

# VAT IN THE UK

## A Guide for eCommerce B2C Sellers



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## OVERVIEW

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### UK VAT GUIDE FOR ECOMMERCE SELLERS

The departure of the UK from the EU has created great change from a VAT and customs perspective, considerably affecting businesses engaged in Ecommerce. These shifts include modifications in import VAT procedures, changes to the place of supply rules, and adjustments to the overall VAT framework in the UK. In this guide, we explore not only the fundamental VAT principles but also the post-Brexit considerations that Ecommerce businesses must keep on top of for successful and compliant operations in the UK.

There are several important considerations to fully understand a business's VAT compliance requirements in the UK.

**Where is the seller located?** Is the seller located in the UK or outside the UK.

**Does the seller supply goods or services?** VAT rules differ depending on whether the supply relates to goods or services.

**If supplying goods, where will the goods be supplied from?** If goods are located outside the UK at point of sale, then the VAT treatment can vary depending on the value of the order.

**Does the seller supply to Northern Ireland?** Under the terms of the Brexit agreement, the Northern Ireland protocol designates Northern Ireland as part of the EU for VAT purposes concerning goods. However, this recognition does not extend to services, creating a distinction in the treatment of goods and services under the protocol.

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## UK VAT REGISTRATION REQUIREMENTS

The requirement to register for VAT can vary depending on several factors. This guide will focus on eCommerce sellers supplying goods to the UK market, where the goods are supplied from within the UK and separately where the goods are delivered from a location outside the UK.

### **WHERE GOODS ARE SOURCED AND DELIVERED FROM WITHIN THE UK**

In this case, the supply is treated as a domestic supply of goods, and the standard UK VAT registration threshold is applied, on the basis that you are a UK-based business. You must register for VAT in the UK if:

- Your total VAT taxable turnover for the last 12 months was over £85,000 (the VAT threshold) or
- You expect company turnover to exceed £85,000 within the next 30 days.

For non-UK businesses, there is no threshold, and a VAT registration is required as soon as your first sale occurs.

### **WHERE GOODS DELIVERED FROM OUTSIDE THE UK**

VAT registration obligations for this scenario depend on the value of the order and agreed terms regarding who the importer of record is.

- Orders of goods with value £135 or less: UK VAT is charged at point of sale in this scenario and the seller will need to register for UK VAT.
- Orders of goods with value greater than £135: UK VAT is due at the point of entry into the country. In instances where the supplier assumes the role of the importer of record, VAT registration in the UK is required.

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## UK VAT RETURNS & RATES

Once VAT registered, businesses are required to submit periodic VAT returns to HMRC. The frequency of these returns is determined by the turnover of the business. In general, you are required to submit VAT returns on a quarterly basis.

HMRC implemented the [Making Tax Digital](#) initiative several years ago, mandating businesses to maintain digital records and submit VAT returns through compatible software. This initiative seeks to modernize the tax system, advancing greater accuracy and efficiency in the reporting process in the UK. It does, however, make it difficult for smaller businesses, who do not use software compatible to HMRC's online platform, as it requires them to engage with a VAT service provider to assist with filings.

Currently there are three different VAT rates that apply in the UK.

The **Standard VAT Rate** in the UK is 20%. This applies to most goods and services unless they qualify for a reduced rate or are exempt.

The **Reduced VAT Rate** in the UK is 5%. Some goods and services benefit from this reduced rate, such as energy-saving materials, children's car seats, and certain renovations to residential properties.

Certain goods and services, while still subject to VAT, are deemed to have a **Zero VAT Rate**. This includes specific food, books, newspapers, children's clothing, and more.

Ensuring you are charging the correct VAT rates on your products or services ensures your business compliance. It also ensures your business benefits from any reduced VAT rates where applicable, which contributes to optimizing operating margins.

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## UK ONLINE MARKETPLACE RULES

The UK Marketplace rules for VAT cover the responsibilities of online marketplaces in facilitating VAT compliance for businesses operating on their platforms. These rules apply to the following scenarios.

1. Sales of goods with an order value of £135 or less that are outside the UK at point of sale and sold through an online marketplace to customers in the UK.
2. Sale of goods of any value that are in the UK at the point of sale and sold by an overseas business through an online marketplace.

In both cases, the online marketplace will be liable for the UK VAT on sales to consumers.

It is important to note that the ecommerce business will still have a UK VAT compliance obligation, and this obligation requires the eCommerce business to hold a valid UK VAT registration, as they will be deemed to make a sale to the online marketplace at 0% VAT. These deemed transactions are reportable even if no VAT is payable by the seller.

According to HMRC, an online marketplace is considered as a business utilizing a website or mobile application (such as a marketplace, platform, or portal) that fulfills the following criteria:

- establishes the terms and conditions governing the supply of goods to the customer.
- plays a role in authorizing or facilitating customers' payments.
- is involved in the ordering or delivery processes of the goods.

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## PRACTICAL TIPS AND GUIDANCE FOR VAT IN THE UK – B2C

There are actions you can take to proactively manage UK VAT obligations.

- Understand what VAT rates apply to your products in the UK. If this is not something you can manage yourself, then consider engaging a professional tax service provider for assistance.
- Research and find an automated VAT solution that suits your needs, including direct data connection to your online store to automate the VAT return preparation process.
- Keep up to date with changes in VAT legislation. The UK VAT landscape has changed significantly since Brexit, and it is important for all businesses to stay on top of the latest legislative changes and be proactive in planning for future changes to ensure compliance.

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