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VAT and Customs – what happens when UK quits the Customs Union

VAT and customs specialists Harwood Hutton painted a picture of the future for importers and exporters if – as expected – the UK quits the European Customs Union. And the general consensus was that while there could be welcome flexibility in the area of VAT, there would undoubtedly be more cost and compliance burden overall.

Among the companies attending Harwood Hutton's 'Leaving The Customs Union' seminar at Green Park, Reading, staged in partnership with Thames Valley Chamber of Commerce, were Samsung, DHL Freight, Hitachi, SC Johnson, Westcoast and Cisco Systems.

"There is still a lot of ignorance and uncertainty out there," said Gerry Myton, head of Harwood Hutton's Specialist Tax Services division. "But one thing looks certain: We are going to see more expense and no lack of the 'friction' that everyone is so keen to avoid."

Seminar delegates were advised not to take their foot off the pedal when it comes to preparing for commercial life after the UK leaves the European Union.

The day before the seminar, the UK Government's Brexit Secretary David Davis and lead EU negotiator Michel Barnier had announced an agreement on a transition period for the UK's withdrawal to avoid a 'cliff-edge' situation feared by businesses

on both sides of the English Channel. The date set was December 31, 2020 and this has since been ratified by all 27 of the remaining European states.

Ian Worth explained the Customs implications of the UK leaving the Customs Union

"The end of 2020 seems like a long way off but there's an awful lot of work to be done between now and then," said Ian Worth, head of Customs Consultancy and International Trade at Harwood Hutton STS. "Consider that Her Majesty's Revenue and Customs (HMRC) currently handles around 50 million customs declarations a year at the moment and that number is expected to rise to 350 million. There's a lot infrastructure to put in place to deal with that volume of paperwork, not to mention all the legislation that needs to be enacted."

Ian Worth said in terms of Customs, the UK was turning back the clock to 1992 when customs borders were last in place. "There was no single market, no Euro, no Channel Tunnel, no Good Friday agreement and few people had heard of the internet. The world has changed a great deal since then."

He reminded delegates there were more than 40 separate EU free trade agreements, and while he was confident an agreement would be done with the EU "eventually", it would be wise for businesses to plan for World Trade Organisation rules being in place at 'B-Day'.

Mr Worth explained the benefits of the Authorised Economic Operator 'trusted trader' standard, which gave access to customs simplifications, and he talked about the cash flow advantages of customs warehousing.

"Brexit is going to introduce a lot of challenges for a lot of businesses, more so if those businesses are not prepared," he said. "The sort of things that businesses can be doing right now are looking at their customs profile and their supply chains; look at what they do with goods, where those goods come from and where they go to.

"And wrapped around that there are lots of customs solutions that can reduce if not eliminate the cost of customs and VAT import duty."

Gerry Myton said: "In terms of VAT and the Brexit scenario it's important business begin to plan at an early stage. There will be significant friction with VAT at 20% on importation." He suggested importers and exporters should prioritise setting up a

VAT deferment account to ease pressure on cashflow and review their terms and conditions "to see who is responsible for what".

Mr Myton said schemes such as CTP (Certified Tax Person) could make post-Brexit trading less burdensome but it came with obligations such as having a high degree of control over operations and logistics and evidence of financial solvency.

On the plus side, being outside of the EU would give the UK the flexibility to move items between VAT rates, reduce rates or wipe them out for certain categories. "We won't have to go rushing off to the Commission to get their permission to change the rules," said Mr Myton.

"When they cut the VAT rate on restaurant and hotel-type establishments in Ireland from 21% to 13.5% during the economic downturn, it actually generated an increase in revenue for the Irish Government, so being free of an overarching directive could be very useful." Mr Myton said HMRC might also feel inclined to revisit historic VAT judgments determined by the EU and which they accepted grudgingly.

"Businesses need to look at what they are doing, plan carefully and put in place the necessary changes to their structures to minimise the impact of VAT - and that's not just from goods coming into the UK, it applies also to what they are selling outside the UK," said Mr Myton. "And they will have to look at structures in place in Europe, review their terms and conditions and ensure they get things right and minimise the burden post-Brexit."

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