

International Trade and VAT

Overview

VAT procedures and rules differ depending on whether trade is with countries within or outside the European Union. Purchases from other EU countries are known as "acquisitions" rather than imports. Sales to customers in other EU countries are known as "dispatches" rather than exports.

EU states are required to charge standard VAT rate of at least 15% and a reduced VAT rate of at least 5% on a wide range of goods and services. VAT rates vary between EU member states and vary for different types of goods and services.

Exports to other EU States

Dispatches of goods to VAT registered customers within the EU are zero rated. The customer's EU VAT number must be included on the sales invoice. Evidence must be kept that the dispatch has been made to another EU trader. If the sale is to an EU customer who is not VAT registered, then VAT is charged at the normal domestic rate in the state of export.

The place of supply within the EU is where the transport begins i.e. in the exporter's State. Provided the above conditions are met, the supply to another European Union member state will be zero rated. This enables the exporter to recover VAT on his corresponding purchases.

It is necessary to obtain proof of transport. Delivery dockets or bills of lading will be acceptable and should be available to the supplier. Proof of removal from the state is essential. HMRC may require to see transport documents, copies of warehouse receipts, delivery documents etc. If there is any doubt involved, the supplier should charge VAT and will be entitled to recover.

It is essential to verify the customer's EU VAT number. HMRC have a facility to confirm whether a particular VAT number is correct. It is not required to verify every number. A common sense approach is required.

If total sales to non VAT registered customers in any particular country exceed the VAT distance sales registration threshold in the State of export, it is necessary to register and account for VAT in that State. The thresholds vary between EU member states.

International trade transactions may involve more than two businesses in different countries. For example a country may order goods from an intermediate supplier who then sources the goods with the supplier in a third country. If a supplier based in an European Union country delivers goods directly to a customer in another EU country rather than via the intermediate supplier, there is a so called "triangulation" arrangement. There are special VAT rules which apply.

Imports from other EU States

Where a VAT registered business imports goods from another EU member state, the following rules apply. The supplier of the goods charges VAT in his State at zero rate. This means that the supplier can recover VAT on the purchases relating to the goods supplied. The supplier will have to file a declaration in respect of all such supplies in his own State and may have to file a statistical return.

The business which acquires the goods from the other EU member State must ~~self~~ account for the VAT on the acquisition in his VAT returns in the State of import. This reverses the normal rule by which the supplier normally accounts for and pays the VAT.

Assuming the importer charges VAT on all of his sales and is accordingly entitled to recover VAT on all the corresponding purchases, there would be no actual cash flow charge. The purchaser self accounts for VAT by simultaneously charging the VAT and taking a corresponding credit. If the business did not have full VAT recovery some VAT liability may arise.

The above rules do not apply to motor vehicles, vessels and aircraft which are subject to special rules.

VAT on imports from outside EU

VAT is due on goods imported into the UK from outside the EU and into free circulation. VAT on imports are payable at the same rate as applies for supplies of the same goods in the UK. A number of temporary reliefs which postpone the duty may be available e.g. where goods are put into a custom warehouse.

The VAT calculation is based on the valuation of the goods. This is the total of the VAT value and incidental expenses such as transport up to the first point of destination in the UK and other duties such as excise duties. For goods worth more than £6,500.00, it may be necessary to complete a separate valuation document.

Imports must be declared and any VAT or other duties paid before they are released into free circulation in the UK. Goods are normally declared electronically or by using the paper Single Administrative Document. This gives the information needed to work out import VAT.

Special Reliefs

Authorised traders can use simplified declarations to get most imports released more quickly. Authorised traders can also defer VAT without providing full security.

Special rules apply to postal imports worth under £2,000.00. If these are accompanied by a customs declaration showing the VAT number or what the goods are, it is not necessary to pay VAT immediately. Instead it is possible to account for import VAT on the business's own VAT return.

There are some types of goods which can be imported without payment of VAT. These include samples of negligible value and various goods for disabled persons.

If goods are supplied from outside the EU for onward supply to another EU country, it may be possible to claim onward supply relief. Instead of paying import VAT it is accounted for by the customer.

If goods are imported for processing and re-export there is a relief for both customs duty and import VAT. If one is processing imported goods and the end product will be subject to a lower import duty it may be possible to benefit from processing under customs controls. Customs duty and VAT are suspended while the goods are being processed. Duties become payable at the lower rate when the finished product is released into circulation.

It is possible to import goods into a free zone and process them without paying customs duty or VAT. Customs duties and import VAT can be suspended on goods being transported through the UK using certain customs procedures.

Import VAT is not due if goods are imported under a custom suspension arrangement. Import VAT becomes payable when goods are subsequently released.

The Customs Declarations supplies statistical information for exports outside the European Union. With the removal of European Union frontiers in 1993 new statistical measures were put in place. The system is called "Intrastat". It requires suppliers of goods to other Union Member States above a certain threshold (£260,000) to report their supplies in a monthly declaration.

Declarations

It is necessary to declare imports and exports to customs. Exporters declare their exports electronically using the National Export System. If one is transporting goods through the EU which are imported from a third country liability for customs duty and VAT might arise each time the goods cross the EU border unless an appropriate transit system such as community transit is used. Transit declarations can be submitted electronically.

A freight forwarder may handle imports or exports for the importer and exporter. They will then usually complete the customs declaration and pay or defer duties including VAT. The agent must ensure that they state on the customs duty that they act for the business concerned. It is possible to complete custom freight formalities electronically. This is through the CHIEF system. If business is importing, the CHIEF computer system normally calculates the value of the goods and import duty automatically.

Prior to 1993 VAT was collected at the frontier as part of the declaration to customs. Since that date, VAT is accountable in the Member State of destination through the national EU VAT systems. See our separate notes in relation to international VAT.

When supplying goods to another Member State VAT registered business the supplier must obtain the customer's VAT registration number on the commercial invoice and zero rate the supply. The customer then accounts for the VAT in the State of import.

Where supplies are made to non-registered customers in another EU State (a VAT registration number cannot be quoted) and the invoice must charge VAT at the appropriate rate in the supplier's Member State. The supplier must account for the VAT.

When supplying goods outside the European Union, evidence must be obtained that the goods have left the EU. Such evidence could be a certificate of shipment or commercial transport document by a haulier etc.

This Guide is intended as an overview and broad outline of the matters covered in it. Its purpose is to inform and raise awareness. We are happy to offer specific legal advice on particular circumstances. This Guide should not be relied on as a substitute for comprehensive legal advice with reference to the particular circumstances.

While we have taken care in the preparation of this publication, we do not accept legal liability as a result of any reliance placed on anything in this Guide. The reader should rely only on specific legal or taxation advice.