Brace for Brexit – ecommerce sellers

10 actions UK & EU sellers should take before 31 December 2020

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10-point Brexit checklist for UK and EU ecommerce sellers

The essentials to get done by 31 December 2020 to keep cross-border sales going, avoid extra tax costs and frustrated customers.

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- ✓ Minimise EU & UK tariff and VAT costs
- ✓ How to deal with the new customs paperwork
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✓ VAT checklist

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Brexit ecommerce 10-point checklist to avoid frustrated customers and extra tax cost

The end of the UK's Brexit Transition Period on 31 December 2020 imposes new VAT and customs obligations on ecommerce sellers with UK or EU consumers. This applies whether selling on your own website or through marketplaces. Avalara's basic 10-point checklist for UK and EU sellers reveals the most important steps to take now.

Contact Avalara for free details on how to avoid: your stock being blocked at customs; frustrated customers; marketplaces striking you off their platforms; and fines from the UK or EU tax authorities.

Contact Avalara

For free details on how to avoid:

- Your stock being blocked at customs
- Frustrated customers
- Marketplaces striking you off their platforms
- Fines from the UK or EU tax authorities.

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Obligations and risks	Act now to continue selling	
VAT	UK Sellers	EU Sellers
1. Do you need extra VAT registrations to continue selling?	If you are selling your goods to EU customers under any country's VAT distance selling threshold (€35k or €100k), then you will need to VAT register in each country or lose the right to sell.	You can no longer use your VAT number to sell to UK customers if your sales are below £70k. You will need a UK VAT registration.
2. Incur major VAT fines if you don't appoint a Fiscal Representative?	Under local country rules, you may need to appoint a special VAT agent, a Fiscal Representative. This applies in up to 17 EU states.	The UK will not require you to appoint of Fiscal Representative
3. Will your customers get a nasty import VAT surprise?	You must choose who pays the import VAT, and review your delivery terms ('Incoterms') for your customer's benefit. Some EU states offer deferred import VAT schemes to avoid cashflow losses.	For sales below £135, you will have to charge import VAT at the checkout and paid through a UK VAT return. Otherwise, a UK postponed VAT scheme available through the right application.
4. Don't get blocked on Amazon – changes it requires from you	Amazon will not allow you to sell via FBA to EU customers from UK stocks. You must first clear the goods into the EU, and hold them there. You may first need a new EU VAT registration and pay import VAT.	Goods must be first transferred to the UK, with import VAT paid. With the right UK VAT registration, you can avoid VAT cash payments.
5. Selling digital goods? Have you re-applied for a MOSS return?	You will no longer be able to use the single MOSS return filing to HMRC to declare your sales to EU consumers. You must not register with any other EU27 member state and file with them.	You will need a new UK VAT registration to declare your sales to UK consumers. You can no longer use your MOSS single registration.

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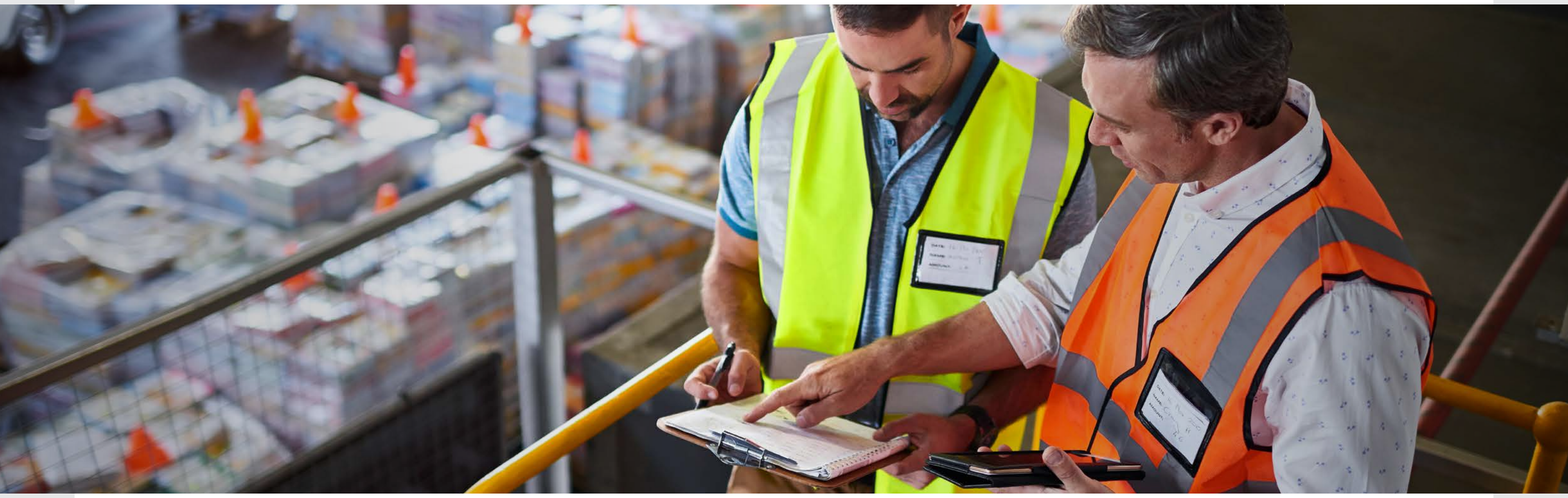

Obligations and risks	Act now to continue selling
Customs	
6. Have you got UK and EU EORI numbers to clear goods?	Without an Economic Operator Registration Identification number, you will not be able to clear goods with customs to send to your EU or UK customers. You will need two: a UK and an EU EORI number.
7. Have you the right commercial terms for your customer?	To avoid upset customers and customs holding up your goods, you will have to rethink the delivery terms ('Incoterms'). These clarify who is responsible for customs clearance and paying any tariffs and import VAT.
8. Ready to complete customs declarations?	You will have to complete exit and entrance customs declarations on goods for UK and EU customs.
9. How will you pick the right commodity code?	The customs declaration will need all goods to have a standardised commodity identification code (HS Code). If you get this wrong, you may under/overpay any tariffs and have your goods blocked by customs.
10. Will you pay the tariffs?	Tariff levies will apply on goods moving between the UK and EU and must be paid to get the goods into the UK or EU. You will need to know how to calculate them to fairly charge your customer. Or you can have your customer pay them – but that may be an unpleasant surprise.

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Do you need extra VAT registrations to avoid fines?

To avoid major tax fines, most UK and EU sellers will have to apply for additional VAT numbers to continue selling after 31 December 2020 – the end of the Brexit transition period. They will lose one of their most important VAT simplifications for cross-border selling – distance selling thresholds.

What are the distance selling thresholds?

Sellers with customers around the EU should charge the VAT of their customers' country. However, to help smaller e-sellers, the EU operates a distance selling threshold simplification. Sellers only have to VAT register in another EU state when the exceed the annual distance selling threshold. Until they reach this sales threshold, they can sell to each EU state charging and reporting the VAT via their home-country VAT registration.

Today, these are:

Country	Distances selling annual threshold
Germany, the Netherlands, Luxembourg	€100,000
UK	£70,000
All other EU states	€35,000 or local currency equivalent

Why do UK or EU sellers need extra Brexit VAT registrations

UK Sellers: After 31 December, UK sellers cannot take advantage of these thresholds. Instead, if they want to keep selling to customers in any EU state from stocks in the UK, they must VAT register in each target country immediately. Failure to do so will trigger immediate liabilities to fines. The EU customs authorities will also challenge you early on in 2021 as to why you are not supplying them with an EU VAT number when you are importing goods. An alternative is to move a proportion of UK-held stocks to somewhere in the EU and sell on a distance selling-basis from there.

EU sellers: using their local VAT numbers to sell to UK customers, they will have to apply for a UK VAT registration number immediately or risk incurring UK fines and penalties.

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Do you need a Fiscal Representative to continue selling?

The UK is scheduled to leave the EU VAT regime on 31 December 2020 as the Brexit transition period ends. If you are a UK business with a foreign VAT registration in the EU27 for your local trading, you will probably have to appoint a Fiscal Representative.

If you fail to appoint one, your VAT registration will be blocked and you will not be able to file or pay taxes which will incur automatic heavy fines. You will also probably have your goods blocked, and counter parties are likely to refuse to trade without a correct VAT status.

EU sellers with a UK VAT registration do not require a UK Fiscal Representative.

What is a Fiscal Representative?

A Fiscal Representative is local VAT agent that is responsible for the timely and accurate management of your tax reporting and payments. They are required of all non-EU businesses that are obliged to register for an EU VAT number.

Do you need one in every EU country?

No. For UK sellers only 19 of the EU 27 member states require a Fiscal Representative. This may be less for some businesses, such as ecommerce sellers.

Why are they so expensive?

They are usually held jointly and separately liable for your VAT; the tax authorities will typically take action against them in the case of negligent or missing reporting and tax payments. Fiscal Representatives therefore demand high fees, plus bank guarantees or cash deposits.

Are they only required in the EU?

No. It's not just the EU. Countries like Norway, Switzerland, Iceland, Japan, South Africa, Australia and South Korea also require a local Fiscal Representative to process VAT or GST.

Avalara can help

Avalara offers a global Fiscal Representative service as part of its international VAT and GST registration and returns service. This helps thousands of businesses of all sizes accurately and easily manage their tax compliance obligations on a fully automated service.

Avalara can guide you when you need a Fiscal Representative, and ensure the whole process is fully co-ordinated in any country with single point-of-contact Account Manager.

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Avoiding the ecommerce Brexit import VAT trap

After 31 December 2020, ecommerce businesses selling goods to consumers between the UK and EU will face import VAT bills – or give their customers an unpleasant extra charge to get their goods from the delivery agent. It is important to understand how this is payable, if it can be eliminated, to avoid customers going elsewhere.

Why is import VAT now due on ecommerce UK and EU selling?

The UK leaves the EU VAT regime at the end of its Brexit Transition Period – 31 December 2020. When seller send their goods to a UK or EU customer, someone has to pay import VAT for the first time.

You can leave it to your customer, and not tie yourself up in the bother of declaring or try to recover any of it. But this will result in a poor experience for your customer, including an extra charge and delayed delivery. This will probably mean no repeat business.

How to manage the import VAT headache

The best option for your continuing success and minimal cashflow impact is to take responsibility for the import VAT. This means you are the ‘importer of record’, responsible for the VAT and customs when the goods are cleared into the EU or UK. Basic VAT automation can help you do this.

The key steps to do this are:

1. Ensure you can automatically select and calculate the right VAT rate - based on your customer’s country of residence - in the checkout. This is the sales or output VAT.
2. Declare the import VAT liability on your customs declarations when you clear the goods. This will ensure UK or EU Custom know you are taking care of the VAT and won’t try stall the delivery and unexpectedly charge your customers VAT. You can do this in the customs declaration (see customs declarations section).
3. Get a VAT registration in the country/ies of your customers – so UK or EU states depending on where the goods are going. You can declare the VAT you charged as sales VAT owed, but offset the import VAT you declared in the customs clearance process.
4. For UK sellers, consider importing the goods first into an EU country that has a VAT deferment scheme. That way you won’t have to pay VAT at the point of importation – a key cash saving. EU sellers can use the UK’s new Postponed Accounting deferred VAT system to avoid paying VAT. Avalara can provide guidance on this.

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Don't get blocked from Amazon's FBA

Ecommerce sellers, selling cross-border between the UK and EU, must make immediate Brexit preparations to ensure they are not blocked on Amazon's Fulfilment on Amazon (FBA) program after 31 December 2020. This is when the UK leaves the EU VAT regime and Customs Union.

Below is a summary of the actions to take to avoid sales being stopped. Amazon has warned sellers on this in August 2020 to ensure they continue to use FBA and its European Fulfilment Network (EFN). It will take several weeks/months due to the complexities of the new processes.

UK sellers with EU customers	To avoid being blocked on Amazon's FBA program, sellers must first move some stocks from the UK to one of Amazon EU fulfilment centres. These are located in: France; Spain; Germany; Italy; Poland; and the Czech Republic. This will require the UK seller to pay EU import VAT and customs tariffs, as well as complete export and import customs declarations after 31 December 2020. You may need a new EU or UK VAT number to support the above import VAT processes. This will take at least a month to complete. You will also need a UK and EU EORI number. You will need to be able to calculate and pay tariffs on the movement of the goods into the UK and EU. You may need expert help to prevent underpayments with blocked goods and penalties. You must be able to allocate the right commodity code (HS code) to get this right and complete your import declaration. The above issues are dealt with elsewhere within this guide.
EU sellers with UK customers	To avoid upset customers and customs holding up your goods, you will have to rethink the delivery terms ('Incoterms'). These clarify who is responsible for customs clearance and paying any tariffs and import VAT.

Remember!

All other UK and EU sellers will be looking to do the same in the rush to meet the year end deadline. So act immediately!

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Selling digital goods? Have you re-applied for a MOSS return?

If you are an EU or UK seller of digital services, then you will need new VAT registrations to avoid being fined by the tax authorities. This includes cross-border sales to UK and EU consumers of: downloadable or streaming media; apps; online software; e-learning; e-books; online journals; and dating or similar membership websites.

What changes for UK and EU digital services providers?

The UK is leaving the EU VAT regime on 31 December 2020 at the end of its Brexit transition period. Here's what that means for providers of electronic (digital), telecommunications and broadcast providers:

	What changes 31 Dec 2020?	Action to avoid fines and interest
UK sellers	You can no longer use the Mini-One-Stop shop (MOSS) single VAT return with HMRC to report sales to EU consumers and pay over EU VAT.	Apply now in any EU member state for a MOSS registration number. You will be able to use this to report quarterly sales to EU27 states under the non-Union MOSS scheme. You must have completed this in time for January reporting
EU sellers	You will be unable to report sales to UK consumers through your MOSS return.	You should apply now for a regular UK VAT number to report on a quarterly basis any sales to UK customers. Remember – there is no threshold for this. All UK sales must be immediately reported to the UK's HMRC.

Do not delay on these VAT applications!

Remember, all other ecommerce sellers will be urgently applying too, creating a major backlog for tax authorities already stretched with COVID-19.

Do digital services VAT rates change after 31 December's Brexit?

No. Whether selling to a UK or EU customer, you must still charge the VAT rate of their country of residency. This can be reported in the UK VAT or EU MOSS return.

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Have you got UK and EU EORI numbers to clear goods?

If you are selling goods to consumers between the UK and EU after 31 December 2020, you are going to need EORI numbers. If you don't have these, your goods will be held by customs in the UK or EU, resulting in lost sales and extra costs to get them back.

Here are the basics you need to know about EORI numbers, why you now need two and how to get them.

What is an EORI number?	An EORI number (Economic Operator Registration and Identification Number) – is your unique ID code used to track and register customs information by the UK and EU.
Why do I need one?	Every time you import into the UK or EU, you will have to include your EORI number on declarations for customs to check. If it's missing, your goods will be suspended or may not even make it to customs as your freight or postal agent may not accept your consignment with it.
Wait, I need two?	Yes. Prior to Brexit, UK EORI numbers were accepted by the EU and vice-a-versa. This stops 31 December 2020. You will need a UK EORI number to export or import goods. And you will need an EU EORI for the opposite leg of the same goods movement.
How do I get them?	UK VAT-registered businesses should have received a UK EORI from HMRC by now. UK and EU sellers will all have to apply for an EU EORI number. Avalara can help you either way get an EORI number in the UK or EU; it's a quick application. Contact us for details.

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Have you got the right commercial terms for your customer?

From 31 December 2020, ecommerce sellers have to rethink their commercial terms of cross-border sales to UK or EU customers to avoid unpleasant sellers experience and surprise import VAT or tariff charges. Failing to do so will certainly cause delayed deliveries and an end to repeat business. Many marketplaces will block you if you don't get it right.

There are two most popular commercial terms – known as Incoterms – for cross-border ecommerce sales are:

1. **Delivered Duty Paid** DDP, in addition to organising full transport to the customer's site, the seller takes care of all the Brexit VAT and customs bother for the import. A great customer experience; but you'll have to manage the paperwork and taxes.
2. **Delivered at Place.** DAP, the seller only transports the goods to the port (seaport, train or airport of departure); the customer has to pay import tariffs and VAT. Much easier for you as the seller; but your customer won't appreciate the extra costs and most marketplaces will block you.

UK and EU VAT and customs de minimis (exempt thresholds)

Note – the customs de minimis for the UK and EU are £135 and €135, respectively. There is a VAT exemption of £15 in the UK – but this is being scrapped from 1 January 2021. UK VAT is due on all imports. The EU currently has a VAT de minimis threshold of €22. This is being withdrawn from 1 July 2021 as part of the ecommerce package.

Compare the customer experience

From your customer's point-of-view, what is the experience on a cross-border sale? Here is an outline from order to delivery:

	DDP - Delivered Duty Paid	DAP - Delivered at Place
Shopping cart	The shopper sees all the VAT and duty tariffs that are payable to get the product to their door.	Only the price and delivery are shown. The true cost, including import VAT and duties, is hidden from the customer.
At the UK or EU border	Customs will confirm the taxes due, and these are settled by the seller or their agent.	Customs will inform the postal carrier of the taxes due. The customer gets the bad news.
Delivery	Goods handed over. A happy customer.	The goods only handed over if and when the customer pays the extra costs they were not warned about.
Repeat sales	The customer will appreciate the smooth experience, and will be happy to repurchase from you.	The customer won't trust you again!

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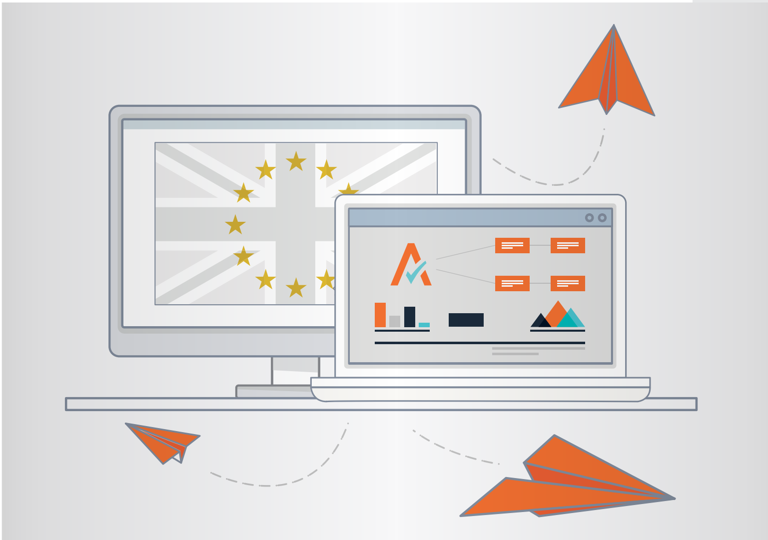
Ready to complete Brexit customs declarations?

Any UK or EU ecommerce sellers selling goods between the UK and EU will have to compete customs declarations for the first time after 31 December 2020. This follows the UK leaving the EU Customs Regime at this time following the UK's Brexit.

Failure to do so will mean your freight or postal agent will refuse to accept the goods, as customs would not accept them either. You will also have to think about how to classify your goods and what tariffs or VAT is payable – see elsewhere in this guide.



How do I complete my customs declarations?

If you have been exporting or importing out of the UK and EU beforehand, then you will already be familiar with the challenges of customs paperwork – and duties and VAT. Below the new process you would have to follow. Alternatively, there are a number of outsourced specialists for you to approach for help.

Steps to complete a customs declaration

1. Apply for your UK and EU EORI numbers
2. Apply for access to HMRC's customs systems (CHIEF and CDS), as well as that of the EU country you are selling to.
3. Buy commercial software to complete the customs declarations.
4. Register to import or export goods if they have any restrictions, including excise goods
5. Set-up a duty deferment account if you don't import regularly
6. Arrange for the goods to be inspected?
7. Prepare and submit the import declaration
8. Pay VAT and any duties
9. Get the goods released if they're at the border

Who can help you complete them instead

1. Freight forwarders are responsible for moving goods cross-border. This can include completing declarations at UK and EU customs. Tax authorities can provide you with registered forwards.
2. Customs agent or brokers ensure goods clear through customs, and may act as a direct or indirect representative. This may include lodging import/export customs declarations to Customs (HMRC in the UK) and facilitating the payment of import duties, VAT, excise duty etc. on behalf of importers and exporters.
3. Fast parcel operators transport parcels and freight internationally within a specific timeframe. This may include customs clearance. A number have been approved by HMRC to move goods under simplified memorandum of understanding.

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How will you pick the right commodity code?

If you want to continue selling goods cross-border between the UK and EU after 31 December 2020, you will have to learn about commodity codes. If you cannot accurately match your goods to the right code, you will be paying the wrong duties – risking top-up taxes and fines – and delaying deliveries to frustrated customers.

The UK is still formulating its post-EU commodity code schema – so this area is confusing.

The commodity codes will have to be included in the customs declaration that you will need to provide to clear any goods through UK or EU customs. This will make clear how much taxes – VAT and tariffs - you should be paying.

How do commodity codes work?

Commodity codes are made up with a range of digits that identify a particular product. They specify the type of product, materials used and the production method as follows:

- **HS Code digits:** It starts with the global standard – Harmonised System, or HS code, – which is a minimum of six digits.
- **EU additional digits:** The EU, including the UK for the time being, has added up to a further 8 – making potentially 14. These extra EU numbers include: 2 digits CN heading (Combined Nomenclature); 2 digits TARIC (Integrated Tariff of the European Communities) Subheading. 10 digits is the most common. But it is possible to add 4 more under the additional TARIC code.

How to find out the right commodity code

Most tax authorities publish online their commodity codes for you to match to your products. The UK has a Trade Tariff tool online. You can use the UK's HMRC's Tariff Classification Service to get non-legally binding classification advice. HMRC will respond to your email within five working days. The EU member states have various similar tools.

Avalara can help with automated HS code identification

Assigning these codes to all product types for EU and any country can be time consuming and expensive. This is particularly the case for ecommerce suppliers with small package cross-border shipments Additionally, the information required to determine the correct tariff code is often missing or not easily available, and therefore true import costs are not often well understood. Avalara has a fully automated system for low-cost classification, and will ensure you do not overpay any taxes.

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Are you sure you will pay the right import tariffs?

Ecommerce sellers from the UK or EU will face tariff charges on goods they move between the two after 31 December 2020. Getting these complex calculations wrong will trigger extra charges and penalties, delayed shipments and a very poor customer experience.

What are the challenges when it comes to calculating tariffs?

With UK leaving the EU Customs regime at the end of 2020, many imported goods will be subject to UK and EU tariffs, respectively. Here are the many challenges of getting it right, and fairly quoting your customers the entire cost of purchase – the landed cost:

Brexit tariffs still being negotiated:	The UK has published its UK Global Tariff, listing tariffs on goods coming into the UK from the EU and the rest of the world. But at present, UK goods going to the EU would be subject to its World Trade Organisation most favoured nation rates. These may be varied if a trade deal can be struck between the EU and UK
Picking the wrong commodity code:	As discussed above, selecting the wrong commodity code for the tariff calculation can result in under/over payment of taxes. This will upset the customs authorities or your customer.
Misdeclaring and undervaluing goods	It can be a lot of work to get accurate duty rates and customs charges for your entire product catalogue. Often, once these rates have been calculated for a new country, complacency sets in — the rate sticks in your shopping cart system for years, with no updates in sight.
Failing to calculate total landed cost	Some companies calculate international customs duties on their shipments, then fail to consider VAT, GST, or other local taxes that can significantly impact the total cost. It's important to remember that total 'landed cost' is a combination of several factors, and that duty rates will only take you part of the way to a comprehensive landed cost calculation.

Help with tariff calculations

Like commodity code identification, tariff calculations will be complex and time-consuming post-Brexit. Most UK and EU ecommerce sellers have never had to worry about this prior to the UK leaving the EU.

Fortunately, Avalara offers a highly efficient and affordable Cross-Border solution for classifying your products and calculating customs duty and import taxes of the UK, EU and anywhere you may sell cross-border.

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About Avalara

Meeting your global tax needs. Avalara helps businesses of all sizes get tax compliance right.

In partnership with leading ERP, accounting, ecommerce, and other financial management system providers, Avalara delivers cloud-based compliance solutions for various transaction taxes, including sales and use, VAT, GST, excise, communications, lodging, and other indirect tax types.

Headquartered in Seattle, Avalara has offices across the U.S. and around the world in Canada, the U.K., Belgium, Brazil, and India.

More information at:
avalara.com/europe

Email us:
emeasales@avalara.com

Call us:
+44 (0)1273 022400

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