

Welcome to our February Newsletter



Our aim is to keep you up to date with ideas and information that will help you gain the best possible advantages from working with us. These newsletters will be sent regularly to help achieve this aim, and we hope you enjoy reading them.

How will VAT be affected by a no-deal Brexit?



Exporting goods to EU nations

Following a no deal Brexit, businesses in the UK will need to check the import VAT rules in the relevant member state concerned and pay accordingly.

Imports from the UK will be treated like any goods from any other country outside the EU and as such any business-to-business transactions will require customers to pay local import VAT and deal with the necessary customs formalities at import.

As an alternative, many larger businesses are looking to set up warehouses or subsidiaries in member states, allowing for continuity of trading to EU member states post-Brexit.

However, UK-based businesses selling goods to private individuals may be obliged to register for VAT in one or more of the remaining 27 EU member states.

VAT accounting on imports

The Government has confirmed that accounting for import VAT in the event of a no deal Brexit will be postponed. This rule will apply to imports both from within and outside the EU.

The debate regarding Brexit seems to have no end, but the prospect of the UK leaving the EU with no deal in place persists. In preparation for this, the Government has published a paper that outlines the potential implications to VAT should the country leave without a deal. **Below is a summary of the potential outcomes:**

Businesses will be no worse off than they are under the current system and for imports from outside the EU they will benefit from removing the obligation to pay import VAT on the arrival of goods. However there will be additional Customs burdens in the form of duties payable and extra documentation and checks at borders.

Low-value consignment relief (LVCR)

Parcels arriving from the EU will no longer benefit from low-value consignment relief (LVCR). Under the new system, businesses sending parcels valued at up to £135 would be required to register for and charge UK VAT at the point of purchase. The Government is intending to introduce an online system to deal with this.

Goods worth over £135 sent via a parcel would continue to see VAT collected from UK recipients in line with current procedures for parcels from non-EU countries.

Finance and Insurance

Those providing insurance or financial services to EU member states could see input VAT deduction rules change. A no-deal Brexit could lead to enhanced VAT recovery by certain financial institutions, as supplies would allow for VAT to be recovered on related costs.



Digital services

Businesses currently selling digital services to another EU member state pay VAT via the Mini One-Stop Shop (MOSS).

UK businesses will no longer be eligible for the Union MOSS in a no deal Brexit and will have to switch to the non-Union version of the MOSS.

There is no doubt that some businesses will face changes to their VAT affairs as a result of a no deal Brexit and as such, should begin to make preparations.

This will particularly be the case for businesses trading directly with other EU member states, although those involved in trade in goods are likely to be far more affected than those that offer services.

If you are concerned about the prospect of a no deal Brexit and how it will affect your reporting, recording and payment of VAT, speak to our team at UK VAT Advice today.

VAT return issue costs Anglian Water millions

Anglian Water's attempt to force HM Revenue & Customs (HMRC) to return £12 million in overpaid VAT has been rejected by the courts. Anglian serves six million properties in the UK, making it one of the country's largest water suppliers.

Despite HMRC accepting that the utility business had overpaid VAT for six years, it has argued that it should not have to return the amount due to the fact that it would "unjustly enrich" the utility supplier.

This was in part due to the fact that Anglian had already passed on the additional cost of VAT to its customers via higher charges.

Anglian appealed against HMRC's decision but was rejected by two tax courts, including a defeat in December 2018 at the Upper Tribunal.

During the hearing, Anglian claimed that despite seeming to benefit from the repayment, it would have passed on some of the money to its customers through a reduction in their bills or reinvested it in the business.

The over-payment relates back to charging VAT on infrastructure charges to its customers. These charges are levied when connecting a building to its water supply but HMRC has agreed that these should not have been subject to VAT at the time they were charged. The spokesman for Anglian said: "The court has agreed with HMRC's position and we accept that decision."

This case not only highlights the complexities and evolving nature of the UK's VAT regime, but also the importance of constantly reviewing your affairs to ensure overpayment does not occur. To find out how we can help with your cur-



EU committee backs VAT reverse charge



Member states struggling with the issue of VAT fraud may soon be able to temporarily change the way it is recovered, thanks to a proposed amendment to the EU VAT directive.

Members of the EU committee on economic and monetary affairs recently voted in favour of the generalised reverse charge mechanism (GRCM), which will allow EU member states, including the UK at present, to temporarily apply for exemptions from existing VAT rules.

This would switch the obligation to account to HMRC for VAT from the vendor to the buyer in a move which is intended to combat carousel and missing trader fraud.

Under the existing EU directive, the GRCM can only be employed if certain criteria are met, including 25 per cent of the VAT gap being due to carousel fraud.

The amendment would stipulate that countries should be required to “establish that estimated gains in tax compliance and collection expected as a result of the introduction of the GRCM” exceed the compliance cost to businesses and the administration of tax.

It adds that “businesses and tax administrations will not incur costs that are higher than those incurred as a result of the application of other control measures”.

The proposal will now have to be ratified by EU member states in 2019 before it becomes law.

The UK Government has already announced the introduction of a VAT reverse charge mechanism for specified types of construction work from 1 October 2019.

As a group, building sub-contractors typically have minimal VAT costs to recover, with their main out-goings being workers' wages, which are not subject to VAT.

However, they are required to charge VAT on the service of supplying their workers, which has led to some unscrupulous sub-contractors attempting to evade VAT by 'going missing'.

This is why HMRC is introducing the reverse charge in the construction sector which will place the responsibility on a contractor or developer to account for the VAT on the services of any sub-contractor.

If you are concerned about the implications of the reverse charge and how it would affect your recording and collection of VAT, please contact us.