

Brexit: tax implications for Latvia (2/36/18)

By 30 March 2019, two years will have passed since the UK announced its intention of leaving the EU to the European Council. So the UK is to become a non-EU country at the end of March 2019, unless the withdrawal agreement specifies a different date. This article looks at some of the changes Brexit will make to the current tax treatment.

The withdrawal agreement currently under negotiation provides for a phased withdrawal and outlines the future UK-EU relationship. However, the Brexit negotiations have so far failed to boost our confidence that an agreement will be reached. This means that member states, including Latvia, should be ready for two possible scenarios.

Scenario 1

If the parties agree on a period of transition from 30 March 2019 to 31 December 2020, the UK will still be bound by EU law but have no say in making decisions. For tax purposes this entails member states continuing to apply the same EU law in their transactions with the UK until the transition period ends.

Scenario 2

Failure to enter into the withdrawal agreement or its late ratification means that the UK will be considered a third country no longer governed by EU law. Certain areas, such as border issues, labour movement, trade, including tax (especially customs) issues, will then be covered by the law governing transactions with a non-EU country from 31 March 2019.

Any EU companies that have entered into or plan to do trading transactions with the UK should be ready for import and export procedures as well as border controls (including sanitary controls). It is important to check whether a particular industry requires any special permits (licences) for imports, while guarantees may be required for customs debt when dealing in goods subject to the customs warehouse procedure.

Imported hazardous chemicals must satisfy special packaging and labelling conditions, while fertilisers are also subject to labelling requirements. Imported medical devices should come with documentary evidence of their safety, and drugs may be imported after a special permit (licence) has been taken out.

Goods arriving from the UK that are released for free circulation will attract import VAT (or an exemption), while goods supplied to the UK and any related services may be zero-rated.

When claiming a VAT refund on goods or services acquired in a member state, a UK-registered taxable person will have to comply with procedures applicable to VAT refunds from third countries under the 13th Council Directive of 17 November 1986 on the harmonisation of member-state laws on turnover taxes – arrangements for refunding VAT to taxable persons not established in Community territory (86/560/EEC), and on a parity basis (the UK should have an agreement with that member state).

Any non-EU businesses registered in the UK as users of the Mini One-Stop-Shop (MOSS) scheme for telecommunication, broadcasting and electronically supplied services will have to re-register elsewhere in the EU to continue using the scheme after Brexit.

Excise goods moving to or from the UK will no longer qualify for duty suspension arrangements, and accompanying documents will have to meet new requirements.

If the negotiations for the withdrawal agreement with a political declaration of subsequent steps are completed by this October, then we are likely to see the first scenario with a phased withdrawal. If an agreement is not reached, then member states should be preparing themselves for the second scenario with the UK as a non-EU country.