Postponed method of accounting for VAT

Key points

- ICAS and Chartered Accountants Ireland (CAI) call for postponed accounting for VAT post Brexit – in the UK and in Ireland
- This would facilitate movement of goods between Ireland and Northern Ireland, and between Ireland and mainland UK.
- Such a measure would prevent the imposition of a cash flow burden on businesses that will already be challenged by the upheaval of Brexit.

Consider the amount of trade crossing the Irish Sea – in both directions. And across the Irish/Northern Ireland border. Post Brexit, there needs to be streamlined processes and procedures to minimise cost and time delays. A simple part of this would be postponed accounting for VAT, which minimises delays and cash flow issues that would otherwise arise when the UK leaves the EU.

A postponed method of accounting for VAT for importers should be introduced into both Irish and UK VAT legislation in light of the impending departure of the UK from the EU. The introduction of such a measure would substantially ease the cash flow burden on businesses and facilitate freer trade.

Leaving the EU without this proposal in place in either the UK or in Ireland, would mean a cash flow benefit of VAT payable on imports for each exchequer but the cost of this would be borne by businesses that need to pay the VAT up front and then recover later. This would create cash flow costs and administrative burdens – all generated by Brexit – and none of which exist at present.

What is the postponed method of accounting?

For imports from outside the EU into the EU, importers must pay the VAT to the Revenue Commissioners in Ireland, or HMRC in the UK, at the time when the customs duties are paid rather than declare it at the time of filing their VAT returns. Imports from the UK into Ireland for example will be treated in this manner once the UK leaves the EU and this will place a significant cash flow burden on business at a time of already great uncertainty and upheaval. Likewise, in the UK, all imports from the EU will need to have VAT paid at the point of import, and this will have a significant, detrimental impact on cash flow.

A possible solution to this problem in Ireland, at least for some traders, is the postponed method of accounting which is provided for in Article 211 of EU Council Directive 2006/112/EC. The UK’s replacement of EU VAT legislation could permit an equivalent solution as part of the exit arrangements with the EU.

Under postponed accounting, importers do not pay import VAT at the point of entry but must declare the payment of their import VAT in the next VAT return period and deduct the relevant input VAT in the same VAT return. The effect is comparable to existing mechanisms for cross border trade within the EU.

Exchequer Effect in Ireland

The value of goods for VAT purposes includes the cost of goods, the related freight, insurance and the customs duty. Should the UK leave the EU on 29 March 2019, the VAT effect of this change in practice will take effect on 19 May 2019 when VAT returns and payments are due for the month of March 2019. A one-off cash-flow adjustment for the exchequer will follow under this model.
Let’s take the example of trade between Ireland and the UK. On average, €3 billion\(^1\) of goods are imported into Ireland from the UK during every two month VAT period. Examining the mix of these goods, it is estimated that based on the current EU tariffs on imports from outside of the EU and current VAT rates in Ireland, approximately €600 million of VAT will be payable upfront by Irish importers on these goods without the postponed method of accounting. Based on the total VAT receipts in 2016, this amounts to only 4 percent of the total intake. Importers would then have to claim a credit for this VAT in the next VAT return which could be filed as much as 10 weeks later.

Under the postponed method of accounting, importers would defer payment of the VAT that would arise on 29 March 2019 and instead declare it on 19 May 2019 where they would take a simultaneous deduction on their VAT return, thus neutralising the VAT cash-flow effect. From the exchequer perspective, only one VAT period would be affected by a change in method. Had the UK not decided to leave the EU, VAT on imports into Ireland from the UK would be accounted for using the reverse charge mechanism for intra-community acquisitions. Therefore, the exchequer is not disadvantaged by changing the VAT method.

**Adopted in 17 other EU Member States**

17 EU Member States\(^2\) such as Bulgaria, Poland and Romania have already adopted the postponed method of accounting into domestic legislation and it is felt that an adoption of the provisions by Ireland would benefit Irish businesses greatly in light of the level of trade between Ireland and the UK.

The majority of EU countries that have adopted the postponed method of accounting have land borders with non-EU countries and trade with these countries. This highlights the importance of the method and will be paramount given the land border on the island of Ireland.

**Exchequer Effect in UK**

The Exchequer in the UK is not disadvantaged by allowing postponed accounting of VAT. There would be no change from the current position whereby traders who acquire goods from other EU Member States self-account for VAT and claim simultaneous credit in the VAT return which covers the time of acquisition. It is theoretically arguable that the Exchequer is foregoing a new cash flow advantage of holding VAT on goods acquired from the remaining EU Member States for a few weeks until the trader claims credit in their VAT return. However, this is an illusory ‘benefit’ for the Exchequer because it only arises if a new cash flow disadvantage is allowed to fall on businesses and the long-term interest of the Exchequer is served by supporting the businesses in its economy. It would also be possible to agree measures to promote compliance if considered necessary.

**Benefiting Business**

In addition to the much needed cash flow benefit, the postponed method of accounting would also reduce the administrative burden for businesses and the revenue authorities in both Ireland and the UK.

Press notes:

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\(^1\) Brexit – Ireland and the UK in numbers, report by Central Statistics Office, December 2016

\(^2\) Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Greece, Hungary, Italy, Latvia, Lithuania, Malta, Netherlands, Poland, Portugal, Romania,