ICAEW

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VAT POSTPONED ACCOUNTING LETTER TO FST

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28 February 2018

Rt Hon Mel Stride MP
Financial Secretary to the Treasury and Paymaster General HMRC Treasury
1 Horse Guards Road London
SW1A 2HQ

Dear Minister

VAT on imports of goods - Postponed accounting

We are aware that HMRC is considering the reintroduction of postponed VAT accounting on imports, along the lines that it operated in the UK from the introduction of VAT on 1 April 1973 until 30 September 1984. This would be similar to the system currently used for acquisitions from suppliers in the EU, such that VAT would not be paid at importation or deferred but would be reported directly onto the importer’s VAT return and immediately recovered. An example is included at Appendix 1 below.

We believe that it would be sensible and advantageous to UK VAT registered businesses for the Government to reintroduce postponed VAT accounting for imports as soon as possible. Subject to the need to give businesses sufficient notice to make the necessary changes to their systems, we recommend an implementation date of 1 January 2019 as this will coincide with the abolition of CHIEF. The change to postponed accounting would bring accounting for VAT on all imports into the UK onto a similar footing as the present treatment of acquisitions of goods from the EU.

When Nigel Lawson announced the abolition of the VAT postponed accounting system in his 1984 Budget speech, he said:

> *The European Commission has for some years now been seeking, with our full support, to get a system like ours adopted throughout the Community. But the plain fact is that in all that time the Commission has made no progress whatever.*
>
> *I must tell the House that I am not prepared to put British industry at a competitive disadvantage in the home market any longer. Should our European partners at any time undergo a Damascene conversion and agree that the Commission's proposal should be accepted after all, then of course we would revert to the present system (see full extract at Appendix 2 below).*

We understand that 21 EU countries have now adopted a postponed accounting/reverse charge system to account for VAT on imported goods, the most recent being Finland with effect from 1 January 2018. It therefore appears that the “Damascene conversion” envisaged by Nigel Lawson has now occurred and consequently we should now revert to the system of postponed accounting, as indicated in his speech.

Such a change would offer a welcome simplification to importers of goods into the UK. It would send a clear signal that all imports into the UK will be immediately afforded the same VAT accounting treatment, regardless of the country from which they were despatched. UK businesses would also benefit from an improved cash flow on what are currently imports and not suffer the detrimental effect on cash flow that will occur once acquisitions (imports of goods from the EU) after Brexit become subject to import VAT. The UK will thus have equally advantageous terms to those adopted elsewhere in the majority of EU member states. This simplification may also help businesses and HMRC at a time when they will be implementing the introduction of Making Tax Digital for VAT.

Another advantage is that it would make the UK a more attractive location to import goods to from third countries. Postponed accounting would be a good “selling point” to non-EU businesses looking to locate in Europe, as they may otherwise choose a European country which does use postponed VAT accounting for imports. Clearly, this would not be the sole element taken into account in any location decision, but, from our experience, it would certainly be one of them.

In summary, we recommend that the Government reintroduces with effect from 1 January 2019 postponed VAT accounting system for imports of goods into the UK. In order to give businesses as much time as possible to prepare for the change, any announcement should be made as soon as possible. While we appreciate that this system provides a short VAT cash flow advantage to a UK VAT registered business making purchases from overseas suppliers, we believe that the measure will help promote growth in the UK economy that will outweigh any short-term costs.

We would be happy to discuss this proposal further with you and your officials.

Yours sincerely

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APPENDIX 1 EXAMPLE

A UK VAT registered business purchases goods for £10,000 plus £2,000 VAT (where charged).

Current position

i) Purchase from a UK supplier

Purchaser pays £10,000 plus £2,000 VAT to its UK supplier. The £2,000 is recovered as input VAT by the purchaser, subject to any partial exemption restrictions on his next VAT return.

ii) Acquisition from a supplier in another EU country

Purchaser pays £10,000 to an overseas (EU) supplier and accounts for £2,000 acquisition VAT in box 2 of its next VAT return. The £2,000 VAT is recovered as input VAT, subject to any partial exemption restrictions in the same VAT return.

iii) Import from a supplier in a non-EU country

Purchaser pays £10,000 to an overseas (non-EU) supplier and pays £2,000 import VAT to HMRC, either at the port before clearance of the goods or on the 15th of the following month if using a duty deferment account. The £2,000 is recovered as input VAT, subject to any partial exemption restrictions on his next VAT return.

Position after Brexit

i) Purchase from a UK supplier

Unchanged - purchaser pays £10,000 plus £2,000 VAT to its UK supplier. The £2,000 is recovered as input VAT, subject to any partial exemption restrictions on his next VAT return.

ii) Import from an overseas supplier

Either reverting to the pre 1 October 1984 position:

Purchaser pays £10,000 to an overseas supplier and accounts for £2,000 VAT under a new postponed accounting procedure on its next VAT return. The £2,000 VAT is recovered as input VAT, subject to any partial exemption restrictions on the same VAT return.

Or adopting the scenario proposed by clause 41 of the Taxation (Cross Border Trade) Bill:

Purchaser pays £10,000 to an overseas supplier and pays £2,000 import VAT to HMRC, either at the port before clearance of the goods or on the 15th of the following month if using a duty deferment account. The £2,000 is recovered as input VAT, subject to any partial exemption restrictions on the next VAT return.

APPENDIX 2

Extract from the 1984 Budget speech by Nigel Lawson that relates to postponed accounting

Ever since VAT was introduced in this country, we have treated imports differently from the way our main European Community competitors treat them. While they require VAT on imported goods to be paid in the same way as customs duties, we do not. Under our system an importer does not have to account for VAT on his imports until he makes his normal VAT return, on average some 11 weeks later. During this time the importer enjoys free credit at the taxpayer's expense. But when one British business man buys from another, he gets no such help from the taxpayer: he pays his VAT when he pays his supplier.

The European Commission has for some years now been seeking, with our full support, to get a system like ours adopted throughout the Community. But the plain fact is that in all that time the Commission has made no progress whatever.

I must tell the House that I am not prepared to put British industry at a competitive disadvantage in the home market any longer. Should our European partners at any time undergo a Damascene conversion and agree that the Commission's proposal should be accepted after all, then of course we would revert to the present system. But in the meantime I propose to move to the system used by our European competitors. We shall provide the same facilities for payment of VAT on imports as apply to customs duties. That means that most importers will be able to defer payment of VAT by, on average, one month from the date of importation. But that is all.

As I have said, this change will apply from 1 October. By bringing forward VAT receipts, it will bring in an extra £1·2 billion in 1984–85, some of which will be borne by foreign producers and manufacturers. There will of course be no increased revenue in subsequent years.