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VAT and Exports

1. Introduction

The vast majority of exports are direct or indirect exports.

For **direct exports** the entire transaction is under the control of the supplier, i.e. the supplier is responsible for arranging shipment of the goods to the customer.

For **indirect exports** the shipment of the goods is under the control of someone else, normally the goods are collected by the customer or someone acting on their behalf.

Exported goods are zero rated for VAT purposes. In order for the zero rate to apply the following conditions must be met:

1. **Time limits** – the goods must be exported within set timelimits, normally three months from the time of supply.
2. **Evidence** – sufficient documentary evidence that the goods have been exported out of the EU must be obtained, again, normally within three months of the time of supply.
3. **For indirect exports only** –the customer must be an overseas person.

Note:

1. This module is concerned only with the export of goods to a non-EU destination. There are different rules if goods are shipped to customers in the EU.
2. The conditions for zero –rating exports which are discussed in this module are set out in HMRC's Public Notice 703, large sections of which have the force of law. Exporters and their advisors are advised to consult this notice in addition to the information contained in this e-CPD.

2. Detailed Rules

2.1 *Time limits*

For both direct and indirect exports goods must be exported within three months of the time of supply (this applies in the vast majority of cases, examples of where the rules are relaxed are set out in the next section).

Time of supply is the earlier of the date the goods are sent to/removed by the customer and the date full payment is received.

Deposits or interim payments received in advance of an intended export can also be zero rated. If, subsequently, the conditions for zero rating are not met, these will become subject to VAT. This can cause a loss for suppliers who are unable to recover additional monies from their customers to cover the VAT.

2.2 *Proof of export*

There are three types of evidence which can be used to provide evidence of export:

1. **Official evidence** – this is evidence produced by HMRC (or another authority). Examples include, the goods departed message from the New Export Scheme when the export from the UK is reported to HMRC, or Customs documents showing that the goods have cleared customs when imported into the destination country.
2. **Commercial evidence** – this describes the physical movement of the goods, e.g way bills or freight forwarder's delivery notes. HMRC have published specific requirements for different forms of transport.
3. **Supplementary evidence** – this is the evidence of the transaction contained in the business's records, e.g sales invoices.

Official and commercial evidence have equal weight and exporters must have at least one of these, all exporters must have supplementary evidence.

Exporters will have a 'basket of documents' from various sources. Taken together this basket must identify the:

- supplier;
- consignor where this is not the supplier;
- customer;
- goods (accurately, vague descriptions such as 'spare parts' are not sufficient) ;
- an accurate value;
- export destination; and
- mode of transport and route of the movement of the goods.

If the export evidence is insufficient, the sale cannot be zero rated as an export and therefore, as most goods are standard rated, in most cases, standard rating will apply.

For indirect exports, shipment of indirect export is not under the control of the supplier. Official and commercial evidence of export must be obtained from the customer within three months of the time of supply.

To protect themselves, against the risk that customers will not pass this evidence back to them, suppliers may require the customer to pay a VAT amount before releasing the goods which is held on deposit. The monies are refunded to the customer when they have provided the necessary export evidence.

Goods must not be delivered to a UK address or used in the UK before export.

2.3 Overseas person

Indirect exports must be supplied to an overseas person, i.e a person or company not resident in the UK and has no business establishment in the UK from which taxable supplies are made; or an overseas authority.

Indirect exports can be made to overseas persons who are VAT registered in the UK provided that they are not established in the UK.

3. Particular circumstances

There are various circumstances where particular rules apply in order for a supply of goods to be exported. This e-CPD cannot cover all of those and readers are encouraged to consult HMRC guidance and Croner-i's in-depth commentary. Four of the most common circumstances in which particular rules apply are discussed in this section.

3.1 Processing or incorporation

Goods may be delivered to a third person in the UK or EU for processing or incorporation into another product before being exported.

In this case the three month time limit for the export of goods and obtaining of evidence is extended to six months.

The exporter must be certain that:

1. the goods are only being delivered and not supplied to the third person in the UK or EU
2. no use is made of the goods other than for processing or incorporation into other goods for export
3. the goods are exported from the EU.

Although the time limit for export and the obtaining of evidence of export is relaxed, the normal evidence and record keeping requirements apply. In common with all exporters, the suppliers of goods for processing or incorporation should confirm HMRC's requirements which are set out in Notice 703 para 3.6

3.1 Racehorses

Racehorses are, for VAT purposes, goods and their sale is treated in the same way as any other standard rated item. Like other goods, if a racehorse is exported its supply can be zero rated

Racehorses are not always sent direct to the purchaser after a sale. There are cases where, after they have been sold for export, racehorses may remain in the UK for breaking, conditioning, training or covering.

In this case they are treated in the same way as goods which are sold for processing or incorporation and the time limit for export is extended to 6 months.

HMRC also have an administrative agreement which permits the time limit to be extended to 12 months on request by the vendor.

The horse must not be raced in the UK before it is exported.

3.2 Motor vehicles

The export of a motor vehicle can be zero rated and the normal time limits and evidence requirements apply. However, there are particular

considerations, because of the scope for motor vehicles to be used in the UK before export (which breaches the conditions for zero rating).

When exporting a motor vehicle:

- as a **direct export**- it must not be used or delivered in the EC before it is exported
- as an **indirect export** it must not be subsequently used except for the trip to the place of departure from the EC

There is also a scheme which permits sales to **private individuals** to be zero rated. This is the personal export scheme, it is outside the scope of this e-CPD but details can be found in VAT Notice 707.

3.3 Charities

Charities that export aid to non-EU destinations can treat this as a zero rated supply, even though there is no sale. This enables charities to register for VAT and recover VAT incurred on the purchase of items for export.

HMRC have not published specific evidence requirements for charities which export aid, so the normal rules (i.e that a basket of official, commercial and supplementary evidence is required) apply.

This VAT treatment is confirmed in VAT Notice 701/1 which reads as follows:

“The supply of goods from the UK to a place outside the EC free of charge (usually in the form of relief-aid) is a business activity and is taxable at the zero rate. This enables charities that export aid to register for VAT and reclaim any input tax that they are charged on obtaining and exporting the goods.”

4. Retail exports

There are three scenarios in which retail exports can be zero-rated. The detailed rules covering each scheme are beyond the scope of this e-CPD. Retail exports may be zero-rated as follows:

1. Motor vehicles sold under the personal export scheme to overseas visitor and ‘entitled EU residents’. The terms of the scheme are set out in VAT Notice 707, which should be read carefully as strict criteria apply.
2. Retail supplies made by VAT registered retailers who use the retail export scheme. The retail export scheme is described in VAT Notice 704.
3. Sales made to intending passengers at approved duty free shops.