

## UK VAT and customs from 1 January 2021

**Last updated: 18 January 2021**

On 24 December 2020, the United Kingdom and European Union finally agreed a trade deal, the Trade and Cooperation Agreement (TCA), which will define the post-Brexit trading relationship between the European Union and United Kingdom from 1 January 2021. This is the biggest change to VAT and customs procedures since the UK joined the Single Market in 1992. This guide is intended to cover the headline changes for all businesses, and also upcoming changes in EU VAT which will affect businesses involved in the supply of digital services and distance sales of goods to EU consumers.

### Get in touch

If you have any questions on this guide or are looking for assistance in establishing how these changes affect your business, please call +44 (0)20 7556 1200 or email [enquiries@buzzacott.co.uk](mailto:enquiries@buzzacott.co.uk). A member of our [VAT Consultancy](#) team will be in touch to help, and can work with our [Fiscal Solutions](#) team to support you with any EU VAT registrations and fiscal representation requirements.

### The TCA - overview

The agreement's most obvious and immediate impact is on transactions in goods between the UK and the EU, resulting from the fact that the UK is now a third country, outside the Single Market and the Customs Union. However, there are also some VAT changes to cross border services from 1 January referred to below.

The [Northern Ireland Protocol](#) remains unchanged, so from 1 January 2021 there are different provisions in force for goods moving from Great Britain (GB) (ie England, Scotland and Wales) to Northern Ireland (NI) and vice versa, as NI will continue to be within the EU Customs Union and single market in relation to goods. The treatment of transactions in goods within, and to/from NI remain within the EU Customs Union and under EU VAT jurisdiction. Transactions in services within NI will be subject to UK rules. Businesses in NI, and those in GB which trade in goods with NI businesses, should read the government guidance [here](#). If you are a GB VAT-registered business trading in NI or between NI and the EU [you need to inform HMRC](#).

VAT in the UK will also change fundamentally as a result of Brexit, which entails a divorce of the UK's VAT legislation from the European Directives on which it is based, except to the extent that EU legislation up to 31 December is embedded in UK legislation by the Withdrawal Agreement, the EU (Withdrawal) Act 2018 and the European Union (Withdrawal Agreement) Act 2020. Outside the EU, the UK government will be at liberty to change the operation of VAT without reference to EU principles. It is therefore likely that further changes to the UK's VAT regime will occur in the longer term.

### Trade in goods

The TCA is directly relevant to all businesses that export and import goods across the UK-EU border. Businesses will experience more compliance burdens, paperwork, and restrictions than they have been accustomed to. The most immediate change will be the requirement for customs documentation for all goods that will cross the border between GB and the EU (including NI), including parcels sent by post. There will also be sanitary and phytosanitary (SPS) checks on certain goods moving across the border, which will be introduced from 1 January 2021 by the EU, and from 1 April 2021 by the UK.

## Customs duty

Although the agreement provides that trade in goods between the United Kingdom and European Union will be duty and quota free, this applies only if the goods are either wholly obtained from or manufactured in either the UK or EU, or sufficiently worked or processed there.

Goods manufactured or produced using components originating from outside the EU/UK will need to meet product-specific origin requirements, under what are known as 'Rules of Origin.' Origin can be self-declared by the exporter or the importer, but this should only be done in the full understanding of the complex rules that apply, particularly in certain sectors. If goods have been sourced from a local supplier, their origin will still need to be established.

If the goods do not qualify for treatment as either of UK or EU origin, then their duty treatment will revert to that of the third country from which they do originate, which will mean that customs duty is due on their arrival in GB or the EU (including NI). Customs duty is not reclaimable so this will add to costs.

In order for goods of EU origin to benefit from duty-free entry into the UK, the importer must:

- apply for the benefit of the exemption from customs duties in the import declaration;
- be able to prove the EU origin of the goods.

HMRC has published a guide explaining how to claim [here](#).

**Please call us on +44 (0)20 7556 1200 if you have origin or duty questions, and ask to speak to our VAT Consultancy team who can provide you with advice from a customs specialist.**

## VAT - Goods

- After 31 December 2020 all movements of goods between GB and the EU will be exports and imports and will require customs declarations to be made for checking at the border and payment of VAT.
- In order to bring goods into the UK from the EU (or vice versa) after 11pm on 31 December 2020 businesses will need to have a [UK EORI number](#) starting with GB, if they do not already have one. You do not need an EORI number if you only purchase services.
- Unless they are large bulk importers with expertise in making customs declarations, most businesses will need to use a customs agent to act on their behalf to make the necessary customs declarations for goods entering/leaving the UK. Failure to complete declarations correctly often results in goods being held up or rejected at the border. Businesses which have only ever dealt with EU suppliers/businesses are likely to need to engage an agent, as making accurate customs declarations is a specialist task, and requires purchase of software compatible with HMRC systems. HMRC has published details of customs agents and fast parcel operators [here](#). If you already have a customs agent you need to speak to them about how you will be accounting for VAT (and any duty if applicable) on exports to/imports from the EU from 1 January – see below.

## Imports of goods from the EU to the UK

- All goods entering the UK from the EU will be treated as imports (as goods from non-EU countries are). EU suppliers will no longer be issuing intra-EU despatch invoices on which UK traders account for acquisition

VAT. Instead, import VAT will be payable on the value of the goods, plus any applicable import duty (see rules of origin above), at the point of entry into the UK, unless you opt to apply for duty and VAT deferment, or use [postponed VAT accounting](#) (PVA) for import VAT. PVA will be available to all VAT registered traders. **You need to inform your customs agent if you decide not to use PVA.** Without PVA or deferment, VAT has to be paid on entry. You should check that your EU suppliers are ready and able to make export declarations.

- If import duty is payable under the [UK Global Tariff \(UKGT\)](#) the import VAT will be calculated on the value of the goods plus any applicable duty. Import duty is not reclaimable.
- Under PVA, VAT registered traders will be able to delay paying import VAT (for both EU and non-EU imports) and account for it on their VAT returns. Import VAT will be declared as output tax on the VAT return, and simultaneously deducted as input tax, meaning in most cases no payment will be due, but the deduction will be subject to the normal rules applying to deduction of VAT on costs.
- A monthly VAT certificate showing the VAT value of goods imported under PVA in the previous month must be used as evidence for reclaim of the VAT. These certificates will be available to download online. **You should apply online [here](#) to be able to access import VAT certificates.** If PVA is not used, then the current C79 will still be required as evidence for deduction of import VAT on VAT returns.
- For consignments of goods under £135 in value, no customs duty is payable.
- The UK is introducing additional VAT measures for consignments of goods under £135 arriving from outside the UK which are sold to UK consumers. Where such goods are sold direct from a non-UK supplier to a UK consumer no import VAT will be due. Instead suppliers, or operators of online market places through which such sales are made, will be required to register and charge UK VAT to consumers. See e-commerce below.
- For consignments of goods under £135 sold direct to UK businesses, the UK business should give its UK VAT registration number and will then account for the import VAT due under the reverse charge mechanism. Information from HMRC on that is [here](#).

## Goods sold B2B from the UK to businesses in the EU

- Businesses in GB will need to make customs declarations when exporting goods to the EU and NI. Information from HMRC on this is [here](#). The rules for exports differ according to whether the goods are exported by post, air freight or road and on the type of goods. Most small businesses will need to use an agent to make the declarations on their behalf.
- The terms of trade (Incoterms) with the customer need to be reviewed because if your business is responsible for delivering the goods to their door (DDP), you may incur EU duty on importation and may also render your business liable to register for VAT in the EU country of your customer.
- Unless you are responsible for importing the goods into the EU under the terms of trade with your customer, the EU customer will have to pay any EU duty and import VAT on the goods on arrival at the EU border.

- UK businesses that are registered for VAT in EU member states due to sales of goods which they acquire in and/or sell in the EU may be required to appoint a [fiscal representative](#) in order to continue to be registered.
- Evidence of export will need to be kept in order to zero-rate the sale of exported goods, see [HMRC Notice 703](#).

## Goods sold B2C to EU consumers—e commerce

- Up to 31 December 2020, where goods were sent from the UK to consumers in the EU (distance selling) UK sellers were able to account for VAT either through a UK VAT registration, or where sales to individual EU member states exceeded a threshold, through distance selling registrations in the EU member states where the customers were located. From 1 January 2021, as the UK (with the exception of NI, which remains in the EU for goods) is outside the EU, this is no longer possible. NI businesses will be able to continue to use the distance selling limits under the Northern Ireland Protocol.
- Between 1 January and 1 July 2021 goods with a value of under £135/€150 sent from GB to consumers in the EU can be zero-rated for UK VAT as exports, but will be subject to import VAT on arrival in the EU member state where the customer belongs. This will mean customers will need to make arrangements to pay the import VAT before they can take delivery of the goods, which may discourage the customer from ordering again from the same website unless GB based e-commerce businesses take steps to pay this on behalf of customers or register for VAT somewhere in the EU.
- From 1 July 2021 the **EU e-commerce rules** will change (this date was delayed for 6 months due to COVID-19). This will affect all GB businesses making distance sales of goods to EU consumers. The changes include the abolition of the low value consignment relief from VAT for goods below €22, the abolition of the distance selling thresholds, and the introduction of two “one stop shops” to make it easier for businesses that make retail sales in a number of member states to account for that VAT without requiring multiple EU VAT registrations. In addition, online marketplaces such as Amazon and eBay, may become the deemed supplier when they facilitate cross-border B2C sales of goods by third-party sellers and will be made responsible for accounting for VAT.
- The existing VAT Mini One-Stop-Shop (‘MOSS’) single EU VAT return for pan-EU B2C sales of e-services (see below) will be extended from 1 July 2021 to **all services supplied to EU consumers where the place of supply is the customer’s country under the VAT place of supply rules**. From 1 July 2021 the non Union **One Stop Shop (OSS)** will allow GB businesses to use a single EU VAT registration in a single member state to file a VAT return declaring and paying output VAT at the appropriate rates on sales of such services to consumers in all 27 member states. If GB businesses do not account for VAT under the OSS, they will have to register for VAT in each individual member state where they supply services to consumers - there is no registration threshold. NI businesses can use the OSS for both goods and services under the terms of the Protocol.
- From 1 July 2021 the **Import One Stop Shop (IOSS)** will allow e-commerce businesses (including GB businesses) sending goods under the value EUR150/£135 to EU consumers to declare and pay EU VAT on sales to consumers in all 27 member states. This will mean no import VAT is due at the EU border and thus offers a “fast track” system for small consignments.

- Use of the IOSS is not compulsory. If it is not used, import VAT will be collected from the consumer by the customs declarant in the EU country of destination – this will usually be a parcel operator.

## VAT - Services

From 1 January 2021 VAT rules applying to [services supplied between the UK and EU member states](#) will mostly become the same as the current rules for supplying services from the UK to countries outside the EU.

### Digital services

- GB businesses selling [digital services](#) (which include telecommunication services, television and broadcasting services, and electronically supplied services) to EU consumers will no longer be able to use the UK's VAT Mini One Stop Shop (VAT MOSS) service to declare sales and pay VAT due in EU member states.
- From 1 January 2021, to continue to use VAT MOSS simplification, GB suppliers of digital services will need to [register for the Non-Union VAT MOSS scheme in another EU member state](#), by the tenth day of the month following their first sale to an EU private customer, and they may need to appoint a local [fiscal representative](#). For example, **if you make a digital sale to an EU customer in January 2021 you will need to register for the Non-Union VAT MOSS by 10 February 2021**. Unless they register for the Non-Union VAT MOSS, suppliers will have to register in every EU country where they have customers.
- After 1 July the non-MOSS scheme will transfer to the OSS - see above.

### Intangible services

The following services when supplied to EU private consumers, were standard rated, but are outside the scope of UK VAT from 1 January 2021:

- transfers and assignments of copyright, patents, licences, trademarks and similar rights
- acceptance of any obligation to refrain from pursuing or exercising a business activity
- advertising services
- services of consultants, engineers, consultancy bureaux, lawyers, accountants, and other similar services - data processing and provision of information, other than any services relating to land
- banking, financial and insurance services
- the provision of access to, or transmission or distribution through, natural gas and electricity systems and heat or cooling networks and the provision of other directly linked services
- supply of staff
- letting on hire of goods other than means of transport.

### Tour operators

From 1 January 2021 the margin on designated travel services that take place inside the EU will be zero rated in line with the current treatment of supplies that take place outside the EU. The margin on those enjoyed in the UK will remain taxed at the standard rate.

## **Finance and insurance services**

From 1 January 2021, financial and insurance services (including intermediary services) where supplied to clients (private and business) who are established outside the UK will be outside the scope of VAT with the right to [recover VAT on associated costs](#). This means there ought to be an increase in VAT recovery on costs, and changes to partial exemption VAT recovery methods may be required.

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