No Deal Brexit

Tax considerations for universities

September, 2019

Summary of main points

This sets out some of the main tax issues that universities may need to think about in the event of a no deal Brexit. This represents our current understanding of the position in what is a constantly changing scenario. Much of the following may change in the event that a Brexit deal is agreed.

IMPORTS

Goods purchased or transported from the EU will be regarded as 'imports'. They will need to be cleared through Customs and may have duties applied. Where a university provides its EORI number (its VAT registration number slightly modified), VAT will not be chargeable at the point of import but will be declared on the VAT return. This will also include goods imported from the rest of the world.

EXPORTS

Goods sold or transported to the EU will be regarded as 'exports'. They will need to be processed (with the correct documentation) through Customs before leaving the UK. They will be subject to Customs checks and duty charges on arriving in the EU.

SERVICES

Some services supplied to business customers in the EU, such as other universities, will be subject to UK VAT where this was not previously the case.

Some services purchased from the EU will be subject to local VAT in the country where the supplier is based where this was not previously the case.

There may be instances of double taxation.

SOCIAL SECURITY

Social security rules will change for employees based temporarily or permanently in EU member states. The EU regulations designed to create co-operation and equality of treatment will not apply.

Employees' entitlement to benefits and pensions may be affected.

These and other less critical points are explained on the following pages.

Imports and exports

The most significant tax impact for universities in a no deal Brexit is likely to be on the movement of goods between the UK and the EU. These will no longer be able to pass between the UK and the EU without going through a customs process. They will be regarded as imports and exports and will be subject to a new process and may incur additional costs such as duty charges.

Imports	
The VAT rules for importing goods from EU member states will change.	Currently, where a university buys goods from the EU, the university must identify the transaction and account for VAT on its VAT return as if it had supplied the goods to itself. This is normally done by universities on the basis of invoices received from EU based suppliers.
Goods will need to have a customs declaration.	In a no deal scenario, import declarations will need to be made for goods coming from the EU. This may be done by an agent arranging the import or by the university using the Customs Declaration Service (CDS). Even if the agent makes the declaration, the university will probably be liable for VAT/duties if this is incorrect.
Universities will need to ensure that their EORI number is shown on the Customs entry.	The university should ensure that its EORI number is shown on any import declarations. An EORI number is based on the university's VAT registration number. Most will already have one for managing imports from outside the EU.
A monthly statement will show how much VAT is due to be accounted for on the VAT return.	Universities will be able to obtain a statement from the CDS showing imports in each month registered against their EORI. This figure will need to be entered onto the VAT return.

Imports

Imports (Cont.)	
In addition to VAT, goods coming from the EU may also have duty charges (or tariffs) applied, increasing cost.	Currently goods arriving in the UK from the EU are not subject to duty charges. In a no deal scenario, the UK may apply tariffs to these goods. Unless relief is available (for example on scientific equipment), this will be an additional cost for universities. The Government has indicated that tariffs will be waived in the short term on a substantial proportion of the incoming trade.
This new procedure will apply to all imports, not just those from the EU.	The revised procedure will apply not just to imports from the EU, but also to imports from the rest of the world. So even if you have no EU trade you may still be affected by the changes. This will mean that VAT costs will be deferred (if the EORI number is quoted).
Charging VAT to the correct Department may be difficult.	One of the potential problems with receiving information about imports on a monthly statement is that it will be difficult, from the information provided, to work out which part of the university made the import. Recharging VAT shown on the statement to the correct place and working out reclaims could become an onerous exercise.
More resource may be required.	Universities will need to consider whether they need extra resource to deal with the allocation of VAT to the correct department and/or for managing claims for duty relief if there are high volumes of transactions.

Exports

Exports	
Goods moving from the UK to the EU will be regarded as exports.	Currently goods can move freely between the UK and the EU. In a no deal Brexit, such movements will be regarded as exports and the importer may be liable to a tariff charge
A customs declaration will need to be made for exports.	EU member states will require that customs declarations are made for any goods entering the EU. Universities are likely to need export agents to deal with this additional administration.

Other VAT implications

Other VAT Implications

So far as other VAT implications are concerned the impact will mostly be less significant but there are some points to look out for.

Some services (such as the hire of equipment) supplied to EU customers will become liable to VAT.	With some exceptions, services supplied to EU business customers such as other universities are mostly not liable to UK VAT. VAT legislation has already been amended to show that in a no deal Brexit scenario, some services which are 'used and enjoyed' in the UK will become liable to UK VAT. The hire of equipment is an example which will be particularly relevant to universities.
Some services purchased from EU customers may become liable to VAT in the EU.	Most services purchased by universities from the EU are currently not subject to VAT but VAT is applied by the university on its own VAT return. For some services, such as equipment and car hire, where the service is used and enjoyed in a member state, VAT is likely to be chargeable there.
In some cases, a double VAT charge will arise.	In most cases, where a service is chargeable to VAT in a member state, it will not be chargeable to VAT in the UK. However, the rules are no longer required to be aligned and in one country at least, consultancy and similar services will be taxed in the member state if used and enjoyed there and will also be subject to reverse charge VAT in the UK.
Universities should check any large service contracts with EU customers and suppliers.	Universities should check that current and planned contracts with EU suppliers and customers deal appropriately with the right to apply VAT in country.
A small number of universities with a registration for intra EU digital supplies will need to register in a host country such as Ireland.	Higher education institutions making digital supplies (e-learning etc.) to other EU member states currently account for VAT via the Union Mini One Stop Shop (MOSS). After a no-deal Brexit, they will need to create a non-union MOSS registration in a host country in order to account for VAT in the EU, e.g. Ireland where there are no language barriers.

People - social security

People – Social security

Many universities now have staff based in EU member states either permanently or on temporary arrangements. In a no-deal scenario, the UK will no longer be able to rely on the terms of the European Economic Area (EEA) regulations for co-ordinating social security.

Universities will not be able to rely on EEA regulations for social security, but bilateral agreements may still be in place.	If the UK leaves the EU without a deal, the current EEA Regulations for social security would no longer be able to be relied upon for individuals working across the EU, unless separately negotiated. As such, consideration would need to be given as to whether there is an old Bilateral Social Security Agreement in place between the UK and the other EU Member State, which can be relied upon.
The terms of bilateral agreements are country specific and in practice are often unsuitable for short term appointments.	These agreements vary by country so each separate agreement needs to be checked. In practice, many of the Bilateral Agreements are not suitable for individuals working temporarily more than 6 or 12 months in another EU Member State or individuals who commute or work frequently between 2 or more Member States.
Where there is no bilateral agreement, double taxation may arise.	Where a Bilateral Agreement is not in place, or cannot be relied upon as the conditions therein are not met, local domestic rules of each country would apply. This results in a real risk of dual contributions (both employee and employer) potentially being due in both the UK and the overseas location, resulting in increased contributions for the University.
Pension and benefit entitlement may also be affected.	No deal may also impact on an individual's eligibility for state pension and benefit entitlements in the UK and across the EU in future.

People - social security

Universities may wish to review their current international worker population to determine:

1. Whether old Bilateral Agreements are in place based on the location of your individuals and if so, would the conditions be met to enable the individuals to remain in the home country social security system and not subject to dual contributions.

2. Prepare some worst case estimated calculations as to what the additional social security cost would be where both UK and overseas contributions are due.

3. Review your current population of international workers and ensure any A1 certificates (where eligible) covering periods up to Brexit date have been applied for / are in progress to protect the historical position.

Once the terms of leaving the EU are known, consider the impact on employee's entitlement to state benefits (including pension, healthcare, maternity etc) and consider whether any private insurances are required to cover any shortfall.

KPMG

Thank you