Funding the Future

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Last week the UK took another step towards Brexit. I am still not convinced it will happen in anything like the form being discussed: Ireland remains the challenge to be addressed that no one is seemingly big enough to talk about. But let's presume for a moment that we really do leave. The consequences for business are substantial. As the web site VATlive notes:

At present, by act of law, the UK will leave the EU VAT system on 29 March 2019. The [VAT] implications for UK businesses include:

* *Importers will face a UK 20% import VAT bill and cash flow recovery admin on all their goods coming into the UK*
* *The imposition of a potential £720 million in VAT compliance costs on up to 27,000 small businesses to continue to sell online after the loss of the EU distance selling threshold relief.*
* *UK sellers of digital services (streaming media, apps and e-books) losing their right to the EU MOSS single VAT registration and filing facility*
* *UK exporters of goods to the EU having to appoint special tax representatives for tax reporting in 19 of the 27 EU states*

These are not inconsequential: they are massive.

The most important by far is on cash flow: VAT on imports will have to be paid upfront or the later payment will have to be guaranteed - which comes at a heavy price from a bank. The cash flow impact is significant.

Whilst the admin burden for all importers and exporters will be substantial because leaving the EU will not mean that EU VAT rules will cease to apply to those selling into EU markets.

The combined impact of these measures will be threefold.

First, some businesses will not be able to afford the upfront VAT payments. They may cease to trade.

Second, many businesses will give up exporting: it will simply not be worth the bother. UK trade will shrink as a result.

Third, there will be whole new fraud opportunities. These charges will become much more prevalent:

We will all have to get used to paying VAT on imports. But there's a tale in there. Note that there is no monetary limit on imports from the Channel Islands. That is because of VAT abuse from those places. The chance that new abuse will arise with a new border is very high. The smugglers, and their near legal friends, will be back in business again. That is a cost we can well do without, but Brexit will, I am quite sure, be bringing it our way.