VAT: Alternative VAT treatment of Goods from Overseas

Who is likely to be affected

Overseas sellers and online marketplaces involved in the supply of goods, where the goods are imported or located in the UK at the point of supply.

General description of the measure

At the end of the transition period, the government will remove the low value consignment relief (LVCR) in GB and introduce a new model for the VAT treatment of goods arriving into the UK and goods located in the UK which are sold by overseas suppliers where the supplies are facilitated through an online marketplace.

LVCR relieves import VAT on consignments of goods not exceeding £15 in value. It is being removed in GB in order to combat widespread abuse and to avoid trade distortion. LVCR will continue to apply in Northern Ireland as required by the Northern Ireland Protocol (the Protocol) to the Withdrawal Agreement but will not apply to goods that are ordered remotely.

For imports of goods from outside the UK into Great Britain (GB) in consignments not exceeding £135 in value, the point at which VAT is collected will move from the point of importation to the point of sale. Supply VAT, rather than import VAT, will therefore be chargeable on these supplies. Goods imported into Northern Ireland (NI) will remain subject to import VAT. Goods located in the UK that are subject to these changes are not limited to a monetary value limit.

Online marketplaces that facilitate supplies subject to the measure will be responsible for collecting and accounting for the VAT, other than on goods located in NI that are supplied to NI customers. This will require the relevant online marketplace to register (if not already registered) and account for VAT to HM Revenue and Customs (HMRC).

For imports of goods in consignments not exceeding £135 in value sold directly to UK consumers (without online marketplace facilitation), the overseas seller will be required to register (if not already registered) and account for the VAT.

If a business customer provides its VAT registration number to the seller or online marketplace, the VAT will be accounted for by the business customer for imported goods, or as now by the underlying supplier if the goods are located in the UK.

This measure does not apply to imported consignments containing goods subject to excise duty (alcohol products including beers, wines and spirits; tobacco products including cigarettes, cigars and loose tobacco; and energy products including hydrocarbon oils and biofuels for use as motor or heating fuel).

This measure does not apply to movements of goods between the European Union (EU) and NI.

Policy objective

Following the end of the transition period, the UK is introducing new rules to treat goods arriving into GB from EU and non-EU countries in the same way. For goods imported into NI from non-EU countries the UK has introduced rules so that the policy operates in the same way as for GB, while meeting the obligation under the Protocol. Movement of goods from the EU to NI are not subject to this policy.

This measure will strengthen the collection of VAT on goods sold by overseas sellers to UK customers, reducing the risk of UK based retailers being undercut by VAT-free goods from abroad.

The measure will also put the UK at the forefront of global efforts to tackling long-standing abuse relating to LVCR.

The measure builds on existing Joint & Several Liability measures to improve compliance in relation to goods located in the UK in fulfilment houses.

Background to the measure

The UK left the EU on 31 January 2020 and entered a transition period during which time most VAT rules remain the same. Following the end of the transition period on 31 December 2020 the UK will introduce new rules for the VAT treatment of imports of goods to treat both EU and non-EU goods in the same way, in so far as is possible under the Protocol.

At Budget 2020, the government launched an informal consultation on proposals for the VAT treatment of goods from overseas sellers from the end of the transition period. Through this consultation the government engaged with a wide range of stakeholders.

On 20 July 2020 HMRC published a policy paper setting out changes to the VAT treatment of overseas goods sold to UK customers from the end of the transition period. The paper followed publication on 13 July 2020 of the Border Operating Model. On 20 November HMRC published guidance on how the changes will apply in GB and NI.

Detailed proposal

Operative date

The measure will have effect from the end of the transition period, i.e. 11pm on 31 December 2020.

Current law

Current law is included in the Value Added Tax Act 1994 (the VAT Act), the Value Added Tax (Imported Goods) Relief Order 1984 (SI 1984/746) and the Value Added Tax Regulations 1995 (SI 1995/2518) (the VAT Regulations 1995).

Proposed revisions

Legislation will be introduced in Clause 7 of, and Schedule 3 to the Taxation (Post-transition Period) Bill 2020.

Part 1 (Main amendments) of Schedule 3 amends various provisions in the VAT Act 1994, the VAT Regulations 1995 and revokes provisions in the Value Added Tax (Imported Goods) Relief Order 1984. Part 1 only has effect of goods imported into GB, or for goods located in GB sold to GB customers.

Section 7 of the VAT Act will be amended so that supplies of goods sent in consignments valued up to £135, which would normally be treated as supplied outside the UK, will be treated as supplied in the UK. These goods will be subject to domestic supply VAT and section 37 of the VAT Act will be amended so that import VAT is not chargeable on those goods. Suppliers of these goods will be liable to register and account for VAT under Schedule 1 or 1A of the VAT Act, unless they are already registered.

A new Section 5A will be introduced into the VAT Act to deem the operator of an online marketplace as the supplier of goods where the online marketplace facilitates the supply, subject to limited exceptions. The seller will be treated as having supplied the goods to the operator and the operator will be treated as having supplied them on the customer in the furtherance of a business. As such, the operator will be liable to charge and account for the VAT on those supplies. A new zero-rate will be introduced (by amending Schedule 8 to the VAT Act) for the deemed supply between an overseas seller and the operator of the online marketplace where the goods are in GB at the point of sale. Consequential amendments will be made to section 77 of the VAT Act.

A new reverse charge provision will also be introduced in a new section 7AA of the VAT Act so that UK VAT registered businesses will be required to account for the VAT due on their VAT return, provided that the business has provided its VAT number to the supplier or the operator of the online marketplace.

Schedule 11 of the VAT Act will be amended to require suppliers that make supplies subject to the measure to retain records in an electronic format.

A new section 95A inserted into the VAT Act to introduce new definitions of “online marketplace” and “operator” to replace the previous definitions in section 77B of the VAT Act which will be omitted. Section 96 is amended to introduce definitions of “postal operator” and “postal packet”.

Part III of the VAT Regulations 1995 will be amended to require a VAT invoice to be issued for supplies of goods subject to the measure, that are made to non-taxable persons. Consequential amendments will be made so that, where appropriate, regulations in Part III continue to only apply to supplies made to taxable persons.

The Value Added Tax (Imported Goods) Relief Order 1984 will be amended to abolish LVCR in GB, which relieves import VAT on consignments of goods valued at £15 or less.

Part 2 of the Schedule amends and modifies various provisions in the VAT Act and the Value Added Tax (Imported Goods) Relief Order 1984 in relation to NI.

Section 40A of the VAT Act (to be inserted by this Bill) is amended to introduce Schedule 9ZC into the VAT Act and consequential amendments are made to Schedule 9ZB to the VAT Act (to be inserted by this Bill).

Part 1 of Schedule 9ZC modifies provisions in the VAT Act, including those introduced by Part 1 of Schedule 3, to give effect to the policy in relation to movements of goods into UK as a result of their entry into NI and from GB to NI and vice versa. The supplier of the goods or the online marketplace that facilitates the sale of the goods will be liable for the VAT charged on goods imported into Northern Ireland from outside the UK and the EU if the goods are sold by an overseas seller, subject to limited exceptions. The online marketplace will also be liable for the VAT charged on the sales of goods it facilitates goods of any value moving from GB to NI or vice versa where the goods are sold by an overseas supplier, are located within GB or NI as the case may be, unless the recipient is VAT registered and provides their VAT registration number.

Part 2 of Schedule 9ZC modifies the Value Added Tax (Imported Goods) Relief Order 1984 so that LVCR is not abolished for goods imported into the UK as a result of their entry into NI. However, this does not apply to mail order goods, which is where a seller sends goods in fulfilment of an order placed remotely.

Part 3 of Schedule 9ZC introduces registration provisions requiring those deemed liable to pay VAT under Schedule 9ZC to register for VAT.

Summary of impacts

Exchequer impact (£m)

2020 to 2021	2021 to 2022	2022 to 2023	2023 to 2024	2024 to 2025	2025 to 2026
+85	+360	+320	+305	+295	+280

These figures are set out in Table 1.1: Policy decisions since Budget 2020 as “VAT parcel reforms” and have been certified by the Office for Budget Responsibility. More details can be found in the Policy costings: November 2020 document published alongside Spending Review 2020.

Economic impact

This measure is not expected to have any significant macroeconomic impacts.

Impact on individuals, households and families

The measure will ensure that VAT is collected on more goods supplied by overseas sellers to customers in the UK. For goods within the scope of this measure, the new rules are therefore expected to tackle distortion, closing the current gap between the price of goods from overseas sellers when compared to goods on the high street.

There may be an impact on individuals, households and families where overseas sellers might now charge VAT on the goods supplied, which could increase the price. The impacts on individuals and families will depend on the price of the goods and the amount of VAT charged.

Equalities impacts

It is not anticipated that there will be any impacts for those in groups sharing protected characteristics.

Impact on business including civil society organisations

This measure is expected overall to have a positive impact on compliant businesses as the changes introduced under this measure will equalise the VAT treatment of goods imported into the UK and create a level playing field with UK businesses. The measure will require overseas businesses and online marketplaces that facilitate the supply of goods to UK consumers to charge and account for UK VAT to HMRC, and for VAT registered businesses receiving supplies of imported goods from overseas sellers to account for the VAT.

This measure will also reduce the VAT administrative burden for some businesses which use online marketplaces to sell their goods, as VAT on these sales will be accounted for by the operator of the relevant marketplace. The VAT administrative burden for overseas sellers selling direct to customers in the UK could increase. The admin impacts for businesses directly affected by these changes are expected to be significant, but the size of the impact is still to be quantified. HMRC is exploring the feasibility of using current and historically held data and innovative IT programmes to determine the size of the impact.

Customer experience

The impact on customer experience will depend on how businesses are affected by the measure. Customer experience is expected to improve for those whose administrative burdens and costs are now reduced as they will interact less with HMRC. Conversely, customer experience could worsen for those businesses which now have increased administrative burdens and costs, and/or which interact more with HMRC as they will be required to collect and provide more information.

Online marketplaces

This measure will affect online marketplaces, which will be responsible for collecting and accounting for VAT on business to consumer supplies of imported goods not exceeding £135 where they are involved in facilitating a sale, including situations where the goods are already in the UK at the point of sale but the seller is located outside of the UK. One-off costs include familiarisation with the change and could also include introducing new systems and/or processes in order to be able to identify and account for transactions in scope. Continuing costs include recording the VAT due on transactions, as well as reporting and paying this VAT to HMRC.

VAT registered businesses buying goods from overseas sellers

This measure will affect VAT registered businesses who will be required to account for VAT on some supplies of imported goods received in the UK from overseas sellers on their VAT return. One-off costs include familiarisation with the changes and could also include introducing new systems and/or processes in order to be able to identify and account for the VAT. Continuing costs could include accounting for VAT on supplies received on the VAT return to the extent businesses are not already doing this.

Overseas sellers

This measure may affect overseas sellers who make direct sales of goods (sales that are not facilitated by online marketplaces that are overseas at the point of sale and which form part of consignments that do not exceed £135 in value to UK customers. These businesses will be required to register for VAT, unless already registered in the UK in order to account for VAT on these sales. One-off costs include familiarisation with the changes and registering for VAT. Continuing costs include complying with the VAT regime, including maintaining full VAT sales and purchase records, a VAT account, completing and filing VAT returns and paying VAT to HMRC.

There is no impact on civil society organisations.

Operational impact (£m) (HMRC or other)

HMRC will incur costs implementing this policy, estimated to be £32.87m over 5 years.

Other impacts

Other impacts have been considered and none has been identified.

Monitoring and evaluation

This measure will be monitored through receipts, VAT returns and other information collected from HMRC's systems, as well as through communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact Edward Brett on Telephone: 03000 516803 or email: edward.brett@hmrc.gov.uk.

Declaration

The Right Honourable Jesse Norman MP, Financial 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.