



29 January 2024

Nigel Huddleston MP
Financial Secretary to the Treasury
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Dear Minister,

VAT SIMPLIFICATION

Thank you for the opportunity to participate in the tax simplification roundtable on 25 January. It was good to meet you and I trust you found it interesting and helpful.

I mentioned at the roundtable that ICAEW had some initial VAT simplification suggestions and am now writing as promised to share some further details with you. These suggestions also follow up on a meeting between our CEO, Micheal Izza, and the Chancellor of the Exchequer on 16 January where the Chancellor expressed interest in suggestions for VAT simplification.

Import VAT recovery

There are many areas of VAT legislation and policy that could be reformed, and we would welcome a separate discussion about those. However, an area that is likely to be having a significant impact on UK growth and productivity is HMRC's current policy relating to the recovery of import VAT.

As per HMRC's internal manual [VIT13300](#), import VAT may only be reclaimed by the owner of the goods being imported. The manual notes that in the context of VAT, ownership refers to 'the right to dispose of goods as owner'.

This has a particular impact on toll operators: businesses that import goods, process them in the UK, and who then may distribute the goods in the UK on behalf of the owner. The toll operator does not take ownership of the goods and does not resell them. The toll operator in this instance is likely to incur import VAT at 20% of the value of the goods, which they cannot recover thereby in many cases eliminating the operators' profit margin.

For the same reason, UK businesses that incur import VAT on the import of leased goods will not be able to recover this. This is a particular issue for businesses involved in large infrastructure projects, for example, who may import heavy plant for use in construction. Incurring irrecoverable import VAT at 20% of the value of the equipment makes leasing necessary equipment from overseas unviable.

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HMRC's suggested approach is that the overseas supplier of the leased goods acts as importer in the UK. It can then recover the import VAT incurred through a [refund claim](#). However, businesses that are not established in the UK cannot import goods into the UK without appointing an [indirect representative](#). This requires the agent to act in their own name and thus they are jointly and severally liable for any Customs Duty or import VAT. In practice, it is very difficult to find an agent willing to act indirectly, making this approach practically impossible for all but the very largest and most reputable businesses.

Through the use of [temporary admission](#), it is possible to import some goods temporarily without incurring import VAT. However, this often requires prior authorisation, only applies to certain goods, and several conditions may be attached to the authorisation, such as a three-month time limit for the goods to stay in the UK. We note that [HMRC is currently reviewing temporary admission](#) and would recommend that the authorisation is made easier to access by a wider range of businesses for a wider range of goods.

However, these issues could be resolved more simply by changing HMRC's policy and, where necessary, legislation to ensure that import VAT is able to be recovered by any business importing goods in which it has an 'economic interest', which is the approach taken in France (among other EU member states).

Non-registration thresholds

We note that the VAT registration threshold is often cited as a simplification as it ensures that small businesses trading under the threshold do not have to comply with VAT requirements. We recognise that there are conflicting views on whether the registration threshold should be raised. Aside from the VAT registration threshold, there are several VAT accounting schemes available to small businesses for which the thresholds have also not increased for a number of years. Given these are aimed at simplifying the VAT system for SMEs, we recommend that they be reviewed with a view to them being increased.

The scheme aimed at the smallest VAT-registered businesses is the flat rate scheme, which allows businesses to pay a fixed rate of VAT to HMRC. To join the scheme, businesses must have an annual taxable turnover of less than £150,000. This threshold hasn't changed since 2009 and would now be over £225,000 if it had kept pace with inflation.

The cash accounting scheme, which allows businesses to account for VAT on payments received rather than invoices raised, has a threshold of £1.35m. This has not changed since 2007. The same threshold applies to the annual accounting scheme, which allows for businesses to file only one VAT return per year. If these thresholds had increased in line with inflation, they would now be over £2.15m.

The freezing of these thresholds has meant that [tens of thousands of VAT-registered businesses](#) have become ineligible for these schemes to simplify VAT accounting for small businesses.

An area of significant complexity in VAT is the Capital Goods Scheme (CGS), which requires businesses to monitor the use of certain assets and adjust their input VAT recovery over a period of up to ten years. Again, there are financial thresholds to ensure 'small' purchases are not captured by the scheme, which should be a simplification that primarily benefits smaller businesses but can benefit businesses of any size. However, the CGS thresholds of £250,000 for land and buildings and £50,000 for a single item of computer equipment have not changed since 1995. This means significantly more CGS items are being created each year and smaller businesses are being caught in the complexity of the scheme.

We look forward to hearing from you. I and colleagues involved in our VAT representational work would be very happy to meet with you and your officials to discuss them further. We would also welcome the opportunity to discuss and the tax simplification agenda more generally and how ICAEW might assist the Government to take it forward.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Frank Haskew", with a stylized flourish at the end.

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