



THE UK-EU FREE TRADE AGREEMENT

To clarify geopolitical terminology first, the United Kingdom (UK) comprises Great Britain (GB) and Northern Ireland (NI). Great Britain is the big island in which England, Wales and Scotland share land borders. Northern Ireland is a part of the big island of Ireland and has a land border with the Republic of Ireland (RoI) to its south which is a different country and a member of the European Union (EU). The UK left the EU on 31/12/2019 when a transition period lasting one year began in which to negotiate future trade terms.

A free trade agreement (FTA) between the UK and the EU was finalised at the last practical moment on Christmas Eve 2020 to replace the transitional arrangements which were due to expire a week later. The FTA then took effect from 1/1/2021.

Over and above the FTA, new onerous trading arrangements have come into effect for goods sold from Great Britain into Northern Ireland from 2021 which affects Linetop and thus our NI customers. The **Northern Ireland** section below explains why Linetop has suspended trade with Northern Ireland from 2nd April.

Few people realise that **new import and export VAT rules** also came into effect across the entire EU on 1/1/2021 which are unconnected with Brexit. The UK government has mirrored these. These rules do not affect EU of UK trade with the rest of the world: for example, if Linetop trades in goods with India. We will discuss the VAT changes before dealing with the implications of Brexit.

NEW VAT RULES ADOPTED BY THE EU AND THE UK FROM JANUARY 2021 WILL DISCOURAGE TRADE IN SMALL SHIPMENTS, DISADVANTAGE SMALL SELLERS AND WILL ALSO LEAD TO MINIMUM ORDER VALUE REQUIREMENTS

We live in an increasingly globalised world. It now feels perfectly normal to buy personal or business goods online in small amounts by mail order from distant countries, and this was unimaginable 20 years ago. There had been *de minimis* import tax rules for decades where low value items were not subjected to import duty or VAT in the delivery country. Many parcels were marked 'gift' or their true value under-estimated so as to avoid import taxes. As online shopping has expanded, some very large sellers have located themselves in low tax countries to avoid paying the higher rates of tax that apply in others.

The countries with higher tax rates do not like losing duty or VAT on imports, and until recently they did not find any international approach to taxing the global scale sellers directly when the sellers have put their operational base in some lower tax area beyond their jurisdiction. Even within the EU, the member countries set their own rates of VAT.

Where an EU buyer is not registered for VAT, typically a private individual or a micro-business, an EU-based seller would apply local VAT and collect it for their local tax authority. The effect is that seller country receives the sales tax at the expense instead of the buyer country – which is abnormal. If the export sales between all pairings of countries was equal, and their VAT rates equal too, then the tax amounts each lost or gained would cancel out. But the volume of sales in each direction is unbalanced for the reason that one country may set a lower tax rate which distorts the market by attracting sellers into that country.

Powerless to tax some notorious mass sellers who trade in high volume across international borders or to harmonize global VAT rates by treaty, many governments are now focusing on buyers. There is a new system such that all goods, no matter how big or small their value, will attract VAT as they move across EU or UK borders from January 2021. Either the seller or the buyer will be responsible for paying the VAT depending on the transaction value.

As it is impractical to administrate VAT collection from the 400+ million people in Europe by dealing personally with each citizen as an importer organisation, the EU and UK government have decided that all sellers (regardless of location in the world) will do the VAT collection for the EU and UK on lower-priced consignments. This implied that sellers would have to send 28 regular VAT returns (for the 27 EU countries plus the UK) plus the VAT return they prepare for their own country of domicile such as China.

Obviously this system is ludicrous which has resulted in some Far East and other traders stopping sales into the UK and the EU. The EU has responded by belatedly announcing that it will centralize VAT collection for imports from July 2021 and so international traders need only file one VAT return for the whole EU (not 27 as formerly) to an address in Brussels.

The rule is that from January 2021 all packets imported into the EU or the UK with a value of **less than €150 or £135** will have destination country VAT applied by and collected by the international seller. This seller will then make VAT returns and payments of VAT to the EU or UK government for goods it exported that were priced under the thresholds above.

Packets with a value of **more than £135 or €150** do not have destination country VAT collected by the seller, thus the seller does not have to register for VAT with foreign tax authorities nor act as a VAT tax collector for them. With these higher priced sales, the VAT becomes due in the destination country when the packet crosses its frontier and the buyer is then responsible for paying the VAT plus the courier's handling costs. Courier companies are currently charging typically £10 per packet for administering the VAT collection job which is generally paid to the courier by the buyer prior delivery of the packet to the buyer.

Larger volume sellers will have the scale to cope this new VAT system which can only serve to strengthen their grip on global commerce which comes at the expense of smaller sellers and personal buyers who want small volumes of goods from across the world. As our UK company does not have the means nor wish to become a VAT collector the EU and engage with an EU VAT bureaucracy, **Linnetop have introduced a minimum order value of €150 for all EU sales with immediate effect.**

SALES TO EU COUNTRIES (INCLUDING THE REPUBLIC OF IRELAND)

The new VAT thresholds are linked to a new EU bureaucracy revolving around EORI numbers. Think of an EORI number as a kind of EU-wide VAT registration number that is issued by the EU. In order to sell to EU customers, Linetop Ltd had to register with the EU (via HMRC) to obtain a seller's EORI number. A German buyer now needs a German EORI number to buy goods from Linetop. A seller in Japan would also now need an EORI number, obtained from the EU via the Japanese government, so as to export to the EU.

EU buyers need to obtain an EU EORI number too and a VAT number from their own country's government, and these may well be the same number. The buyer then places their order worth **over €150** with Linetop and pays for it unless credit has been agreed.

Quite separate from the above VAT issues, we are advised by Royal Mail that it appears the EU may be operating a policy of disrupting the flow of parcels from the UK. Disruption methods are said to vary from week to week and include such things as finding a small discrepancy between the weight of a parcel shown on its Customs sticker and the weight on the Royal Mail franked label (for instance a few grams difference dependent on calibration of weighing scales) despite the correct full parcel postage fee having been paid in the UK.

Some of our usual courier companies' online parcel booking systems are not yet able to accept the full range of HS codes which need to be declared on the Customs declaration forms that the sender affixes to parcels. For example, a courier company may be able to code items inside a parcel as a toy but not as electronic counters. This makes it possible to send toys into the EU but not Linetop products via these carriers. Royal Mail accepts the full range of HS codes, so we will be using Royal Mail from now. There is more bad news.

To reduce the chance of EU parcel disruption, Royal Mail has recommended breaking up large consignments into smaller packets weighing no more than 2kg each. This means EU clients cannot currently order goods from Linetop where any single item weighs over 2kg (including the carton). In view of Royal Mail's pricing structure and the extra administration this brings, we are currently charging €30 per 2kg carton for shipping to EU addresses.

We will create one invoice covering all the cartons associated with each purchase order. This is because handling fees within the EU at the present time seem to be based on the number of invoices rather than the number of cartons that an invoice comprises. When a carton arrives in its EU destination country the courier will usually contact the buyer to collect the local VAT and pay this on the buyer's behalf to the destination government tax authorities and add their handling fee which is also payable by the buyer. The packet is then delivered to the EU buyer's business address by the final courier.

These methods and charges are subject to change because the situation is evolving. The situation is being monitored and we hope to return to sending large parcels at more normal prices and without any transit disruption when circumstances allow.

NORTHERN IRELAND

The complex compliance issues to participate in HMRC's trading schemes to implement the EU's Northern Ireland demands are quite beyond the reasonable efforts of a small company like ours. We have been advised by HMRC that continuing to trade without full compliance and explicit HMRC approval is a criminal offence. So regrettably we have decided to withdraw from the Northern Ireland market which in practice means that we will not now deliver to Northern Ireland addresses for the foreseeable future.

This is a "force majeure" situation that no reasonable person or business could have anticipated. Another of its consequences is that our product warranty to existing Northern Ireland customers is now suspended because we cannot return any repaired or replaced items whilst HMRC is issuing legal threats.

Northern Ireland buyers can still buy from us on ex-works Incoterms if they pay for and collect their goods from outside our premises in Wales and take responsibility for moving them on. We will also accept warranty or repair work sent by post on the basis that the buyer collects their items on ex-works terms and take responsibility for moving them on.

We have not taken these decisions lightly and this disruption to internal trade between UK nations is absolutely not of our making. The matter will be kept under review and we hope to re-open normal trade with Northern Ireland customers as soon as circumstances allow.