

VAT: Changes to zero-rating of exports from the UK

Who is likely to be affected?

Overseas businesses without a UK establishment who are registered for VAT in the UK and UK established businesses who supply them with goods for export to destinations outside the European Union.

General description of the measure

The UK currently provides for zero-rating of goods intended to be exported outside the European Union (EU) provided certain conditions are met. Where goods are sold to a VAT registered customer who is established in a country other than the UK, the supply is not eligible for zero-rating under UK law. This is contrary to EU VAT law (Council Directive 2006/112/EC) which says that where goods are collected by an overseas customer for subsequent export, the supply is eligible for zero-rating provided the customer is not established in the Member State. Whether such a customer is VAT registered in the Member State makes no difference to the VAT treatment of the supply. Therefore, UK law cannot exclude VAT registered businesses from the scope of the export exemption if those businesses are not established here, so UK law requires amendment. The changes extend the scope of zero-rating to transactions not previously covered in the UK. As such, they are beneficial to UK business and will have a positive impact on small businesses.

A separate change is required to the legal provisions that allow for the zero-rating of excise goods dispatched to persons not taxable in another member state. These provisions contain a reference to Excise law which was revoked in 2010. An amendment is required to update this legal reference.

Policy objective

To facilitate UK exports by ensuring that UK legislation is aligned with EU law and to update a reference to Excise law.

Background to the measure

This measure was announced at Budget 2013, and a consultation took place between 13 May and 5 July 2013.

HMRC has considered all responses received to the consultation, as detailed in the Summary of Responses Document published on the HM Government website at: https://www.gov.uk/government/publications?publication_filter_option=consultations.

Detailed proposal

Operative date

Changes to the VAT Regulations 1995 (SI 1995/2518) will take effect from 1 October 2013.

Current law

The current law on the conditions for zero-rating of exports to non-established businesses is in Regulation 129(1)(a) and the condition in respect of goods dispatched to other EU

Member States containing the outdated reference is in Regulation 135(c) of the VAT Regulations 1995 (SI 1995/2518).

Proposed revisions

Secondary legislation will amend the VAT Regulations 1995 to:

- extend zero-rating to goods supplied to businesses registered for VAT in the UK but established in another country, where those businesses export the goods outside the EU. This will assist export trade by removing a requirement for UK businesses and their customers to account for VAT, and
- amend the VAT Regulations 1995 to correct an outdated reference to Excise law where businesses dispatch goods to other EU Member States.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18
	nil	nil	nil	nil	nil
	This measure is not expected to have an exchequer impact.				
Economic impact	The measure is not expected to have any economic impacts.				
Impact on individuals and households	This is a minor change to the VAT rules on zero-rating of exports and, as such, there is no impact on individuals or households.				
Equalities impacts	HMRC has considered 'due regard' in Section 149 of the Equality Act in relation to these changes. The changes are not expected to impact any group sharing a protected characteristic unfavourably.				
Impact on business including civil society organisations	<p>This measure is expected to have a negligible impact on businesses and civil society organisations.</p> <p>The change will assist export trade by removing a requirement for UK businesses and their customers to account for VAT. Although we have no firm figures, we estimate that a small number of businesses will be affected. Of those, many are likely to be existing exporters who are familiar with export requirements and will therefore incur minimal additional costs. There will be additional costs for those exporters who will be now be able to zero rate a supply of goods to UK VAT registered businesses established outside the UK. Those costs relate to a requirement to comply with the rules in VAT Notice 703.</p> <p>There will also be one off familiarisation costs associated with complying with new requirements and possible system and pricing changes. However, some of any administrative burden cost will be mitigated because affected businesses will no longer be required to account for VAT on these transactions.</p>				
Operational impact (£m) (HMRC or other)	The impact on HMRC costs of changing the law for some export transactions is negligible and would be met from existing baselines.				
Other impacts	The changes will impact as detailed above on all businesses, irrespective of size, and so will have no specific impact on small firms. No other impacts have been identified.				

Monitoring and evaluation

No formal monitoring is planned but this policy may be kept under review through communication with taxpayer groups affected by the measure.

Further advice

If you have any questions about this change, please contact John Bryning on 03000 540786 (email: john.bryning@hmrc.gsi.gov.uk).

Declaration

David Gauke MP, Exchequer Secretary to the Treasury, has read this Tax Information and Impact Note and is satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impacts of the measure.