Dear Ms Hillier,

I am writing in response to your letter dated 2 October, in which you refer to the progress of the Customs Declaration Service (CDS) programme; ask for an update on the level of business preparedness at the border in the event of a no deal exit from the European Union (EU); and raise concerns about the solution for the postponed accounting measure announced by the Chancellor.

On CDS, I have always been clear with the Committee about the high level of risk associated with this complex programme and the tight timescale. The programme was planned prior to the EU referendum to replace the UK’s ageing declaration system (CHIEF) to meet the future legislative requirements that were difficult to implement on the old and inflexible CHIEF system and so is not a direct requirement for Day 1. Our plan to deploy CDS alongside CHIEF has always meant that the UK will have a functioning system to manage any potential volume of customs declarations after March 2019.

At the Public Accounts Committee hearing on 11 July 2018, we discussed the materialisation of those risks to delivery. I said that the dependency on our supplier, and HMRC teams, to ensure the exports compatible Declaration Management System (DMS) product met UK trade facilitation requirements within the agreed timetable was at risk, and a solution was being discussed at the highest levels within our respective organisations.

On the 5 September 2018 we confirmed to the Committee that the exports solution would be moved back from January to March 2019. We also discussed our progress in ensuring that CHIEF can dual run alongside CDS (which has always been our plan) and the option to run CHIEF beyond January 2019, . I can confirm we remain
on track to meet our planned goal of implementing all required changes to CHIEF by January 2019 to cope with any potential Day 1 volumes.

On the preparation and communication with businesses in the event of ‘no deal’, whilst the government is confident that a deal will be reached, it is only right that departments continue to plan for all scenarios, including a ‘no deal’.

We have already communicated with key stakeholder groups and later in the year we will provide more information on what businesses can do in the event of a no deal exit from the EU.

Specifically, on 23 August HMRC published Technical Notices on Customs, Excise and VAT procedures that would apply and the actions businesses may want to consider taking to mitigate potential impacts. In September, HMRC also wrote to 145,000 businesses over the VAT threshold who currently only trade with the EU to encourage them to look at the existing RoW guidance on GOV.UK to become familiar with what no deal arrangements would look like. This letter was also published on GOV.UK.

We expect many traders to use the services of intermediaries, such as customs agents, in order to comply with their obligations. In fact the number of CHIEF users is around 9,000, these are the organisations that interface directly with our declaration system. The majority of these organisations provide services to the trade and this will continue within CDS. That is why the Government has announced a package of measures to support the intermediaries sector to expand ahead of March 2019.

There is no recognised source or published statistics on the numbers of trading businesses below the VAT threshold that only trade with the EU but HMRC’s best estimate is that there are around 100,000 of these businesses. HMRC has engaged with business representative bodies such as the British Chamber of Commerce, the Federation of Small Businesses and the Confederation of British Industry who will be key partners in reaching traders to ensure they understand any implications for them.

Finally, the Government recognises that the accounting treatment of import VAT is a major issue for businesses because of the potential impact on cash flow. That is why, if the UK leaves the EU without an agreement, the Chancellor announced that the UK will implement postponed accounting for import VAT on goods brought into the UK. HMRC is prioritising this work and starting engagement with software developers to deliver postponed accounting. We will provide further details in due course.

HMRC’s approach, which contributes to the UK having one of the lowest tax gaps in the world as well as one of the most efficient customs borders, will continue after the UK’s exit from the EU. After EU exit, HMRC will continue to publish statistics on the revenue it collects, as it does now.
As you will appreciate, our work is intensive and fast moving and my team and I will be happy to provide a further update at the 5 November hearing.

Kind regards

JON THOMPSON
CHIEF EXECUTIVE AND PERMANENT SECRETARY