

Is Gibraltar the new centre for VAT abuse, replacing Je...

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Rumour reaches me that companies in Gibraltar are now advertising a VAT abuse service almost identical to that closed down by the UK that operated through the Channel Islands in April this year.

As I understand it goods are sent from the UK to Gibraltar where they are put in a bonded warehouse and then transferred into Spain. This is claimed to be their EU entry point from a third party country and as they are worth less than £22 the entry is claimed to be VAT free. Then they are shipped from Spain to the UK, also VAT free under the LVCR rules as an export from Spain does not have VAT charged on it and tax on arrival in the UK need not be collected due to the low value.

The legality of the scheme looks low though: placing the goods in a bonded warehouse in Gibraltar is clearly not the same as the goods being in Gibraltar for VAT purposes so that's problem number 1. Quite specifically bonded warehouses are for VAT purposes not considered to be geographically in the place where they are located so it looks likely for these purposes that the goods never legally enter Gibraltar and might therefore legally enter Spain from the UK. In that case VAT should be charged on import, I think.

Problem number 2 is that it looks very unlikely that the goods are individually imported in Spain so it is hard to see how VAT on import is avoided under LVCR: the bonded warehouse is probably essential to make this work then. And therefore, problem 3, if the goods have arrived in Spain VAT free inappropriately it is hard to see how the scheme can then re-export VAT free.

All those are issues for HM Treasury to address. I'm happy to supply them with information.

But what this does show is that the tax avoiders will not go away and HMRC should have put in place more comprehensive measures to tackle this problem earlier this year.