



Treasury Committee

House of Commons, Committee Office, London SW1A 0AA

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Jon Thompson
Chief Executive and Permanent Secretary
HM Revenue & Customs
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9th January 2018

Dear Jon

The Taxation (Cross-border Trade) Bill, which had its Second Reading yesterday, makes major amendments to the VAT Act, with the intention of ensuring that the VAT regime functions effectively after the UK leaves the EU.

The principal implication of these changes is that, after Brexit, imports to the UK from the EU would become liable for import VAT, which would have to be paid before goods could be released into free circulation in the UK. The changes would potentially affect over 200,000 businesses. For 132,000, the changes would be novel because these businesses trade only with other EU Member States. The Government has already acknowledged that the application of import VAT to EU imports would constitute an additional burden, and the Autumn Budget committed to “look at options to mitigate any cash-flow impacts”.

The Impact Assessment published with the Bill makes no attempt to quantify the costs arising from the changes to the VAT regime, or indeed from any of the other provisions contained therein. I would therefore be grateful for:

- An estimate of the costs to businesses, to consumers and to HMRC arising from the charging of import VAT on EU trade, without any unilateral or negotiated mitigations in place.
- A description of the options under consideration to mitigate these costs, in the absence of a negotiated outcome; an assessment of the risks to revenue collection associated with these measures; and an assessment of whether the measures would also have to be applied to non-EU imports in order to comply with WTO rules.
- A description of what negotiated options are under consideration to mitigate these costs. In particular, I invite you to rule out participation (or close association equivalent to participation) in the EU VAT area as part of the UK's end-state relationship with the EU.

- A timeline illustrating when and how HMRC intends to notify firms that stand to be affected by changes to the VAT regime of the actions they will need to take to comply with new obligations, taking into account the fact that the existence and scope of a negotiated outcome may not be known with certainty until the end of the year.
- An assessment of the consequences of import VAT being applied to UK exports to EU Member States, including the impact on export competitiveness, and the risks to the UK tax base arising from possible behavioural responses.

I note that, in October 2017, the European Commission announced that it is working on proposals to reform the EU VAT area by 2022. This too will have an impact on cross-border trade, and the accounting and payment of VAT. I would be grateful for your assessment of these proposals, and how their implementation and effects interact with the changes to the VAT regime necessitated by Brexit.

Yours sincerely
Nicky

The Rt Hon. Nicky Morgan MP
Chair of the Treasury Committee