CHARTERED ACCOUNTANTS
O'Kelly Newsletter

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On June 23, the population of the UK narrowly voted to end its 43-year membership in the European Union. It is not completely clear when, how or certainly even if the UK will separate from the EU. Most trading rules and taxes will not change substantially as the UK will want to continue to trade freely and successfully with the EU

Some important facts about the referendum decision that you should know.

No need to make any changes for at least two years

Twenty-eight European countries are members of the EU, a trade, political and monetary association. They have harmonized a range of trade, VAT, workplace regulations and laws that underpin the EU's Single Market, the world's largest free trade zone. Since 1999, 19 of the EU's member states also share the Euro, the region's currency. The UK never adopted the Euro.

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The start of 2019 is probably the earliest date the UK can complete the notification and negotiation phases of an EU exit. The vote was not binding on the UK's Parliament; merely advisory. However, it is generally accepted that the UK will notify the EU of its intentions to leave by the end of 2016. Once this is done, there will be a two-year renegotiation on the terms of the separation.

Will UK VAT rates change?

The standard UK VAT rate is currently 20% and it's unlikely to change as a result of this vote since VAT is one of the largest contributors to the UK's revenues. There may be a small drop in the abridged rates that apply to goods such as e-books.

Again, the changes will be extremely restricted. Certainly, the UK will be able to cut through much of the EU red-tape and complex employment law. Also, in order to continue to trade freely with the remaining 27 EU countries, the UK is unlikely to change any of its indirect tax rules. There will be no changes to the VAT rules on the sales of services to UK buyers. These services will continue to be effectively VAT free.

Extra compliance for sellers of digital goods & services

Any provider of digital services to EU consumers has to charge and remit the local VAT of the consumer's country. Since 2015, US companies use the single reporting portal, MOSS. This accepts single, simplified quarterly VAT returns to cover sales and VAT due for all 28 states. The UK exit from the EU VAT regime will mean digital service income to UK consumers will have to be reported separately to the UK tax authorities. This will require a new, separate VAT registration in the UK by US providers, and quarterly UK VAT returns.