



UK VAT AFTER THE TRANSITIONAL PERIOD

6 August 2020

This guide is intended to help you understand how the UK's existing VAT rules are likely to change after the transitional period. These changes are summarised below. It has been updated to reflect the current situation at **6 August 2020**.

The current VAT rules

Under the UK's current VAT rules:

- VAT is charged on most goods and services sold within the UK and the EU.
- VAT is payable by businesses when they bring goods into the UK. There are different rules depending on whether the goods come from an EU or non-EU country.
- Goods that are exported by UK businesses to non-EU countries and EU businesses are zero-rated, meaning that UK VAT is not charged at the point of sale.
- Goods that are exported by UK businesses to EU consumers have either UK or EU VAT charged, subject to distance selling thresholds.
- For services the 'place of supply' rules determine the country in which you need to charge and account for VAT.

VAT rules from 1 January 2021

The UK will continue to levy VAT and the rules relating to UK domestic transactions will continue to apply to businesses as they do now. The government aims to keep VAT procedures as close as possible to those set out above, but there will be some changes to the VAT rules and procedures for transactions between the UK and EU member states.

Importing goods from the EU

The current rules for imports from non-EU countries will also apply to imports from the EU, but with some changes. The government will introduce 'postponed accounting' for import VAT on goods brought into the UK with effect from 1 January 2021. This means that UK VAT registered businesses importing goods 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. This important relaxation will apply both to imports from the EU and non-EU countries. However, Customs declarations and the payment of any other duties will still be required. Customs duty (tariffs) will apply to some goods and excise duties will continue to apply to tobacco, alcohol and certain energy products. Customs and excise duty payments can be deferred to be settled monthly with a duty deferment account. Businesses need to register with HMRC to open a duty deferment account and will need to provide a bank guarantee.

From 1 January 2021 VAT on imported goods with a value of up to £135 will be collected at the point of sale not the point of importation. This will mean that UK supply VAT, rather than import VAT, will be due on these consignments. Online marketplaces (OMPs) involved in facilitating the sale of imported goods, will be responsible for collecting and accounting for the VAT, even when the goods are in the UK at the point of sale. For goods sent from overseas and sold directly to UK consumers, the overseas seller will be required to register and account for the VAT to HMRC. Overseas sellers will also remain responsible for accounting for the VAT on goods in the UK when sold directly to UK consumers. Business-to-business sales not exceeding £135 in value will also be subject to the new rules. However, where the business customer is VAT registered and provides its registration number to the seller, the VAT will be accounted for by the customer by means of a reverse charge.

Exporting goods to the EU

VAT registered UK businesses will continue to be able to zero-rate sales of goods to EU businesses. EU member states will treat goods entering the EU from the UK in the same way as goods entering from other non-EU countries. This means import VAT and any customs duties (tariffs) will be due when the goods arrive in the EU.

Businesses may be able to use the Common Transit Convention (CTC) to complete some customs procedures away from the border and defer import VAT and customs duties until goods reach their final destination. A guarantee will need to be in place that covers import VAT or customs duties while the goods are being moved.

Currently, businesses that only have a low value of sales (up to about £70,000 per annum) to other EU member states can benefit from the distance selling thresholds. Sales below the distance selling thresholds are currently subject to UK VAT unless the supplier has decided to register for VAT in the country of destination. With effect from 1 January 2021, this facility will no longer be available, but all such sales are likely to become zero rated exports.

UK VAT registered businesses will no longer have to complete an EC Sales List. Instead, those UK businesses exporting zero-rated goods to EU businesses will need to retain evidence to prove that goods have left the UK. Such evidence is already required for exports to non-EU countries, and any new requirements should be very similar.

Supplying services to the EU

The supply of services to customers in the EU after Brexit will be treated the same as those to any customer outside the EU.

The VAT treatment will be covered by the VAT 'place of supply' rules. The rules will continue to apply in broadly the same way that they do now, but again subject to some changes shown 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 those services will be due in the EU member state in which the customer resides. For UK businesses supplying insurance and financial services, the input VAT deduction rules are expected to change, as supplies that are currently exempt become outside the scope with recovery, thereby aligning with the existing rules for supplies of such services to customers outside the EU.

UK VAT Mini One Stop Shop (MOSS)

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. Businesses will no longer be able to use the UK's MOSS scheme to report and pay VAT on sales of digital services to consumers in the EU. Businesses that sell digital services to consumers in the EU will instead have to register for the MOSS non-union scheme in one of the remaining 27 EU member states. We understand that many businesses are considering doing so in Ireland.

Under the non-union MOSS scheme, businesses wishing to use the scheme must register by the 10th day of the month following a sale. For example, if you make a sale in January 2021 you will need to register by 10 February 2021. Alternatively, a business can register for VAT in each EU member state where sales are made. See Appendix 1 below for guidance issued by HMRC regarding the use of MOSS after Brexit.

EU VAT refund system

A UK business can currently recover VAT incurred in other EU countries using an electronic system. However, once the UK leaves the EU businesses will no longer be able to use that system. UK businesses will continue to be able to claim refunds of VAT from EU member states, but it will need to be done using the existing refund system for non-EU businesses. The way in which the refund system operates varies across each EU country, so businesses will need to check the precise requirements in each EU country where they incur VAT.

EU VAT Registration Number Validation service

The EU VAT Registration Number Validation service allows businesses to check if a customer or supplier's VAT number is valid. UK businesses will be able to continue to use the EU VAT number validation service to check the validity of EU businesses, but UK VAT registrations will cease to be included. HMRC is developing a service to ensure that UK VAT numbers can continue to be validated.

Further guidance from ICAEW and HMRC

Further ICAEW resources are available on [icaew.com/brexit](https://www.icaew.com/brexit)

HMRC has released a series of helpful guides for businesses in the event the UK leaves the EU without a deal. Key resources are:

[Changes to VAT treatment of overseas goods sold to customers from 1 January 2021](#)

[Declaring goods brought into Great Britain from the EU from 1 January 2021](#)

[How to import and export goods between Great Britain and the EU from 1 January 2021](#)

[List of goods imported into Great Britain from the EU that are controlled](#)

[Check when you can account for import VAT on your VAT Return](#)

[Complete your VAT Return to account for import VAT](#)

[Apply to use simplified declarations for imports](#)

[Making an import declaration in your records](#)

[Making an import supplementary declaration](#)

APPENDIX 1

VAT Mini One Stop Shop

Businesses can use the UK's VAT Mini One Stop Shop (MOSS) to declare sales of digital services to consumers in the EU. You should continue to use the UK's MOSS portal in the normal way to submit and pay your return for the period to 31 December 2020. This return should include supplies made between 1 October 2020 and 11pm on 31 December 2020 (the quarter 4 2020 return). The normal submission deadline of 20 January 2021 will apply. You will not be able to use the UK's MOSS portal to declare VAT on sales of digital services to UK and EU consumers that are made after the UK leaves the EU. If you wish to continue to use MOSS after the UK leaves the EU, you will need to register for MOSS in an EU member state. You should do this by 10 February 2021.

To allow you to do this, you will be automatically deregistered from the UK MOSS system with effect from 1 January 2021. You will still be able to access the system after you have been deregistered to:

- submit your return for the final quarter of 2020
- view your previously submitted returns, however, any amendments to these returns must be made directly with the EU member state concerned and not via the MOSS system
- submit outstanding pre-2020 returns and amend previously submitted returns until 11pm on 31 December 2020
- amend your quarter 4 2020 return and update your registration details until 14 February 2021

Sales of digital services in the EU and UK after 31 December 2020

UK businesses currently using the UK VAT MOSS Union scheme can continue to use the MOSS system but must register for the VAT MOSS non-Union scheme in an EU member state.

If you want to continue to use MOSS, you must register for the scheme by the 10th day of the month following your first sale after the UK leaves the EU. For example, register by 10 February 2021 if you make a sale in January 2021.

UK businesses will only be able to register after 31 December 2020.

Alternatively, you can register in each EU Member State where you make sales. [Check the EU's Europa website](#) for further information about registering for VAT in EU member states.

Non-UK businesses currently using UK VAT MOSS non-Union scheme will need to register for the scheme in an EU member state.

Non-UK businesses will need to declare sales of digital services to UK consumers by registering for VAT in the UK and declaring the sales via a UK VAT return.

Digital services threshold

When the UK leaves the EU, all supplies of digital services to consumers in EU member states become liable for VAT in the consumer's member state. The £8,818 annual threshold for cross borders sales of digital services to EU consumers will no longer apply.

You will have to charge VAT at the rate where your customer is based and declare those sales to the relevant EU member state.

To declare the VAT charge, you can register for VAT in each EU member state where sales are made or register for the VAT MOSS non-Union scheme in an EU member state of your choice.

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