



CYPRUS: UNITED KINGDOM EXIT FROM THE EUROPEAN UNION – VAT CONSEQUENCES

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As of 1st January 2021, the United Kingdom (UK) is no longer part of the European Union (EU) and it is considered as a third country with regard to the EU Value Added Tax (VAT).

EU-UK Trade and Cooperation Agreement

The EU-UK Trade and Cooperation Agreement has been ratified at both the UK and the EU level, and it defines the framework for trade in a post-Brexit era.

VAT Implications of BREXIT:

Fiscal representation

EU VAT Directive allows Member States to require the appointment of a tax representative, where the business that is required to register and pay VAT The, is established in a country with which no legal instrument exists relating to mutual assistance.

However, as the EU-UK Trade and Cooperation Agreement contains a Protocol on mutual assistance in VAT matters between the UK and the EU, Cyprus will not require UK businesses to appoint local tax/fiscal representatives.

The Cyprus Tax Department, in its aim to confirm the above, issued Implementing Regulation (Εφαρμοστική Οδηγία) 10/2021 on 15 February 2021 regarding the rules for VAT representatives in Cyprus following the exit of the UK from the EU.

Pursuant to the regulation, taxable persons established in the UK or natural persons residing in the UK making taxable supplies in Cyprus, but not having a fixed establishment in Cyprus, are not required to appoint a VAT representative or to pay a security guarantee in favour of VAT Authorities.

Business to Business (B2B) Supplies - VAT exemption for exports:

- Zero-rated B2B intra-community dispatches regime is no longer applicable;
- All movements of goods are now imports or exports, subject to UK or EU import VAT;
- Businesses moving goods now need two EORI numbers to move goods between the UK and EU;
- Businesses can still apply the relevant exports VAT exemption providing relevant conditions are met;
- An export to the EU from UK, are currently liable to the exports VAT exemption (zero-rate) where:
 - Goods are physically exported outside of the UK;
 - Seller holds required commercial or official evidence to demonstrate their removal.
- The same applies to an export to the UK from an EU Member State

B2B Supplies - Import VAT accounting

Businesses importing goods are liable to import VAT and, potentially, customs duty. By way of compensation, with the aim of mitigating the complexity of this, the UK has introduced a Postponed VAT Accounting import VAT deferral scheme so no cash VAT payment has to be made by business importers to UK customs.

Postponed VAT Accounting import VAT allows the import VAT to be accounted on the VAT return of the business in a similar mechanism with the well-known Reverse Charge – Acquisition VAT.

However, on the other hand many EU countries do not offer the same scheme for EU businesses importing their goods from the UK, something that creates cash-flow disadvantages, as VAT has to be paid upfront.

Generally, postponement mechanisms provide cash-flow benefits, as VAT is not paid upfront, although they don't apply automatically in most cases. Member States can impose varying conditions to meet the requirement to be able to use a postponement mechanism.

What are the consequences of no VAT postponement mechanism?

Where there is no postponement mechanism in place, import VAT becomes an upfront cost to the business.

B2C considerations

Sales of goods to consumers involve the EU e-commerce VAT package, which has resulted in significant changes to how VAT is accounted for on e-commerce. It came into effect on 1 July 2021 and it's of outmost importance to fully understand its impact in order to remain VAT compliant around the EU.

Withdrawal of the €15 VAT exemption on imported goods being sold online to EU consumers.

Introduction of One Stop Shop (OSS) for intra-EU B2C deliveries of goods and for intra-EU services provided B2C by EU established suppliers.

Introduction of Import One Stop Shop (IOSS) import VAT simplified reporting, for low value goods (less than €150) delivered from outside the EU, to report the VAT charged at the point of sale.

With the parallel withdrawal of Low Value Consignment Relief (LCVR) which effectively means that VAT is due on all imports into the EU, the IOSS simplification should be regarded as an attractive option for the UK suppliers looking to reduce administrative and compliance burden. IOSS allows suppliers to efficiently manage how this VAT is collected and minimise the impact on their customers. Under this simplification regime, a UK supplier may elect to register – via an intermediary for IOSS in a single Member State, i.e. Cyprus, and collect the appropriate VAT of the respective EU country of destination, and remit monthly IOSS VAT returns for the filing and VAT payments for imports not exceeding €150.

It is worth noting that the UK has introduced similar e-commerce VAT rules with the EU. Specifically, the UK's HMRC has introduced the amended rules of VAT for e-commerce six months earlier than the EU, since the new UK rules were activated from the 1st January 2021. The new UK e-commerce reforms put new VAT calculation and collections obligations on overseas sellers on their B2C sales of goods to UK consumers.

The key 2021 UK e-commerce reforms include:

Withdrawal of the £15 VAT exemption on imported goods being sold online to UK consumers. This is known as the Low Value Consignment Stock relief. Consequently, from January 2021, all imports are liable to UK VAT;

Obligation to charge output VAT at the point-of-sale on imported sales not exceeding £135. This replaces the existing process of paying import VAT when the goods arrive at UK customs.

Legal Resources Centre observation

The implementation of a Brexit affects any VAT entrepreneur who purchases or sells goods or services from or to the UK.

We believe that proper VAT compliance is crucial to the success of any business trading between the UK and EU. From the 1st January 2021, exports and imports have replaced EU dispatches and acquisitions. Effectively, the need for many UK businesses to register with VAT in EU Member States has been increased, which brings with it the possible need for fiscal representation or a VAT intermediary.

Businesses must also think about input VAT recovery with the EU VAT Refund (8th Directive) system being replaced by a 13th Directive paper-based refund process. If your business is involved in trading between the UK and EU or is intending to do so in the future, the most important actions to:

- Categorise and analyse all of your business transactions which are impacted by Brexit;
- Identify and analyse all VAT obligations in the UK and EU, i.e., VAT registrations, VAT reporting requirements, fiscal representation etc.;
- Consider customs requirements, such as obtaining EORI numbers in the UK and EU.

LRC

LEGAL RESOURCES CENTRE

Animis Opibusque Parati

HOW WE CAN HELP

If you are a business engaged with cross border trading between the UK and EU or are intending to do so in the future and you wish to assess whether and how this impacts the VAT treatment of your transactions, please contact us to arrange a meeting. Our expert indirect tax team is at your disposal to discuss about any transactions affected by BREXIT and provide advice on the correct VAT treatment to be applied.

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