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What the UK might do

1. Abolish VAT

EU VAT Directives will no longer apply to it. But it is unlikely to do that (at least without replacing it with a similar tax) as it raises so much revenue for the UK Government. It might make amendments however.

2. Set its own VAT rates

It would no longer be bound by the EU rates. At present, no new zero rates may be introduced and reduced rates must be permitted by the VAT Directive, though the EU VAT action plan already proposes relaxing the regime for VAT reduced rates. Higher rates for certain goods (eg unhealthy products) might be considered (negating the need for a separate soft drinks industry levy).

3. Determine its own VAT exemptions

It could update its exemptions (eg on financial services and insurance) to reflect the modern commercial world, which the EU has been unable to do.

4. Have different VAT place of supply rules

But in practice it is unlikely to do so because any divergence could lead to double taxation (or non-taxation) for cross-border transactions and therefore make UK business uncompetitive. The UK would also want to be competitive with EU countries when supplies are made to non-EU countries.

5. Set its own customs policy and levels of duty

It could potentially impose higher levels of duty on imports than is currently allowed under the Union Customs Code. But this would be subject to World Trade Organisation (WTO) rules.

What the UK could not do

6. Benefit from the EU VAT One Stop Shop

The UK will therefore find it more difficult to collect and enforce VAT liabilities against overseas suppliers (eg of electronically supplied services). The EU VAT action plan proposes to extend the scope of the One Stop Shop to all cross border supplies, making the loss of benefit potentially more significant.

7. Rely on EU VAT information sharing

The UK would not be able to rely on the EU VAT Cooperation Regulation which permits information-sharing on VAT between Member States. Why does this matter? This Regulation arguably allows fishing expeditions. No other instrument does.

What the Commission could not do

8. Require the UK to follow CJEU decisions

Even if the UK's system mirrors the EU VAT system, it will no longer need to follow the judgments of the Court of Justice of the European Union (CJEU). The UK will no longer be at risk from infraction proceedings by the European Commission. But how will the UK courts approach issues that have been considered by the CJEU (eg abuse of law and single or multiple supplies) but are not covered by domestic law? Would the UK legislate?

How UK businesses would be impacted

9. Have to pay import VAT on EU imports of goods

This could have cash flow implications for businesses. Consumers would have to pay import VAT rather than being charged VAT by their EU suppliers. This assumes the UK retains a VAT regime of course.

10. Have barriers to trade with the EU

This assumes that the UK is not part of the Single Market or customs union. In which case, customs duties would be payable on import of UK goods into the EU. The UK would not benefit from the EU's existing trade agreements with third countries.

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