The Border with the European Union – Postponed VAT in Opera 3

Overview

Currently, import VAT is due at the same time as customs duty on goods imported from a non-EU country. This is usually on or soon after the goods arrive at the UK border, on release of the goods into free circulation. Although payment of the customs duty and import VAT is due immediately; it can usually be deferred to the fifteenth of the following month by using a Duty Deferment Account. The import VAT can then usually be reclaimed as input tax on the next VAT return (subject to the normal VAT rules on input tax deduction).

On 1 January 2021, Postponed VAT Accounting (PVA) will be introduced into the UK by HM Revenue & Customs (HMRC); PVA will:

- Allow VAT registered traders to account for import VAT on their VAT return for goods imported from anywhere in the world (i.e. from both non-EU and EU),
- Maintain the current cash flow position for goods imported from the EU (currently acquisitions), and
- Provide a cash flow benefit for traders importing goods from non-EU countries who currently have to pay import VAT at (or soon after crossing) the UK border.

This document provides a high-level overview of the changes Pegasus are making in Opera 3 to cater for PVA, and what customers will need to do to submit a VAT Return under these new rules. Additional information can be found in the policy white paper provided by HMRC; Changes to VAT treatment of overseas goods sold to customers from 1 January 2021 (Updated 5 October 2020), link here.

This is the third document in a series of three documents created by Pegasus to help both Pegasus Partners and customers understand the changes that are coming into force on the 1 January 2021.

Core Process

These principles will apply to all goods movements between GB and the EU, regardless of the mode of transport of the movement.

Customs Declarations – Importers will have to complete UK customs declarations, but can be deferred up to six months after import in certain circumstances.

Customs Duties – Importers will need to ensure that any customs duties applicable to their goods under the new UK Global Tariff are paid. In order to do this, importers will need to determine the origin, classification and customs value of their goods. There are options available to defer any payment that is due.

VAT – VAT will be levied on imports of goods from the EU, following the same rates and structures as are applied to Rest of World (RoW) imports. VAT registered importers will be able to use Postponed VAT Accounting, however, unless they are eligible to defer their supplementary declarations, they will not be compelled to do so. Non-VAT registered importers have the same options available to report and pay import VAT as they do for customs duties. VAT treatment of goods imported in consignments not exceeding £135 in value will be treated differently to those goods in consignments exceeding £135.

Postponed VAT Accounting (PVA)

Postponed VAT Accounting is being introduced from 1 January 2021 for all imports of goods. This means that UK VAT-registered traders will be able to account for the import VAT on goods imported into the UK on their VAT returns, and both pay and recover import VAT on the same VAT return. This measure will apply to goods imported from all countries, both EU and non-EU.

When PVA is in use, import VAT will now (for the first time) be accounted for on the VAT Return and not handled/paid separately at the point the goods are imported into the UK.

In most cases, traders can choose whether or not to use PVA. They can choose when to start using PVA, and can use it for some declarations, but not others.

Traders will also need to consider how they account for and pay VAT on imported goods. Traders will then have up to six months to complete customs declarations. While tariffs will be payable where due on relevant goods, payments can be deferred until the customs declaration has been made.

From 1 January 2021 to 30 June 2021, under the staged approach to import controls, there are some instances where use of PVA is mandatory. Traders who import standard (non-controlled) goods from the EU to GB can:

a) Use existing customs processes to complete a standard customs declaration at the point of entry to the GB; or
b) Use Simplified Declaration Procedures (if authorised to do so); or
c) Use Deferred Declarations: they can defer the declaration for up to six months from the point of import. They must keep sufficient records of the goods to make the declaration at a later date.

Traders using (b) or (c) must use PVA. Traders using (a) can use PVA if they wish.

If goods are initially declared into a customs special procedure (e.g. customs warehouse), PVA can be used when the goods are declared into free circulation from the special procedure.

PVA can be used for excise goods when they are released for home consumption. This includes when goods are released from an excise warehouse after being in duty suspense since the point of import.

HMRC Online Statement

Traders will be able to access an online monthly Postponed Import VAT statement. It will show the amount of import VAT postponed for the previous month which they should include in their VAT Return. Traders can download and keep the statement in their records.

There will sometimes be a need to estimate the import VAT on the VAT Return. A trader will more than likely not receive their statement until some point during the next month. Depending upon the frequency of the trader's VAT Return (quarterly, monthly, etc.) and upon which month the statement applies to, it is likely that sometimes the trader will already have completed and submitted the VAT Return before they have received the statement detailing the true import VAT values for the preceding month.

Therefore it is highly likely that even when PVA is in use, there still be the potential at times for a trader to not be able to access their online statement before the trader has completed and submitted the VAT Return for the associated VAT period for which the online statement applies to. Where this is likely to happen then that trader must use estimated values on the VAT Return for the likely import VAT related values applicable to the month for which the online statement is not going to be received in time before completion and submission of the VAT Return; the trader will then need to adjust the next VAT period to make good any discrepancy between the estimated import VAT values and those detailed in the online statement.

Effect of PVA on the UK VAT Return for traders in Northern Ireland (NI)

Currently, at the end of the UK's transition period on the 31 December 2020 the Northern Ireland Protocol ('the Protocol') will take effect. The Protocol is a practical solution to avoid a hard border with Ireland whilst ensuring the UK, including Northern Ireland, leaves the EU as a whole, enabling the entire UK to benefit from future Free Trade Agreements (FTAs). There will be special provisions which apply only in Northern Ireland while the Protocol is in force.

How the VAT Return for traders located in NI is affected from 1 January 2021 is therefore quite different to a trader located in the rest of the UK:

- Imports/exports of goods between NI and the remaining EU member states (including, and most likely, the Republic of Ireland), and which fall under the NI protocol, must still be included on the UK VAT Return in exactly the same way they currently are (i.e. as per pre-PVA-rules); e.g. EU purchases are still referred to as acquisitions and as such have acquisition tax applied to them (not import VAT).

  This is the reason why from 1 January 2021 HMRC are not changing the definition or wording of any of the boxes on the VAT Return; the EU related boxes will still apply to NI traders for goods that fall under the protocol.

- However, imports/exports of goods between NI and non-domestic non-EU member states may have PVA rules applied to them.

- This means traders in NI can operate a hybrid system, whereby they must use the current VAT Return accounting rules for EU imports/exports which fall under the NI protocol, but apply PVA rules for non-EU imports/exports.

  Note: goods that move between NI and the rest of the UK will be accounted for on the VAT Return just as they are now; i.e. domestic sales/purchases.

Furthermore, traders in NI will still have to complete/provide/submit EC Sales List and Intrastat (SSD) reports (i.e. as available in Opera 3 with the EC VAT module activated).

Impact on the VAT Return

EU Import

Purchase from the EU, before 1 January 2021, Product - £100, Import VAT - £20

Box 1	0.00	VAT due in this period on **sales** and other outputs.
Box 2	20.00	VAT due in this period on **acquisitions** from other **EC Member States.**
Box 3	20.00	Total VAT due. **(the sum of boxes 1 and 2)**
Box 4	20.00	VAT reclaimed in this period on **purchases** and other inputs, (including acquisitions from the EC).
Box 5	0.00	Net VAT to be paid to Customs or reclaimed by you. **(Difference between boxes 3 and 4)**
Box 6	0	Total value of **sales** and all other outputs excluding any VAT. **Include your box 8 figure.**
Box 7	100	Total value of **purchases** and all other inputs excluding any VAT. **Include your box 9 figure.**
Box 8	0	Total value of all **supplies** of goods and related costs, excluding any VAT, to other **EC Member States.**
Box 9	100	Total value of all **acquisitions** of goods and related costs, excluding any VAT, from other **EC Member States.**

Box 2 – VAT due on Acquisitions from EU, Box 7 – Total Value of Purchases, Box 9 – Total Value of All Acquisitions from other EC member states

Purchase from the EU, on & after 1 January 2021, Product - £100, Import VAT - £20

Box 1	20.00	VAT due in this period on **sales** and other outputs.
Box 2	0.00	VAT due in this period on **acquisitions** from other **EC Member States.**
Box 3	20.00	Total VAT due. **(the sum of boxes 1 and 2)**
Box 4	20.00	VAT reclaimed in this period on **purchases** and other inputs, (including acquisitions from the EC).
Box 5	0.00	Net VAT to be paid to Customs or reclaimed by you. **(Difference between boxes 3 and 4)**
Box 6	0	Total value of **sales** and all other outputs excluding any VAT. **Include your box 8 figure.**
Box 7	100	Total value of **purchases** and all other inputs excluding any VAT. **Include your box 9 figure.**
Box 8	0	Total value of all **supplies** of goods and related costs, excluding any VAT, to other **EC Member States.**
Box 9	0	Total value of all **acquisitions** of goods and related costs, excluding any VAT, from other **EC Member States.**

Box 1 – VAT due in this Period, Box 7 – Total Value of Purchases

Purchases from the EU are treated the same as purchases from the Rest of World (i.e. Box 2 is no longer used for Acquisitions from other EU Member States)

When a trader imports from the EU they will still need to produce an Intrastat report, but for arrivals only (not for despatches)

EU Sale

Sale to the EU, before 1 January 2021, Product - £100, Export VAT – always zero-rated

Box 1	0.00	VAT due in this period on **sales** and other outputs.
Box 2	0.00	VAT due in this period on **acquisitions** from other **EC Member States.**
Box 3	0.00	Total VAT due. **(the sum of boxes 1 and 2)**
Box 4	0.00	VAT reclaimed in this period on **purchases** and other inputs, (including acquisitions from the EC).
Box 5	0.00	Net VAT to be paid to Customs or reclaimed by you. **(Difference between boxes 3 and 4)**
Box 6	100	Total value of **sales** and all other outputs excluding any VAT. **Include your box 8 figure.**
Box 7	0	Total value of **purchases** and all other inputs excluding any VAT. **Include your box 9 figure.**
Box 8	100	Total value of all **supplies** of goods and related costs, excluding any VAT, to other **EC Member States.**
Box 9	0	Total value of all **acquisitions** of goods and related costs, excluding any VAT, from other **EC Member States.**

Box 6 – Total Value of Sales, Box 8 – Total Value of all Supplies to other EC member states

Sale to the EU, on or after 1 January 2021, Product - £100, Export VAT – always zero-rated

Box 1	0.00	VAT due in this period on **sales** and other outputs.
Box 2	0.00	VAT due in this period on **acquisitions** from other **EC Member States.**
Box 3	0.00	Total VAT due. **(the sum of boxes 1 and 2)**
Box 4	0.00	VAT reclaimed in this period on **purchases** and other inputs, (including acquisitions from the EC).
Box 5	0.00	Net VAT to be paid to Customs or reclaimed by you. **(Difference between boxes 3 and 4)**
Box 6	100	Total value of **sales** and all other outputs excluding any VAT. **Include your box 8 figure.**
Box 7	0	Total value of **purchases** and all other inputs excluding any VAT. **Include your box 9 figure.**
Box 8	0	Total value of all **supplies** of goods and related costs, excluding any VAT, to other **EC Member States.**
Box 9	0	Total value of all **acquisitions** of goods and related costs, excluding any VAT, from other **EC Member States.**

Box 6 – Total Value of Sales

Sales to the EU are treated the same as sales to the Rest of World (i.e. Box 8 is no longer populated)

RoW Import

Purchase from the RoW with PVA in use, before 1 January 2021, Product - £100, Import VAT - £20

Box 1	0.00	VAT due in this period on **sales** and other outputs.
Box 2	0.00	VAT due in this period on **acquisitions** from other **EC Member States.**
Box 3	0.00	Total VAT due. **(the sum of boxes 1 and 2)**
Box 4	0.00	VAT reclaimed in this period on **purchases** and other inputs, (including acquisitions from the EC).
Box 5	0.00	Net VAT to be paid to Customs or reclaimed by you. **(Difference between boxes 3 and 4)**
Box 6	0	Total value of **sales** and all other outputs excluding any VAT. **Include your box 8 figure.**
Box 7	100	Total value of **purchases** and all other inputs excluding any VAT. **Include your box 9 figure.**
Box 8	0	Total value of all **supplies** of goods and related costs, excluding any VAT, to other **EC Member States.**
Box 9	0	Total value of all **acquisitions** of goods and related costs, excluding any VAT, from other **EC Member States.**

Box 7 – Total Value of Purchases

Purchase from the RoW with PVA in use, on & after 1 January 2021, Product - £100, Import VAT - £20

Box 1	20.00	VAT due in this period on **sales** and other outputs.
Box 2	0.00	VAT due in this period on **acquisitions** from other **EC Member States.**
Box 3	20.00	Total VAT due. **(the sum of boxes 1 and 2)**
Box 4	20.00	VAT reclaimed in this period on **purchases** and other inputs, (including acquisitions from the EC).
Box 5	0.00	Net VAT to be paid to Customs or reclaimed by you. **(Difference between boxes 3 and 4)**
Box 6	0	Total value of **sales** and all other outputs excluding any VAT. **Include your box 8 figure.**
Box 7	100	Total value of **purchases** and all other inputs excluding any VAT. **Include your box 9 figure.**
Box 8	0	Total value of all **supplies** of goods and related costs, excluding any VAT, to other **EC Member States.**
Box 9	0	Total value of all **acquisitions** of goods and related costs, excluding any VAT, from other **EC Member States.**

Box 1 – VAT due in this Period, Box 4 – VAT Reclaimed on Purchases, Box 7 – Total Value of Purchases

Even pre-PVA, import VAT already applies, however this is payable on import and therefore does not appear on the VAT Return to be paid and then claimed against itself. With PVA the VAT is deferred until the Customs Declaration is made, so now appears on the VAT Return.

Sales to the RoW are not affected by PVA and therefore remain the same as there are pre-PVA.

PVA solution to be implemented on Opera 3

Pegasus will provide an interim release (version 2.80) that will provide a manual workaround solution for Opera 3 customers which will contain various enhancements to make use of such a workaround more straightforward for the Opera 3 user.

The workaround is summarised as follows:

- The Opera 3 user will continue to use the same kind of VAT codes as they currently use at present, with Opera's existing VAT Adjustment facility then being used to adjust import VAT related figures on the VAT Return as required.

  The way in which PVA will operate (in particular the fact that the business's online Import Statement for the month will not be made available by HMRC until after the end of that month), the user will at times have to estimate the import VAT related figures on the VAT Return, and hence amend those figures by use of VAT adjustments, and then, make good again as needed when they have received their online statement from HMRC (again, by use of VAT adjustments).

  The user will be able to create new VAT codes specifically for PVA import and exports, if desired, to help with reporting on those VAT codes. However, Opera 3 will still enforce the current restrictions/capability of VAT codes based on existing EU and non-EU rules (i.e. in terms of which boxes on the VAT Return get updated by associated postings).

- The various VAT reports (including, where EC VAT is in use, the EC VAT Reconciliation report) will assist the user in reconciliation of the estimated and actual figures for import VAT for a specific VAT period.

The VAT adjustments required relating to import VAT will vary depending upon whether the customer uses the Opera EC VAT module or not; e.g. where EC VAT is in use, and purchases from the EU are entered into Opera 3, the VAT Return will still be updated with values specific to the EU (acquisition tax for example) in which case the associated VAT adjustments required for PVA will also need to undo (make good) the VAT Return boxes specific to the EU purchases (i.e. Box 2 – VAT due on Acquisitions from EU, Box 9 – Total Value of All Acquisitions).

Where the EC VAT module is not already in use, then VAT adjustments will still be needed for PVA imports, e.g. to ensure VAT Return Box 1 – VAT due in this Period, Box 4 – VAT Reclaimed on Purchases are corrected.

Changes added into Opera 3 v2.80 are summarised as follows:

- ***Company Profiles***
  To move goods between the UK and the EU from 1 January 2021, businesses must obtain an Economic Operators Registration Identification number (EORI) from HMRC.

  Opera 3 Company Profiles form has been enhanced to add an EORI field for the business to record their EORI. That means the customer/Partner can then also, for example, add the EORI to various reports, documentation etc. produced by Opera 3 as/if required (e.g. add to an invoice design if so desired).

- ***VAT Code maintenance***
  Opera 3 VAT Code maintenance form has been enhanced to allow the user to specify whether a 'J type' VAT code specifically relates to PVA adjustments or not (i.e. a 'Use VAT code for PVA adjustments' flag). This flag will then allow PVA specific VAT report filtering.

- ***VAT adjustments***
  Currently VAT adjustments can only be posted from the MTD VAT Centre within Opera 3; changes will be applied to make those 'J type' VAT adjustments available for use regardless of whether MTD is in use or not, and also available too where the Opera 3 customer trades in the Republic of Ireland (ROI).

- ***EC VAT reports***
  For those Opera customers who use the EC VAT module, when they continue using their existing VAT codes for EU purchases when PVA is introduced, the postings within Opera will still calculate and record acquisition tax on the VAT Return. Therefore to make it easier to see how much acquisition tax is recorded against the VAT transactions that make up the figures on the VAT Return, the EC VAT module's *VAT Reconciliation* report will have its Excel variant extended so as to also include (as a separate column) each transaction's value of acquisition tax (i.e. the transactions on the VAT Return Box 2 – VAT due on Acquisitions).

- ***VAT reports***
  The various 'detailed' VAT reports will have their UI selection criteria enhanced to allow the user to report just on PVA related VAT adjustments; this will assist the user in being able to more easily reconcile estimated and actual figures for import VAT.

  We have also taken the opportunity to include a VAT transaction's acquisition tax value in the Excel variant of the *Detailed VAT Values* report (i.e. as a new separate column).

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