

Let's talk VAT and Brexit, because it's time we faced r...

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No one wants to talk about VAT. I once turned that to my advantage: early in my career I did a lot of lecturing on VAT precisely because no one else wanted to do so: it paid well as a result.

Now no politician wants to talk VAT. They don't understand it. They should. It's going to cause Brexit mayhem.

VAT is in essence simple when it comes to borders, at least with regard to goods. There is no VAT on exports. There is VAT on imports. That's the principle. It's a bit more difficult when it comes to services. But let's just stick to goods for now. The simplicity is appealing. You just have to know one thing, and that's when the goods have crossed a border.

It has taken decades for the EU to work out how to do this. It's just about got there. Just about, I stress. Between VAT registered traders the arrangement has become relatively straightforward: it's pretty much automated and declarations can be cross-checked, at least in theory. We've finally got most distance selling to non-VAT registered customers sorted too, but only recently. And notorious abuses, such as the Channel Islands abuse of what is called low-value consignment relief have been largely eliminated. I am not saying fraud has ended: that would be wildly optimistic. But the abuse of old, where the same goods crossed borders time and time again until eventually a fraudulent claim for tax was made with no matching declaration of liability being made has been curtailed, at the very least. You have to be a somewhat more sophisticated now.

And then we get to Brexit. And the arrangements that exist within Europe to make sure that goods can be traced across borders precisely to make sure that this fraud - which cost billions a year to the UK - will be denied to the UK. They will have to be. The system depends upon the exchange of sensitive data. And sensitive data requires protection within and between states. Which means that the court has to be involved. And in the case of VAT that is the European Court of Justice, whose jurisdiction the UK is now refusing to accept. And that means we will be outside the VAT system for Europe.

The consequences are enormous. They are grim for our exporters: they will suffer a cost disadvantage as every export from the UK will be an import into Europe. That will mean that every single one will have to be processed upon arrival somewhere on the continent, and VAT will have to be paid. That's a significant processing cost, and a cash flow disadvantage. The VAT does not act like a tariff; it would have eventually been payable anyway, in some place by someone, but the processing charge is a tariff. And cash flow is always an issue.

For importers the situation is as difficult. [According to the FT](#), Heathrow alone handles more than 2 million parcels a day. A majority of these come from the EU: they just flow through the system right now. But that will not be the case after Brexit. Every one will need VAT paid. And a processing charge will be due: that's usually £8 on delivery, payable to the Royal Mail, on top of the VAT owing, at present.

It is pointless to pretend that the free flow of goods will not be disrupted in this case: it will be. We do not have the infrastructure to handle this at present. Nor have many businesses got the margin to handle distance selling in these situations: for many small UK businesses this will be deeply prejudicial: import and export will be beyond their reach. And let's not pretend that this is good news: we simply cannot make everything ourselves. We will be worse off.

In that case the suggestion [made in the FT yesterday](#) that the UK is looking at staying in the European VAT system is good news. It will mean accepting ECJ rulings in this area, but we remain subject international courts on vast numbers of issues. And it will mean maintaining an EU compliant VAT system, but given the length of time it has taken to make that system work, and it is now better than ever, that make sense.

At least, it most certainly does when the alternative is the creation of the most massive barrier to large parts of our trade.

On Brexit there is no debate required on VAT: we have to stay in. Quite literally, nothing else makes sense.