records.

The VAT can be paid at the tax point, but most businesses are likely to make use of the postponed VAT accounting system. This is optional for businesses, but it does become mandatory to use if the submission of customs declarations is deferred.

For example: A UK business buys a table from a French business for £1,000. They have applied for the postponed VAT payment system. Instead of the UK business paying the import VAT when the table enters the UK they account for the VAT on their next VAT return. The 20% VAT is declared as follows:

Box 1 - VAT due on sales and other outputs: Include the VAT due in this period on imports accounted for through postponed VAT accounting.

Box 4 - VAT reclaimed on purchases and other inputs: Include the VAT reclaimed in this period on imports accounted for through postponed VAT accounting.

Box 7 - Total value of purchases and all other inputs excluding any VAT: Include the total value of all imports of goods included on your online monthly statement, excluding any VAT.

If postponed VAT accounting is not used, and instead the VAT is paid immediately when the imported goods enter free circulation, a business will need to complete boxes four and seven only.

This is similar to the existing reverse charge mechanism, whereby import VAT is not physically paid upfront and then reclaimed on the subsequent VAT return. Instead, it is accounted for as input and output VAT on the same VAT Return.

Export VAT

As of 1st January 2021, when exporting goods to EU countries, the VAT situation also changes. Exports to EU countries are treated like those to non-EU countries and they should be zero-rated for UK VAT.

This will apply regardless of whether a business is exporting goods to a consumer (B2C), or to a business (B2B). There is no longer any requirement to observe distance selling regulations, or to verify the VAT status of the recipient business.

This could mean businesses selling B2C to the EU may need to register for EU VAT and appoint fiscal representatives depending on the requirements of the countries in which they sell.

For example: A UK business selling a table to France, for either B2B or B2C, will apply a zero-rate of VAT to the transaction, with some exceptions.

A business must understand what it means to zero-rate goods for VAT. It cannot simply forget about VAT. It means a 0% VAT rate is applied and therefore no UK VAT is payable, but the business will still have to include the exports as part of its VAT accounting and consider any requirements for VAT in the recipient country.

Selling Services

When selling services throughout the UK, things continue much as they did before 1st January 2021. Under the place of supply rules, B2B sales of services continue to be generally subject to tax in the country of the customer and administered through reverse charge, with some exceptions.

When the Reverse Charge is applied, the recipient of the services makes the declaration of both their purchase (input VAT) and the supplier's sale (output VAT) in their VAT return. In this way, the two entries cancel each other from a cash payment perspective in the same return.

From the authorities' point of view, they can see the transaction reported in the special boxes provided in the returns for cross border supplies of goods or services.

B2C sales of services will continue to be generally subject to tax in the country of the seller, again with some exceptions. This would require a UK company to charge UK VAT to their EU or non-EU customers, and vice versa.

Northern Ireland VAT and Customs after 1st January 2021

When it comes to customs and VAT after the end of the transition period, Northern Ireland is not like the three other countries that comprise the UK.

It uses the Northern Ireland Protocol, which is part of the Withdrawal Agreement between the UK and EU that aimed to avoid a customs border (known as a hard border) between Northern Ireland and the Republic of Ireland.

There are different rules for the supply of goods and services and more detail can be found on www.gov.uk.

Other useful links

- Changes to accounting for VAT for Northern Ireland and Great Britain from 1 January 2021
- Changes to VAT treatment of overseas goods sold to customers from 1 January 2021
- Accounting for VAT on goods moving between Great Britain and Northern Ireland from 1 January 2021

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