

VAT: Low Value Consignment Relief

Who is likely to be affected?

Businesses based in the Channel Islands, who supply goods to UK customers and UK consumers who purchase these goods.

General description of the measure

This measure removes low value consignment relief (LVCR) from mail order goods imported into the UK from the Channel Islands. This will end the exploitation of LVCR by suppliers established in the Channel Islands for the purpose of selling low value goods on a large scale free of VAT to UK customers. It was never intended that the relief should be exploited in this way.

Policy objective

This will support the Government's objective of a fairer tax system by ensuring that UK businesses, especially small and medium sized enterprises, can compete on a level playing field with businesses with operations in the Channel Islands.

Background to the measure

The Government has concluded that the supply of mail order goods to UK customers from the Channel Islands is affecting the conditions of competition on the UK market. In Budget 2011, the Chancellor of the Exchequer announced a reduction in the threshold for LVCR from £18 to £15 for goods from all non-EU countries with effect from 1 November 2011. The Government also announced its intention to explore further measures to prevent exploitation of the relief. The Government announced further proposals, in accordance with that plan, on 9 November 2011.

Detailed proposal

Operative date

The measure will have effect for goods imported on or after 1 April 2012.

Current law

Article 23 of Council Directive 2009/132 provides for member states to exempt from VAT goods of negligible value imported into the European Union. Member states may set the threshold for exemption at between €10 and €22 (between £9 and £20). The relief is implemented in the UK by the Value Added Tax (Imported Goods) Relief Order 1984 (Schedule 2, Group 8, Item 8) SI 1984/746. The threshold set by the UK has been £15 since 1 November 2011.

Recital 5 of Council Directive 2009/132 makes granting of the relief (at any level) subject to the condition that it is not liable to affect the conditions of competition on the market. Article 23 of the Directive also allows member states to exclude from the relief goods which have been imported on mail order.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to amend Value Added Tax (Imported Goods) Relief Order 1984 to withdraw the relief completely for goods imported from the Channel Islands, with effect from 1 April 2011.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
	-	+90	+95	+95	+100	+110
	These figures are set out in Table 2.1 of the Autumn Statement and have been certified by the Office of Budget Responsibility. More detail can be found in the policy costings document published alongside the Autumn Statement.					
Economic impact	The removal of LVCR from all goods imported into the UK from the Channel Islands will raise revenue and is likely to have a modest but positive impact on the UK economy as businesses which have set up offshore supply arrangements in the Channel Islands return to the UK.					
Impact on individuals and households	Individuals and households importing goods from the Channel Islands will now incur VAT on their purchases, at the same rate and amount applicable to goods purchased in the UK. The people mostly impacted will be on-line shoppers. However, this change may not automatically lead to higher prices as the decision on how much of the increased cost to pass on to the customer is a commercial matter for those companies who have based their operations in the Channel Islands. There are no figures available that indicate how many individual consumers import goods or how they will be affected financially.					
Equalities impacts	There are no impacts on people with protected characteristics.					
Impact on business including civil society organisations	There will be no increase to administrative costs for UK mainland businesses.					
Operational impact (£m) (HMRC or other)	There will be no material impact on HM Revenue & Customs (HMRC) operations because businesses based in the Channel Islands can continue to participate in HMRC's 'Import VAT Accounting Scheme'.					
Other impacts	<u>Competition assessment:</u> There will be a positive impact on competition as it levels the playing field between UK businesses and those with operations based in the Channel Islands. Small companies will benefit from fairer competition without increased costs.					

Monitoring and evaluation

On a monthly basis, HMRC receives data from the Channel Islands providing the value of exports to the UK. The impact of this policy will be monitored, using that data and any other available information on diversion of trade to other non-EU jurisdictions, and assessed by HM Treasury, HMRC and the UK Border Agency.

Further advice

If you have any questions about this change, please contact our helpline on either 0151 672 2775 or 0151 672 2737.

1 Relief from VAT on low value goods: restriction relating to Channel Islands

- (1) In Schedule 2 to the Value Added Tax (Imported Goods) Relief Order 1984 (S.I. 1984/746) (reliefs for goods of certain descriptions), Group 8 (articles sent for miscellaneous purposes) is amended as follows.
- (2) The existing Note becomes Note (1) (and accordingly “*Note*” in Group 8 becomes “*Notes*”).
- (3) After that Note insert –
 - “(2) Item 8 does not apply in relation to any goods sent from the Channel Islands under a distance selling arrangement.
 - (3) For the purposes of Note (2) –
 - “distance selling arrangement”, in relation to any goods, means any transaction, or series of transactions, under which the person to whom the goods are sent receives them from a supplier without the simultaneous physical presence of the person and the supplier at any time during the transaction or series of transactions, and
 - “supplier” means any person who is acting in a commercial or professional capacity.”
- (4) The amendment of that Schedule by this section is without prejudice to any power to amend that Schedule by subordinate legislation.
- (5) The amendments made by this section have effect in relation to goods imported on or after 1 April 2012.

EXPLANATORY NOTE

**RELIEF FROM VAT ON LOW VALUE GOODS: RESTRICTION
RELATING TO CHANNEL ISLANDS**

SUMMARY

1. This clause will remove Low Value Consignment Relief (LVCR) from mail order goods imported into the UK from the Channel Islands.

DETAILS OF THE CLAUSE

2. Subsection (1) provides that Group 8 of Schedule 2 to the Value Added Tax (Imported Goods) Relief Order 1984 (S.I. 1984/746) (articles sent for miscellaneous purposes) is amended.
3. Subsection (3) inserts two new Notes into Group 8 which together provide that LVCR will not apply to any goods sent from the Channel Islands under a distance selling arrangement.
4. Subsection (4) provides that the amendment of Schedule 2 by primary legislation does not prevent amendment of that Schedule in future by subordinate legislation.
5. Subsection (5) provides that the amendments have effect in relation to mail order goods imported on or after 1 April 2012.

BACKGROUND NOTE

6. Article 23 of Council Directive 2009/132 provides for Member States to exempt from VAT goods of negligible value imported into the European Union. Member States may set the threshold for exemption at between €10 and €22 (between £9 and £20). The relief is implemented in the UK by Item 8 of Group 8 of Schedule 2 to the Value Added Tax (Imported Goods) Relief Order 1984 (SI 1984/746). Recital 5 of Council Directive 2009/132 makes granting of the relief (at any level) subject to the condition that it is not liable to affect the conditions of competition on the market. Article 23 of the Directive also allows member states to exclude from the relief goods which have been imported by mail order.
7. In Budget 2011, the Chancellor of the Exchequer announced a reduction in the threshold for LVCR from £18 to £15 with effect from 1 November 2011. He also announced his intention to explore further

measures to prevent exploitation of LVCR as it was never intended that LVCR should be used in this way.

8. Most LVCR trade is from the Channel Islands. The Government therefore concluded that the supply of mail order goods to UK customers from the Channel Islands was affecting the conditions of competition on the UK market. The Chancellor therefore announced on 9 November that LVCR would be withdrawn completely for all goods imported on or after 1 April from the Channel Islands.
9. If you have any questions about this change, or comments on the legislation, please contact Anne Treadaway on 020 7147 0337 or 07798 677515 (email: anne.treadaway@hmrc.gsi.gov.uk).