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**Trading changes
following Brexit**

The United Kingdom officially left the European Union (EU) on 31 January 2020 and the 11-month transitional period ended on 1 January 2021. There are important changes businesses must now make in order to continue trading with the EU.

VAT changes

The UK left the EU VAT Territory on 31 December 2020. Following this date, Great Britain (England, Wales and Scotland) are not subject to EU VAT legislation. Northern Ireland remains subject to EU VAT legislation in respect of transactions involving goods, but not for services. Businesses in Great Britain should therefore be aware of numerous changes that apply from 1 January 2021.

Goods purchased from overseas

Acquisitions (purchases of goods from EU member states) are now treated as imports. This means that VAT on acquisitions are no longer declared in Box 2 of the VAT return. A new system, Postponed Accounting, has been introduced and applies to imports received from all over the world, with some exceptions such as low-value consignments (see below). The system is intended to mitigate the cashflow disadvantage posed by paying import VAT upfront and waiting to reclaim it in a later VAT return. Under the new system, import VAT can be deferred and declared to HMRC in Box 1 of the VAT return for the period of importation. The VAT can be reclaimed in the same return, in Box 4, subject to the normal rules for reclaiming input tax.

Low-value consignments, where the VAT-exclusive value does not exceed £135, are no longer subject to import VAT. Instead, UK VAT is due on the supply at the point of sale. If the goods are sold via an online marketplace (OMP), the OMP is responsible for charging VAT to the customer. If the goods are not sold via an OMP, the overseas seller is required to register and charge VAT in the UK. One exception to this rule is where the customer is VAT-registered; in this case the customer can declare the VAT due on the seller's behalf, by way of a reverse charge.

Goods sold to overseas customers

Dispatches (zero-rated sales of goods to business customers in EU member states) are treated as exports. Exports are zero-rated, provided certain conditions are met.

Distance sales (sales of goods to non-business persons in the EU) are also treated as exports. The EU distance-selling regime and thresholds no longer apply to UK suppliers.



Services

For those supplying services internationally, there are very few changes to the rules. There are some small changes to the place of supply rules for international business-to-business services (B2B), but suppliers of digital services to non-business customers (B2C) are perhaps impacted the most. Previously, these suppliers declared and paid the EU VAT due on B2C digital services via HMRC's EU VAT MOSS system. This system is not available for services supplied after 1 January 2021 and, instead, B2C digital service suppliers need to register for a non-EU VAT MOSS scheme operated by a tax authority in a member state of their choice.

EU VAT refunds

For input VAT incurred after 1 January 2021 businesses in Great Britain are no longer able to claim a refund using HMRC's EU VAT refund system. The system will be accessible until 31 March 2021 for those claiming refunds for VAT incurred prior to 1 January 2021. Those businesses wishing to obtain a refund of VAT incurred in EU member states after 1 January 2021 should follow the non-EU VAT refund procedures set by the tax authority in the member state where the VAT was incurred. The deadlines and processes involved differ from state to state.

Customs changes

Following the UK's departure from the EU Customs Union on 1 January 2021 the UK operates a full, external border with the EU. New border controls on imports from the EU to Great Britain are being introduced in stages, with customs declarations for goods which are not controlled being delayed until 30 June 2021.

From 1 January 2021

Customs declarations will be required when importing and exporting goods that are categorised as 'controlled'. Controlled goods include alcohol and tobacco products.

For live animals and high-risk animal or plant products additional declarations should be made.

From 1 April 2021

Declarations are to be made of imports of any animal origin or plants.

From 1 July 2021

Import declarations are required for non-controlled goods imported within the last six months. For non-controlled goods imported between 1 January and 30 June 2021 it will be necessary to keep detailed records of imported goods to submit the declaration.

Customs Duty

From 1 January 2021, new rates of Customs Duty for imports apply where the UK has not agreed a trade deal with a particular jurisdiction. These are set out in the "UK Global Tariff". On 24 December 2020, the UK and the EU reached a trade agreement that, in principle, means trade in goods between the UK and the EU will be tariff-free. To check the tariffs that apply to different categories of imported goods, please see <https://bit.ly/3qt83pi>.



Trading between Great Britain and Northern Ireland

As part of the Withdrawal Agreement between the government and the EU, Northern Ireland left the EU, but from 1 January 2021 maintains alignment with the EU's rules for VAT and Customs in respect of goods. For services, Northern Ireland follows the VAT rules applicable to the rest of the UK. This situation adds a great deal of complexity to Northern Ireland's VAT rules and adds extra considerations for businesses in Great Britain that trade with Northern Ireland.

Steps to take

Some practical actions to take now include:

- Obtaining an Economic Operator Registration and Identification (EORI) number, which will be required when trading with the EU post Brexit. It is free to obtain an EORI number and you can do so by visiting <https://www.gov.uk/eori>.
- Deciding whether to use an agent freight forwarder to help with making customs declarations. The following guidance outlines the services they can provide: <https://bit.ly/3erJEhl>

- If you buy goods from the EU, checking whether those goods are 'controlled'. Ascertaining which declarations are required and when they will need to be made. For more information, please see <https://bit.ly/3qBRc3A>.
- Checking the UK Global tariff (linked above) to see the rate of Customs Duty that is likely to apply to the goods you import.
- Deciding whether to use the Postponed Accounting system (<https://bit.ly/2N8kFoi>) to defer import VAT and familiarising yourself with the procedure for declaring the deferred import VAT on the VAT return.

This summary outlines the new VAT arrangements which impact businesses supplying to or receiving goods and services from the EU. Every business is different and we welcome the opportunity to work with you to support your business through 2021.

If you require more information on any of the issues contained in this summary, please contact us to discuss how we can help you.

