VAT Implications of Brexit

by Mairéad Hennessy

CPDBITES

The withdrawal of the United Kingdom (UK) from the European Union (EU), commonly referred to as Brexit, has brought about significant changes to various aspects of trade and taxation.

This bite highlights some of main implications of Brexit on value added tax (VAT) on both goods and services for Irish businesses.

Mairéad is the founder of Taxkey.

Poll results

What do you think has caused the biggest challenge for Irish businesses in terms of the VAT changes triggered by Brexit?

Correctly applying postponed VAT accounting.	37%
Treating trade in goods with Great Britain as trade with a "third country".	32%
Treating trade in services with the UK as trade with a "third country".	14%
Something else.	4%
I have no idea!	11%

RETAKE POLL

Changes to VAT rules resulting from Brexit have caused complications for many Irish businesses. Keep scrolling to get an overview of the key implications of Brexit for VAT on trade in goods and services between Ireland and Great Britain

(GB), and Ireland and Northern Ireland (NI), depending on what is being traded and where.

Trading in goods between Ireland and Great Britain

Where Irish companies trade in goods with GB – i.e. the UK except for NI – the VAT rules relating to trade with a non-EU territory apply. This means supplies of goods from Ireland to GB are now regarded as exports, while goods purchased from GB and delivered into Ireland are treated as imports.

This change has triggered additional formalities and complexities for both suppliers and customers in Ireland, as export and import declarations now need to be filed. In addition, the VAT rules applicable to the supplies of goods are more onerous than was the case prior to January 2021, when supplies of goods between Ireland and GB were treated as intra-community supplies of goods.

To summarise, since 1st January 2021, the VAT treatment of trading in goods with GB is as follows:

- The supply and movement of taxable goods between Ireland and GB are subject to VAT rules on imports and exports.
- There is no requirement to report details of trade with GB on the Intrastat system or the VAT Information Exchange System (VIES).
- There remains the requirement to report details of trade in goods with NI on Intrastat and VIES.
- Agreed EU simplifications, such as triangulation, do not apply to transactions involving GB.

Postponed VAT accounting

Irish import VAT is typically due at the time goods are imported into Ireland. However, postponed accounting for VAT on imports was introduced from 1st January 2021 and applies to all imports from "third countries" (i.e. countries not in the EU, such as those in GB).

Postponed accounting is a cashflow-relieving measure and results in a VAT-neutral transaction for traders who import goods into Ireland. Essentially, traders do not have to pay VAT at the time of importation.

VAT-registered importers with a customs Economic Operators Registration and Identification (EORI) number can elect to apply postponed accounting at the time import declarations are being filed, and the import VAT should then be recorded in the importer's Irish VAT return under the reverse charge procedure. There are, however, significant penalties if the regime is not correctly operated. Further, the Irish Revenue can exclude traders who do not fulfil certain conditions and requirements from using this scheme.

The Revenue have issued detailed guidance on the operation of postponed accounting, the most recent of which (reviewed in May 2023) may be accessed here.

Trading in goods between Ireland and Northern Ireland

The terms of the Northern Ireland Protocol (and of the recently approved Windsor Framework), maintain the alignment of NI with EU VAT rules for goods (but **not** for services). NI is therefore treated as a Member State for the purposes of the VAT treatment of trading in goods.

As such, there has been no change to the VAT rules relating to the trade in goods between Ireland and NI since 1st January 2021.

The sole exception to this is that NI businesses and those trading in goods in NI are required to use an "XI" prefix, rather than the "GB" prefix, in their VAT registration number when trading with EU suppliers and customers.

Trading in services between Ireland and the UK

As already noted, NI, along with GB, is not regarded as being within the EU common market for services as of 1st January 2021.

Under the post-Brexit VAT rules, the place of supply for services to UK private consumers is determined by the general "B2C" (business-to-consumer) rule. On this basis, the place of supply is where the customer is located. Accordingly, Irish businesses providing services to UK private consumers must charge **Irish VAT** on these transactions, as the UK is now considered a non-EU country.

Irish businesses are no longer required to charge **UK VAT** on their services to UK private consumers. Instead, they are responsible for accounting for Irish VAT and complying with Irish VAT rules. This means Irish businesses need to register for VAT in Ireland if they exceed the relevant VAT registration thresholds.

It is important to note that the VAT rules for B2B (business-to-business) services differ from those for B2C services. If Irish businesses provide services to UK VAT-registered businesses (B2B transactions), the "reverse charge" mechanism applies. This means that the UK business is responsible for accounting for the VAT under the reverse charge procedure.

Key takeaway for Irish businesses

It is imperative that Irish businesses are aware of the correct VAT treatment to apply when trading with NI and GB. Where there is any doubt, businesses should review their supply chains to identify any potential VAT implications for their trade in goods. Similarly, if an Irish business supplies services to clients in NI and/or GB, they need to make sure they understand the relevant VAT rules.

With the recent approval of the Windsor Framework, Brexit is an evolving process. Businesses need to stay informed about the latest developments, regularly review their VAT obligations, and consult with their accountant and/or tax adviser to ensure ongoing compliance.

About the author

At Taxkey, we are passionate about delivering proactive and practical tax advice to SMEs and their owners. We partner with accountants, solicitors and financial advisors to develop strategic and bespoke tax solutions that enable our clients to plan their tax affairs. This ensures tax efficiencies are achieved and tax reliefs are maximised.

We advise on all areas of Irish taxation and specialise in: retirement planning; business succession, corporate restructuring and business reorganisation; tax efficient remuneration plans for employees; VAT; property transactions; gift and inheritance tax planning; and domicile planning and the remittance basis of taxation for individuals moving to or from Ireland.