VAT:alert
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BLICK ROTHENBERG

Welcome to Blick Rothenberg's VAT:alert. This briefing contains timely information on VAT issues that may affect your business.

Autumn Budget announcements

Although no significant VAT changes were announced in last month's Budget, the Chancellor did introduce a number of consultation processes that could affect the VAT treatment for businesses in the months ahead.

VAT registration threshold

The UK's VAT registration threshold (for UK-established businesses only) is to be retained at £85,000 per annum for at least the next two years. This is a departure from the normal practice of increasing it each year in line with inflation. The Government will also consult on the design of the threshold in order to seek ways of mitigating the 'cliff edge' effect of having to register immediately when the threshold is exceeded.

Recent commentary on the UK's VAT threshold (the highest in the EU by far) has suggested that it is a barrier to business expansion and that it should be cut, possibly to around the EU average of £25,000. We await the outcome of the consultation to see where this will go.

Reintroduction of postponed acounting for import VAT?

One of the effects of the UK leaving the EU could be import VAT becoming payable on goods arriving from the EU. While in most cases import VAT would be recoverable, this will create a significant cash flow problem, with importers having to pay over VAT at the time of importation and then recover it via their VAT returns up to three or four months later.

Recognising this problem, the Government has committed to consider ways of mitigating the cash flow effect. This could see the reintroduction of postponed accounting whereby import VAT is simply off-set in the importer's VAT return.

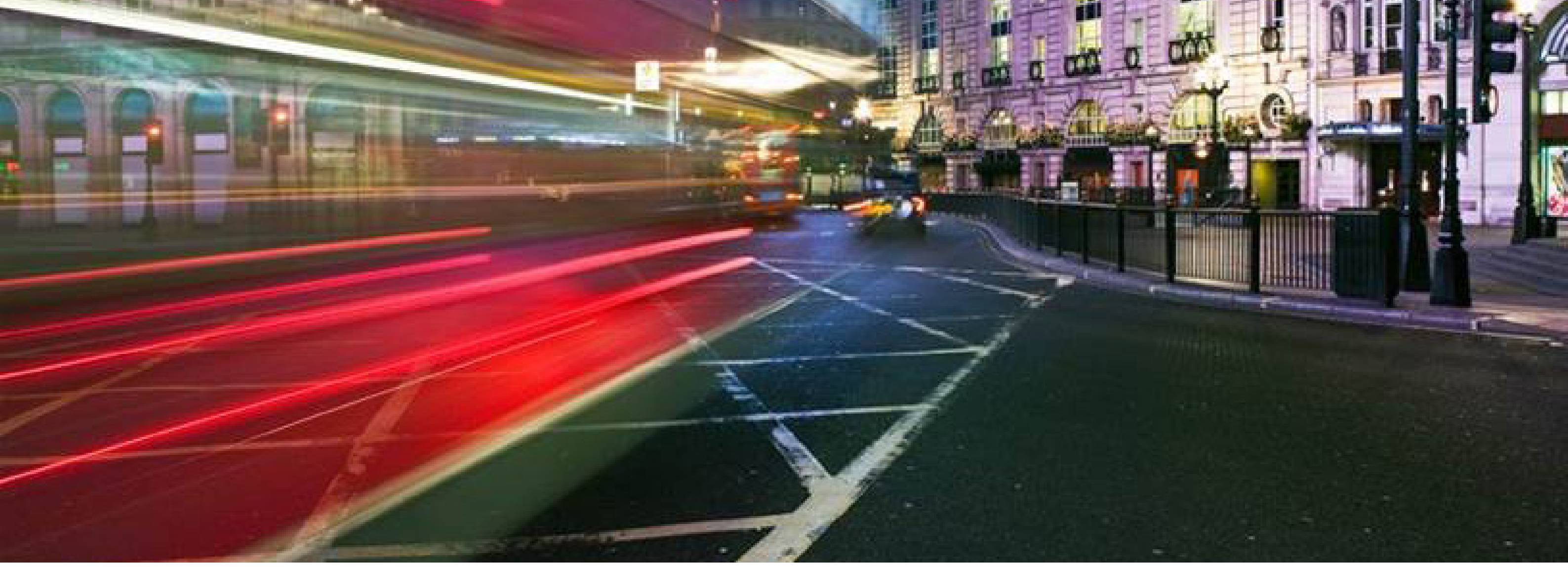
This would be a much welcomed reintroduction of a regime that was withdrawn way back in 1984. It is hoped that it will apply to all imports from both the EU and non-EU, as this will put the UK on the same footing as other EU Member States (notably the Netherlands and more recently France) who have similar regimes.

Joint and several liability

Legislation is to be introduced to extend the scope of the joint and several liability rules for online marketplaces such as eBay and Amazon. This is aimed at the growing level of VAT evasion by retailers who sell their goods online to UK consumers without registering for VAT. Rules are already in place to cover overseas businesses but these will be extended to cover UK-established businesses. Additional rules will also make it compulsory for the online marketplace to verify and display the VAT registration numbers of all their business customers selling goods via their websites.

Reverse charge for construction services

A new domestic reverse charge regime is to be introduced for B2B suppliers of construction services. This will shift the obligation to account for VAT to the recipient rather than the supplier in an attempt to reduce VAT fraud within the sector.



Under normal rules, a subcontractor currently charges VAT to a main contractor. If the subcontractor then fails to account for the VAT (in error or by a deliberate act) HM Revenue & Customs will lose revenue. The domestic reverse charge will mean that no VAT is charged through the chain of suppliers and there is no payment of VAT between the parties - thereby reducing the opportunity for fraud.

This procedure already applies to mobile phones, computer chips, wholesale gas and electricity and wholesale telecommunication services. This change for construction services will not take place until 1 October 2019 in order to allow for a technical consultation and give businesses adequate time to prepare.

EU VAT changes afoot for e-commerce

Outside the UK Parliament, EU finance ministers have also been busy and have recently agreed to reform the VAT rules for B2C cross-border sales.

On 1 January 2019, simplifications to the Mini-One-Stop Shop ("MOSS") scheme for digital services will come into force. These will include an EU wide registration threshold of €10,000. It is estimated that this will allow up to half a million small business to avoid registration for VAT in another EU country or under the MOSS scheme.

In 2021, further reforms will see the MOSS scheme extended to cover B2C supplies of goods currently dealt with under the distance selling rules. Again, this will mean that businesses will not have to register for VAT in the EU country where their customers belong (unless they hold physical stock in that country).

The EU has also agreed to remove the €22 small value consignment relief for goods imported into the EU. This is in line with the UK Government's recent announcement to withdraw this relief (currently set at £15) post Brexit for all goods arriving from the EU.

Other Brexit changes

With Brexit negotiations moving on to the next stage, watch this space for the practical VAT implications that UK and overseas businesses will need to consider in the run up to March 2019 and beyond.

VAT in the Gulf

If your business is trading in the United Arab Emirates or the Kingdom of Saudi Arabia, you need to consider whether your business is now required to register for VAT purposes. New VAT rules will be implemented on 1 January 2018 and 5% VAT will be chargeable on most commercial transactions.

Qatar, Bahrain, Oman and Kuwait will also be introducing VAT at 5% and the relevant regulations are due to be published shortly. The introduction of VAT will represent a cost to your business, so it is important that you understand the implications now in order to take steps to mitigate the cost of VAT implementation.

For more information and practical steps to help you prepare, please view our VAT in the Gulf flyer here.

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