



WILTON

“NO DEAL”

BREXIT

DECEMBER 2018

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INTER TRADE BETWEEN THE UK AND THE EU AND VICE VERSA

We are writing to update you on changes to VAT that will occur when the United Kingdom (UK) leaves the European Union (EU). This will occur at 11 pm on 29 March 2019. This letter is important for you if you are or will be trading with the EU.

At present there is no certainty to the outcome of the negotiations the UK Government is having with the EU. Businesses will have to prepare themselves for the outcome of these negotiations. There are two possible outcomes:

1. If an agreement with the EU is reached for an orderly exit, trading to and from the EU will broadly remain the same for 21 months from 29 March 2019 to 31 December 2020 (implementation period). During this period new changes to VAT Law and Practice will be implemented. We will have plenty of time to consider the changes and to advise you.

The current political position is that, an agreement has been reached with the EU for an orderly exit but that agreement may not be implemented if there is a “NO DEAL” Brexit.

2. If there is “NO DEAL” and the UK leaves the EU, changes will take place immediately on 29 March 2019. The sale to the EU and purchase from the EU of goods by UK companies and conversely the sale to the UK and purchases from the UK of goods by EU companies will immediately become subject to customs, excise and VAT procedures. We already deal with many clients who export to import from outside EU and will of course be in a position to help you with any transitional issues.

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Fundamental changes will take place to UK Businesses and to EU Businesses if there is “NO DEAL” rather than the UK is in agreement with the EU. It is advisable for UK business and EU Businesses to know and prepare for this situation. We have therefore outlined the areas with major changes that will take place with regard to VAT if there is “NO DEAL” .

The following are the areas in which changes to VAT will be affected:

- Import
- Low Value Consignment Relief (LVCR)
- VAT on vehicle imported into the UK
- Export
- UK businesses exporting goods to EU consumers
- UK businesses selling their own goods in an EU member state to customers in that country
- Place of supply rules for UK businesses supplying services into the EU
- UK VAT Mini One Stop Shop (MOSS)
- EU VAT registration number validation
- Making tax digital

The above changes are discussed below in detail:

IMPORT

Goods imported from the EU to the UK will switch to the existing rules for imports from non-EU countries. Businesses will need to be prepared for import VAT to be paid. However the cash flow concerns for businesses will be mitigated, as UK businesses will be able to account for their import VAT on the VAT return rather than physically paying it as the goods arrive at the border. This easement will be applicable to the EU and non-EU imports. The payment of customs duties will still be required and businesses may consider applying for the Duty Deferment Scheme to manage their cash flow position and avoid having to

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pay duties every time a consignment is brought into the UK. Ultimately duties are not recoverable and will therefore represent a real cost to the business.

LOW VALUE CONSIGNMENT RELIEF (LVCR)

The Low Value Consignment Relief (LVCR) will not be extended to goods entering the UK from the EU. This means that all goods entering the UK as parcels sent by overseas businesses (EU or Non-EU) will be liable for VAT (unless they are already relieved from VAT under domestic rules, for example zero-rated children's clothing).

For parcels valued up to and including £135, a technology-based solution will allow VAT to be collected from the overseas business selling the goods into the UK. Overseas businesses will charge VAT at the point of purchase and will be expected to register with an HM Revenue & Customs (HMRC) digital service and account for VAT due.

The digital service is an online registration, accounting, and payments service for overseas businesses. On registration, businesses will be provided with a Unique Identifier which will accompany the parcels they send in to the UK. They will then declare the VAT due on those parcels and pay this via their online account. To give overseas businesses sufficient time to familiarise themselves with their new obligations, the online service will be available for businesses to register in early 2019, prior to 29 March.

On goods worth more than £135 arriving in the UK from the EU businesses, VAT will continue to be collected in line with current procedures for parcels from non-EU countries. VAT will also continue to be collected in line with current procedures for all excise goods sent as parcels.

VAT ON VEHICLE IMPORTED INTO THE UK

Businesses should continue to notify HMRC about vehicles brought into the UK from abroad as they do now. The Notification of Vehicle Arrival Procedures (NOVA) system will continue to be used for this purpose.

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NOVA is an online service that businesses should continue to use to notify HMRC about vehicles brought into the UK from abroad and ensure that VAT is correctly paid on imported vehicles. The Driver Vehicle Licencing Agency (DVLA) will not register a vehicle brought into the UK for use on UK roads unless it has a valid NOVA notification or it has been registered using the DVLA secure registration scheme.

The rules on the movement of goods to the UK from the EU will change when the UK leaves the EU and as a result, import VAT will be due on vehicles you bring into the UK from EU member states. Certain reliefs will also be available as with current imports of vehicles from non-EU countries. Businesses will need to continue to use NOVA to verify that VAT is correctly paid on imported vehicles.

EXPORT

Goods exported from the UK to the EU businesses will be treated as an export and continue to be zero-rated. However, EU member states will treat the associated import in line with their own rules for goods entering from other non-EU countries. Businesses should review the relevant rules to understand the filing, payment and refund mechanisms as the EU VAT refund system will no longer be available. Some member states can be notoriously slow at issuing VAT refunds under the non-EU refund claim mechanism so businesses may wish to review their supply chain to understand where the potential cash flow issues may arise.

UK BUSINESSES EXPORTING GOODS TO EU CONSUMERS

The distance selling arrangements will no longer apply to the UK businesses and UK businesses will be able to zero rate sales of goods to the EU consumers.

Current EU rules would mean that the EU member states will treat goods entering the EU from the UK in the same way as goods entering from other non-EU countries, with associated import VAT and customs duties due when the goods arrive into the EU.

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VAT registered UK businesses will continue to be able to zero-rate sales of goods to the EU businesses but will not be required to complete the EC sales lists. Business may welcome this reduced administrative exercise.

As UK VAT registered businesses will not be required to complete an EC sales list, there will be changes to how these sales are recorded. Those UK businesses exporting goods to EU businesses will need to retain evidence to prove that goods have left the UK, to support the zero-rating of the supply. Most businesses already maintain this evidence as part of current processes and the required evidence will be similar to that currently required for exports to non-EU countries with any differences to be communicated in due course by HMRC.

UK BUSINESSES SELLING THEIR OWN GOODS IN AN EU MEMBER STATE TO CUSTOMERS IN THAT COUNTRY

UK businesses will be able to continue to sell goods they have stored in an EU Member State to customers in the EU in line with current Rest of World rules.

Current EU rules would mean that UK businesses will continue to be required to register for VAT as an overseas trader in the EU member states where sales are made in order to account for the VAT due in those countries.

PLACE OF SUPPLY RULES FOR UK BUSINESSES SUPPLYING SERVICES INTO THE EU

The main VAT 'place of supply' rules will remain the same for UK businesses. The rules around 'place of supply' will continue to apply in broadly the same way that they do now, areas of potential change are as follows:

- 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

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services will be due in the EU Member State within which your customer is a resident.

- For UK businesses supplying insurance and financial services, input VAT deduction rules for financial services supplied to the EU may be changed. HMRC will update businesses with more information in due course.

UK VAT MINI ONE STOP SHOP (MOSS)

The UK's Mini One Stop Shop (MOSS) will no longer be available for supplies of electronically supplied services to EU customers. Businesses that want to continue to use the MOSS system will need to register under the non-EU scheme but can only do so after 29 March 2019. Businesses will need to prepare to cover the period until the non-EU scheme is up and running. The alternative would be to register in all the EU member states in which sales are made which is not practical and would place a significant compliance burden on businesses.

EU VAT REGISTRATION NUMBER VALIDATION - ACCESSED VIA THE EU COMMISSION'S WEBSITE

The UK businesses will be able to continue to use the EU VAT number validation service to check the validity of EU business VAT registration numbers. UK VAT registration numbers will no longer be part of this service and HMRC is developing a service so that UK VAT numbers can continue to be validated. This is important for certain businesses to carry out due diligence.

MAKING TAX DIGITAL

The date the UK formally leaves the EU coincides with HMRC plans to introduce its Making Tax Digital program from April 2019. This will require businesses to use the Making Tax Digital for Business system to submit their VAT returns online so businesses should continue with the ongoing preparation for this change.

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CONCLUSION

There is still time for the UK and EU business to prepare for either of the two outcomes for when the UK exits the EU. Please be assured that the team at Wilton will closely monitor the changes that will affect your business. In any event, we will be able to guide your business during a period of uncertainty and can assist you to become familiarised with whatever procedures are implemented by HM Revenue and Customs for when the UK leaves the EU.

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