



Brexit and the impact on VAT

Practical steps businesses can take now

With only a few weeks to go (effective date 29 March, 2019) and still no sign of an agreement between the United Kingdom (UK) and the European Union (EU), many tax authorities are gearing up for a hard Brexit.

A "hard Brexit" means a number of things, but critically it means customs-controlled borders, which introduces additional processes and procedures for businesses that move goods between the UK and the EU. In the absence of any business planning to address this change, the movement of goods may be significantly delayed.

The following are practical steps you can take now to improve your readiness for a hard Brexit:

IMPORTS – CUSTOMS DECLARATIONS

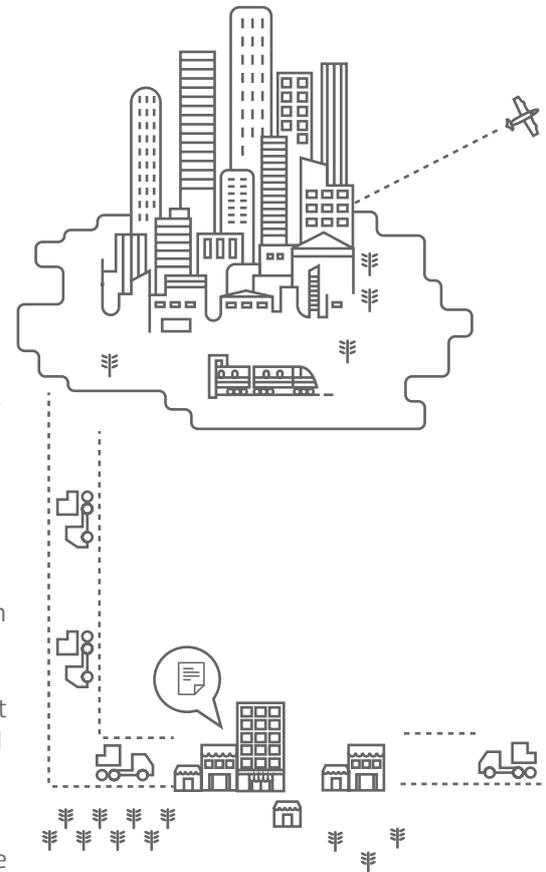
Currently (pre-Brexit), product moving from the EU to the UK (and vice versa) moves freely without customs controls because the EU operates as a single market. Post Brexit, particularly a No Deal Brexit, this will not be the case. Products will need to be declared for customs purposes and customs duty and, in most cases, import VAT will be payable.

How this will impact individual businesses will depend on what steps importers take between now and 29 March to prepare for Brexit. Businesses that receive goods from either the UK and EU will need to make customs declarations and pay customs duty and either pay, or account for, import VAT. The UK Government recently confirmed they will introduce a postponed accounting approach for import VAT on all import that will allow import VAT to be accounted for on a VAT return. Similar facilities are allowed in some but not all EU member states.

However, Her Majesty's Revenue and Customs ("HMRC", the UK tax authority) has introduced a transitional simplified procedure primarily aimed at businesses that have not previously been involved with the customs process and transport goods through the English Channel ports, which will allow products to flow into the UK from the EU with reduced requirements for customs declarations. Further details of this can be found on www.gov.uk/hmrc/eu-simple-importing.

Some EU countries are also extending or implementing similar relief that will facilitate the movement of goods from the UK into those countries. However, please note that not all EU countries have implemented an import simplification procedure. The table below provides a snapshot for the major EU trading partners with the UK and where simplification import procedures exist.

Country	Deferred import procedure	Additional note
Belgium	Yes	ET 14000 license
France	Limited	Customs broker required
Germany	No	N/A
Hungary	No	N/A
Ireland	Proposed	Subject to ministerial ratification
Italy	No	N/A
Netherlands	Yes	Article 23 license
Spain	Yes	For monthly VAT return filers only
UK	Yes	Transitional simplified procedure



It should also be noted that these procedures are not automatic and need to be applied for.

In any event, an Economic Operator Registration and Identification (EORI) number will be required by any business making a customs declaration into the UK or the EU.

Simplified import procedures should not be confused with customs procedure code 42, which is a deferral rule that transfers an import VAT event into an intracommunity transaction if the immediate destination of the imported product is an EU country other than the country of arrival.

PRACTICAL STEPS TO TAKE NOW

- Ensure you have an EORI number
- For those UK companies involved in customs processes for the first time this will be a UK EORI number
- Businesses based in, or will be making imports in EU countries, will require an EU EORI number. Apply for transitional simplified procedures in those countries where you import product and want to defer import VAT expense to the VAT return – cashflow advantage
- Explore opportunities to mitigate the number of customs declarations required on product being transported by road/rail freight across the EU by utilising transit procedures, which suspend import VAT and duty requirements until country of destination

MINI ONE-STOP SHOP (MOSS) REGISTRATIONS

Businesses that account for VAT on electronically supplied services under the MOSS regime will have to restructure their registrations.

If the MOSS registration is currently in the UK, then it will need to be moved to another EU country and a separate standalone VAT registration in the UK will need to be established.

If the MOSS registration is currently in an EU country other than the UK, then a standalone registration in the UK is all that is needed.

These UK de-registrations/registrations can be managed online through HMRC's online portal.

PRACTICAL STEPS TO TAKE NOW

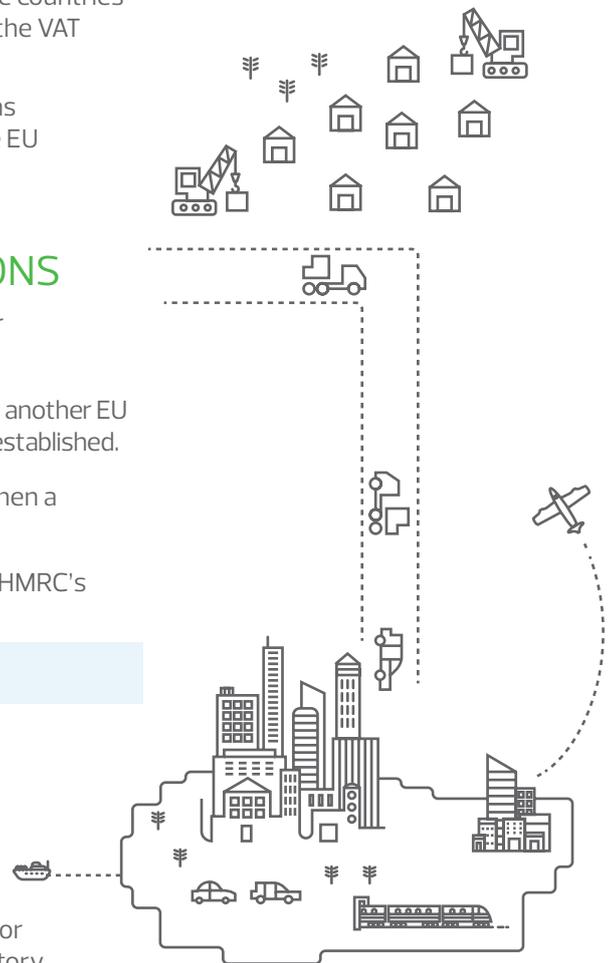
- Apply for a standalone UK VAT registration
- Apply for a MOSS registration in another EU country if this is not already in place

VAT REGISTRATIONS

Many businesses are making the strategic decision to relocate inventory, or stockpile product, in both the UK and other EU countries. Wherever inventory is being held will likely require a standalone VAT registration.

PRACTICAL STEPS TO TAKE NOW

- Assess the most advantageous location to hold inventory
- Consider the need for VAT registrations wherever inventory is held



TRIANGULAR TRADE

If you are involved in EU triangular trade that includes the UK, then it is likely you will have additional VAT registration and reporting obligations.

The EU simplification for triangular trade operates where three separate EU countries are involved in the supply of goods. It typically involves an intermediate supplier purchasing goods from one country and drop shipping them to its customer in a different country (supplier, intermediate reseller and customer are all in different EU countries). The simplification effectively means that only the final customer accounts for VAT. Once the UK is outside of the EU it will not be able to take advantage of the simplification rule, which could result in one of the parties involved in these triangular arrangements, most likely the intermediate reseller, needing to register for VAT in another country.

PRACTICAL STEPS TO TAKE NOW

- Identify if any transactions currently make use of the triangular simplification and what VAT registration requirements might be needed
- Consider alternate supply arrangements to avoid VAT registration requirements

RECLAIMING EU VAT

If you have a UK business that has incurred VAT in another EU country, the normal process for recovering this VAT is to make a claim through the online UK portal. The normal deadline for making these claims is 30 September. Due to Brexit, this has been brought forward to 29 March. After this date, the claim process reverts to a manual system available to non-EU claimants.

PRACTICAL STEPS TO TAKE NOW

- Ensure all EU VAT amounts are fully identified and supporting evidence is held
- Submit applications for VAT recovery through the HMRC UK portal for any mainland EU VAT
- Submit applications for UK VAT incurred by EU operations

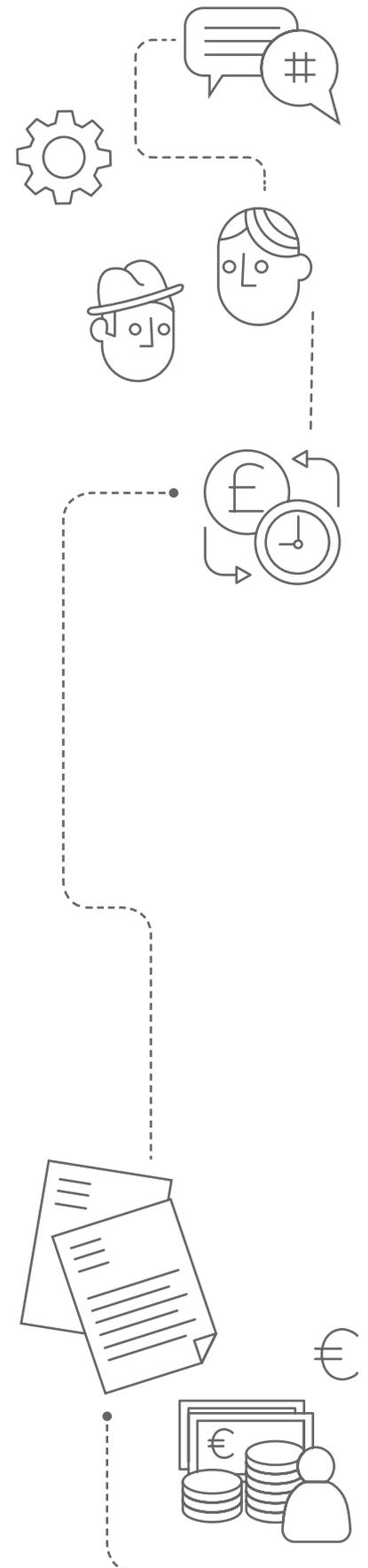
DISTANT SELLING

If you have a UK business that sells products from the UK to end consumers in the EU, then you are likely currently managing those sales under the distance selling rules that require you to charge VAT based on the VAT rate applicable in the destination EU country. Following Brexit this will no longer apply, and your product sales will be subject to import clearance regulations into the EU and will need to be factored into your pricing structure. A similar reverse implication arises for products originating in the EU and being shipped to UK customers.

PRACTICAL STEPS TO TAKE NOW

- Factor in import clearance regulations into your pricing structure
- Consider modifying your online prices or terms of sale to ensure the cost is not an added burden to your business

An alternative is to require all your customers to individually pay import duty expenses as part of the transaction. This effectively names them as the consignee/importer on each product shipment.



VAT ACCOUNTING AND COMPLIANCE

A great many rules and procedures will change and will affect the way transactions between the UK and other EU countries are managed. This VAT logic is typically configured into accounting software, and with Brexit, these rules will need to be reconfigured. These changes will also affect the need to complete EU reports such as intrastats and European Commission sales lists. Although not critical to have these changes in place by 29 March, it is the recommended approach. An alternative is to produce corrected records after 29 March 2019. The rule changes will affect:

- Transaction logic
- Invoicing templates
- Intrastat filing requirements
- EC Sales List filing requirements
- UK VAT return data

PRACTICAL STEPS TO TAKE NOW

- Review ERP systems and VAT logic to determine change requirements
- Review compliance processes to determine change requirements
- Review billing templates to determine change requirements

HOW RSM CAN HELP?

With a limited amount of time to determine the impact of Brexit and take action, RSM can help you rapidly determine, assess, prioritise and manage the potential impact of the UK's decision to leave the EU.

To learn more contact: lea.pateman@rsm.global



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