



2021 U.K. ecommerce VAT overhaul:

- End of the £15 (roughly \$20 USD) import VAT exemption
- Online sellers must charge import VAT live, during checkout, on goods not exceeding £135 in value (roughly \$180 USD)
- Marketplaces take on the VAT obligations of many sellers' transactions
- Coincides with January 2021 Brexit VAT and customs changes

Contents

1. Introduction: New VAT obligations for ecommerce sellers and marketplaces	3
2. Low-value consignment stock relief: Withdrawal of the £15 import VAT exemption	4
3. Imports: Goods located outside the U.K. at time of online sale	6
4. Goods located inside the U.K. at time of B2C sales by overseas sellers	7
5. Facilitating online marketplace	8
6. Brexit ecommerce 9-point checklist to avoid tax costs and frustrated customers	10

Introduction: New VAT obligations for ecommerce sellers and marketplaces



The U.K. government (HMRC) is overhauling the rules of VAT for ecommerce, effective January 1, 2021. This coincides with the end of the Brexit transition period, which brings separate VAT and customs changes. The new U.K. ecommerce reforms put new VAT calculation and collection obligations on U.K. and overseas sellers and make online marketplaces (OMPs) responsible for the VAT on certain transactions by OMP third-party sellers.

2

Low-value consignment stock relief: Withdrawal of the £15 import VAT exemption



The three key 2021 ecommerce reforms include:

1 Withdrawal of the £15 VAT exemption on imported goods sold online to U.K. consumers known as “low-value consignment stock relief.” From January 2021, all imports will be subject to U.K. VAT.

2 Obligation to charge sales (or “supply”) VAT at the point-of-sale on imported sales not exceeding £135. This is supported by a simplified customs declaration and replaces the existing process of paying import VAT upon arrival at U.K. customs.

3 OMPs assuming VAT obligations – calculations and collections – of their third-party sellers on imported sales not exceeding £135 and sales of any value to customers within the U.K. by their overseas sellers.

The reforms are intended to:

- Simplify and improve the process for clearing imported goods sold to U.K. consumers
- Close the import VAT exemption benefit that puts U.K. online and high street retailers at a cost disadvantage
- Reduce opportunities for online VAT fraud, which HMRC estimates costs the U.K. £1.5 billion per year in lost tax revenues

The Brexit factor

These ecommerce reforms coincide with the end of the U.K.'s Brexit transition period on December 31, 2020. After this, the U.K. will be out of the EU VAT regime and free to introduce these measures.

The EU is planning a similar set of reforms. The EU VAT ecommerce package will take effect July 1, 2021. At this time, the U.K. and EU sellers will face new EU import VAT and customs obligations, which are detailed in Avalara's ecommerce checklist at the end of this guide.

Northern Ireland excluded

The ecommerce reforms do not apply to Northern Ireland (NI). They cover only Great Britain (GB). Under the EU-U.K. Brexit Withdrawal Agreement, NI takes on a dual position within the EU and U.K. VAT regimes.

Withdrawal of the £15 import VAT exemption

From January 1, 2021, the U.K. is ending its VAT exemption on all imported B2C consignments not exceeding £15 in value.

Leveling the playing field for U.K. retailers

This threshold was originally introduced to limit the burden on HMRC of monitoring and administering VAT procedures given the small revenues at stake. However, the explosive growth of internet sales, particularly supplies from China, has resulted in massive revenue loss for U.K. online and high street retailers.



Avalara can help reduce the tax bill and keep your goods moving

Whether you are selling into the U.K. or EU, the new rules mean complex changes, which, if not managed carefully, could result in tax fines and goods blocked at customs. With the addition of VAT and customs complexities for ecommerce businesses as a result of Brexit, 2021 is set to be a year of hostile online trading in the U.K. and with the EU.

Our fully automated VAT determination and report solutions will take care of all new calculations and filing obligations for all parties as a result of the U.K. ecommerce changes AND Brexit. Contact us to take the sting out of 2021 and keep you trading.

Starting in 2021, import VAT will be due on all consignments coming into the U.K. To help support rapid clearance of small-value consignments, a new regime for consignments below £135 in value is being introduced (see next section).

Imports: Goods located outside the U.K. at time of online sale

Beginning in 2021, HMRC is implementing separate processes and charging of VAT on imports not exceeding £135 in value and on those above £135 in value.

3.1 Imports not exceeding £135 in value

Imported goods consignments (i.e., multiple goods in a single package) passing through the U.K. customs border and not exceeding £135 (roughly \$180 USD at the time of publication) will be subject to a new VAT regime. This regime will replace the existing one in which import VAT collection occurred either at clearance by customs, or by way of customer import payments to delivery agents.

For these transactions, U.K. and overseas online sellers must charge supply VAT (or “sales VAT”) through their website checkout. Alternatively, if selling goods through a “facilitating” (see section below) OMP, the facilitating OMP will charge the VAT in their own name as the deemed supplier.

The VAT is calculated on sales price. The seller, or OMP, must provide a U.K. VAT invoice that should accompany the consignment through customs. This may be a simplified invoice.

The collected supply VAT is then remitted through a regular U.K. VAT return by the seller or deemed supplier OMP. The goods must be marked or electronically tagged on the customs declarations as “VAT paid at checkout” to avoid double import taxation at the border by customs.

The £135 threshold is based on the intrinsic value of the goods and does not include separate transport or insurance of other import taxes. The £135 threshold is also the U.K. customs exemption threshold.

If the customer is a U.K. VAT-registered business, they may provide the seller or OMP with their VAT number for zero-rating. The U.K. customer will then use the reverse charge mechanism to report the amount of VAT due. Otherwise, sales VAT should be charged.

Excise goods and gifts up to £39 are excluded from this regime.

3.2 Imports exceeding £135 in value

Imported goods above £135 in value and consignments of multiple goods with a combined intrinsic value above £135 will use the existing import VAT procedures. This means the seller may pay the import VAT (and duties) on clearance, then reclaim the VAT amount if they have a U.K. VAT number. Alternatively, the seller may opt to have their customer pay VAT at customs or to the delivery agent.

Goods located inside the U.K. at time of a B2C sale by an overseas seller

If goods are already in the U.K. when the online sale is undertaken, the rules for overseas (non-U.K. resident) sellers are changing.

4.1 Overseas seller operating via OMP

When a non-U.K. seller sells to a U.K. consumer via a facilitating OMP and the goods are already in the U.K. prior to the sale, then the OMP becomes the “deemed supplier.” This applies to any value of goods. This does not apply to U.K. resident sellers. The non-U.K. seller will have already paid import VAT and any duties to clear the goods into the U.K. prior to the sale. Or, they may have paid input VAT if the goods were purchased domestically in the U.K. In both cases, this VAT is reclaimable through a U.K. VAT return.

To affect the deemed supplier transaction, the non-U.K. seller will first sell the goods as a zero-rated supply to the OMP with the right to deduct VAT. This deduction can be declared in the OMP’s U.K. VAT return in Box 6. The OMP will then sell goods to the consumer at regular U.K. VAT rates. B2B transactions are excluded from these new rules, and a U.K. VAT number will serve as evidence of the B2B transaction. Normal U.K. VAT will apply.

4.2 Overseas seller operating on own website

Where there is no facilitating OMP in the transaction, the existing rules will apply. The overseas seller must be U.K. VAT-registered and charge U.K. VAT to businesses or consumers.

4.3 Time of supply for ecommerce 2021

For goods supplied over the course of implementation, the new rules apply to goods with a “tax point” or “time of supply” on or after January 1, 2021. In the U.K., the time of supply is the earliest of: payment, invoice, or delivery of goods. If payment is made on December 31, 2020, but goods are not dispatched until January 1, 2021, then the time of supply is before the new rules have taken effect and the new rules would not apply to the transaction.

Facilitating online marketplace (OMP)



5.1 What is a facilitating OMP?

OMPs are electronic interfaces (website or mobile application), such as marketplaces, platforms, portals, or similar, that facilitate the sale of goods to customers. “Facilitating” shall mean when any of the following conditions are met:

- The general terms and conditions of the sale have been set.
- The charge to the customer for payment has been authorized.
- The OMP has been involved in ordering or delivering the goods.

A business that only provides one of the following will not be regarded as an OMP:

- The processing of payments in relation to the supply of goods
- The listing or advertising of goods
- The redirecting or transferring of customers to other electronic interfaces where goods are offered for sale – without any further intervention in the supply



5.2 Information requirements for OMPs to determine VAT

As a result of the new obligations for OMPs to charge and collect VAT, they will need to collect several pieces of data for correct calculations. These include:

- The “ship from” country, i.e., the country where the seller’s goods were at the time of sale
- If an import to U.K., the intrinsic value of the goods consigned to determine if the goods do or do not exceed £135
- If the goods are already located in the U.K., data on whether the seller is a resident or non-resident of U.K.
- Whether or not the customer is a VAT-registered business entitled to zero-rating on imported goods not exceeding £135. In the case of a non-U.K. seller, a domestic sale of any value should not be a “deemed supplier” transaction.
- Nature of the goods imported to determine the correct standard: reduced or zero-rated VAT treatment

5.3 Online marketplace VAT liabilities

OMPs potentially could be held liable for under-declared VAT on their deemed supplier transactions so the above information must be accurate.

OMPs will be expected to take all reasonable steps within their power to ensure that the correct VAT is charged. They will be expected to undertake reasonable and proportionate due diligence and consider all the information available to them in determining the correct VAT treatment.

5.4 OMP record keeping

Online marketplaces will be required to retain electronic records supporting all transactions for at least six years. This covers both transactions where they have acted as the facilitating deemed supplier and transactions where they have not (and the seller has been responsible for the VAT).

Brexit ecommerce 9-point checklist to avoid tax costs and frustrated customers



Avalara's basic 9-point checklist for sellers doing business in the U.K. and EU reveals the most important steps for them to take now. Contact Avalara for free details on how to avoid having your goods blocked at customs, frustrated customers, marketplaces strike you off their platforms, and fines from the U.K. or EU tax authorities.



Obligations and risks

Act now to continue...

VAT

Selling into the EU

Selling into the U.K.

1. Where do I need to register?

If you sell goods to EU customers under any country's VAT distance-selling threshold (€35k or €100k), then you will need to VAT-register in each country.

You will need a U.K. VAT registration.

2. Will you incur major VAT fines if you don't appoint a fiscal representative?

Under local country rules, you may need to appoint a special VAT agent or a fiscal representative. This applies in up to 17 EU states.

The U.K. will not require you to appoint a fiscal representative.

3. Will your customers get a nasty import VAT surprise?

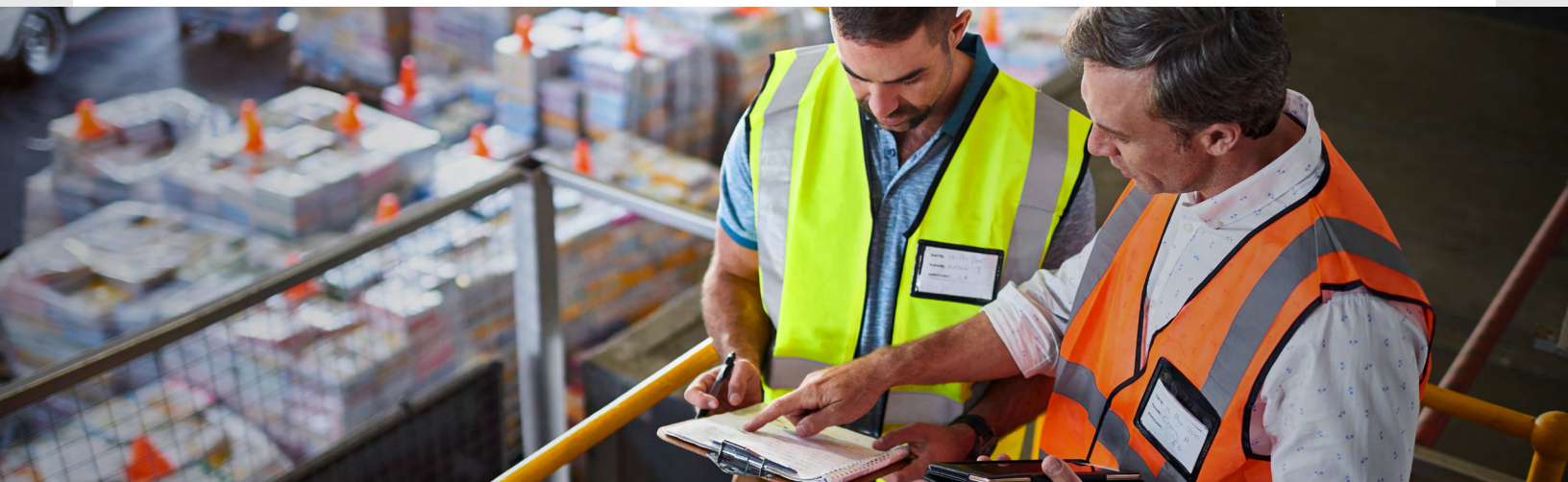
You must choose who pays the import VAT and review your delivery terms ("Incoterms") for your customer's benefit. Some EU states will offer deferred import VAT schemes to help businesses avoid cash flow losses.

For sales below £135, you will have to charge import VAT at checkout and remit VAT payment using a U.K. VAT return. Otherwise, a U.K.-postponed VAT scheme is available through the right application.

4. Are you selling digital goods?

You must register and file with each EU27 member state.

You will need a U.K. VAT registration to declare your sales to U.K. consumers.



Obligations and risks

Act now to continue selling

Customs

5. Have you got U.K. and EU EORI numbers to clear goods?

Without an Economic Operator Registration Identification (EORI) number, you will not be able to clear goods with customs and send them to your EU or U.K. customers. You will need both a U.K. VAT registration number and an EU EORI number if you're selling into the U.K. and EU.

6. Do you have the right commercial terms for your customer?

To avoid upset customers and having goods held at customs, you will have to rethink the delivery terms. These clarify who is responsible for ensuring customs clearance and paying any tariffs and import VAT.

7. Are you ready to complete customs declarations?

You will have to complete customs declarations on goods for U.K. and EU customs if you sell in both locations.

8. How will you pick the right commodity code?

The customs declaration will need all goods to have a standardized commodity identification code (HS Code). If you get this code wrong, you may under or overpay tariffs or have your goods blocked by customs.

9. How will you pay tariffs?

Tariff levies will apply and must be paid on most goods moving into the U.K. and EU. You will need to know how to calculate tariffs to fairly charge your customer. Or, you can have your customer pay them at customs – but that may be an unpleasant surprise.

About Avalara

Meeting your global tax needs.
Avalara helps businesses of all
sizes get tax compliance right.

In partnership with leading ERP, accounting, ecommerce, and other financial management system providers, Avalara delivers cloud-based compliance solutions for various transaction taxes, including sales and use, VAT, GST, excise, communications, lodging, and other indirect tax types.

Headquartered in Seattle, Avalara has offices across the U.S. and around the world in Canada, the U.K., Belgium, Brazil, and India.

More information at:

avalara.com

Chat with us

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Avalara
Tax compliance done right

We can help:

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