

The rules concerning the VAT RES enable non-EU visitors to the UK to purchase eligible goods (in essence, those that are for personal use only and will be exported as accompanied baggage) and either avoid or claim a rebate on UK VAT charged on those purchases.

From the retailer's perspective, the goods sold are zero-rated for VAT purposes. The VAT RES is contained in Regulations 131-133 of the Value Added Tax Regulations 1995 (SI 1995/2518) (the VAT Regulations) and supported by HMRC VAT Notice 704/1 (Retail Export Scheme).

Following a recent consultation on this issue, which closed on 20 May 2020, the UK government has announced that it will withdraw the VAT RES in Great Britain from 1 January 2021. Although it has not yet done so, the government will make and lay a new Statutory Instrument (revoking Regulations 131-133) to give effect to these changes. It should be noted that the government's plans do not, so far, extend to Northern Ireland, where the position is complicated by the need to implement the Northern Ireland Protocol as part of the Brexit Withdrawal Agreement treaty.

However, the message is clear to overseas visitors; from 1 January 2021, although you will still be entitled to VAT-free shopping for items purchased in store, you will need to have them delivered to your overseas addresses and pay any appropriate import/export duties and charges as a result.



The current VAT RES is a clear example of the "destination principle" as set out in the OECD International VAT/GST Guidelines. This provides that as a consumption tax, VAT should be payable in the territory in which the goods on which it is levied are consumed (not the territory in which the supplier is based). The current rules allow visitors to not only avoid VAT, but also to avoid import and export duties on departure, provided that the goods purchased are carried in their luggage. Whether VAT or other duties are paid on arrival in a visitor's home country depends on that state's relevant rules on imports, any personal allowances in that regard and, of course, individual compliance.

Interestingly, Regulation 129 of the VAT Regulations will remain untouched. This means that overseas visitors will still be able to purchase goods VAT free, but they must be shipped to a preferred address overseas. Unfortunately, depending on the trading terms that the UK has or will have with the recipient country, this will necessitate administrative compliance obligations and may entail export duties. For example, for countries such as China and Russia, with which the UK currently trades on Most Favoured Nation (MFN) terms, duties of up to 14% could be applied to shoes, and up to 12.5% on leather handbags.

The reason cited by HM Treasury for abolishing the VAT RES is that it is a burdensome and costly administrative procedure, which principally benefits London and Bicester Village. Despite this, the exposure to the retail and tourism sectors resulting from this change is significant. It has been estimated that the annual spend by international visitors is more than £22 billion, and that 10% of this is on tax-free shopping. The knock-on impact from the withdrawal of the VAT RES could damage the attractiveness of UK retail, exacerbating the adverse effect already being felt as a result of the COVID-19 pandemic, the consequential recession and ongoing uncertainty over the outcome of Brexit trade negotiations.

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