

# 5

## steps for managing VAT in the EU & UK post-Brexit

A VAT and customs  
compliance reference for  
U.S.-based businesses  
selling across the Atlantic  
**2021**

GUIDE

# ***Selling into Europe helps U.S. businesses reach new customers, but it also introduces new tax compliance challenges.***

The United Kingdom (U.K.) and the European Union (EU) use the value added tax (VAT) model to determine taxes on goods and services that businesses sell. VAT and customs changes are adding complexity to compliance, but we've simplified what you need to know into five essential steps.

STEP  
**01**

Know where your business has value added tax (VAT) obligations

STEP  
**02**

Register to report VAT to the appropriate authorities

STEP  
**03**

Understand the taxability of the products you sell

STEP  
**04**

Calculate the correct VAT and customs duties

STEP  
**05**

Report VAT to the relevant tax authority

# STEP 01

## Know where your business has value added tax (VAT) obligations

### Overview

If your business sells into Europe, there's a good chance you have VAT obligations. And if you sell into both the U.K. and the EU, you'll have distinct obligations for each. Your VAT requirements will depend on the nature of your business activities. Some factors that could affect your compliance requirements include whether you're selling a tangible good or service, the price of what you're selling, and whether you hold inventory in the U.K. or EU. Keep in mind, this is not an exhaustive list and these factors may vary by country.

### What to do

First, make sure you understand which business activities can create a VAT reporting obligation in each European country (the U.K. and all EU member states). Then determine where your business may have a requirement. Also, be sure to stay informed of changes to legislation in each tax jurisdiction that could affect your VAT obligations – legislation can change frequently.



### Resources for more details



#### 2021 VAT requirement changes in U.K. and EU

After Brexit in late 2020, the U.K. left the EU VAT regime (except for Northern Ireland, which remains under scope of EU VAT only for goods), and at the same time instituted an overhaul to its VAT rules. Perhaps most notably, **all imports to the U.K. valued at £135 and below must have VAT calculated and collected at checkout, erasing previous minimum thresholds. Online marketplaces facilitating ≤£135 sales must charge/report VAT on behalf of their sellers.** On July 1, 2021, member states of the EU will introduce sweeping reforms to the VAT obligations of some sellers and marketplaces. The changes seek to tackle the stubborn €7 billion ecommerce VAT fraud gap, with member states looking to close import loopholes and obligate online marketplaces to collect VAT in place of sellers (deemed supplier rules). The changes eliminate distance selling thresholds and introduce a Pan-EU import VAT return called Import One-Stop Shop (IOSS). Non-EU sellers or facilitating marketplaces from countries without a “mutual assistance” EU agreement opting to use IOSS will need to appoint an intermediary. The intermediary shares the responsibilities for the supplier under the IOSS regime – submissions of returns and VAT payments. Avalara can help with this process.

- [How does Brexit affect US retailers and marketplaces selling into Great Britain?](#)

### How Avalara can help

If you're unsure about your VAT obligations in the U.K. or other EU member states, contact us at 877-811-7961 or chat via [avalara.com](https://avalara.com) and we'll schedule time for you with a VAT specialist. If you're an existing Avalara customer, simply contact your account manager. Once you understand where your business is obligated to report VAT, you're ready for **Step 2** ▶

# STEP 02

## Register to report VAT to the appropriate authorities

### Overview

Once you know where your business has VAT obligations, you must register with the appropriate tax jurisdiction. The registration process and necessary forms differ from country to country and may have to be submitted in the local language. Some countries require businesses to have fiscal representation depending on your business activity (19 countries in the EU require fiscal representation from U.S.-based and other foreign-based companies that meet certain criteria). This is an extra layer of complexity and an important requirement to meet.

### What to do

As of July 2021, you may need to register only in one member state. Properly complete and submit required VAT registration forms for each relevant country. As you expand your sales into new countries and trigger new VAT reporting obligations, make sure to register with new authorities. If you're holding stock in the EU, you may have additional registration requirements. Finally, arrange for fiscal representation and intermediaries where required.

### Resources for more details

Remember, these only apply to businesses that meet certain criteria. The resources at this link can help you understand what fiscal representation is and how it might apply to your business.

[Fiscal representation](#)



### How Avalara can help

With VAT experts throughout the U.K. and EU, Avalara can help offload the stress of VAT registration so you can focus on the other pressing needs of your business. If you have a VAT obligation in the U.K. or any EU member country, Avalara can get you registered in a snap. And, should you need it, Avalara offers fiscal representation services and intermediaries where required or desired. With registration in order, you'll be ready to tackle **Step 3** ▶

# STEP 03

## Understand the taxability of the products you sell

### Overview

An important part of VAT compliance is categorizing what you sell according to each country's classification system. The U.K. and most countries in the EU have standard, reduced, and zero-rated goods and services categories for VAT. However, each country has its own approach to assigning products to rates categories. Another important element for U.S. businesses to consider in this step is customs duties rates (see callout box on this page for details).

### What to do

Start by identifying the Harmonized System (HS) code for each of your products in each country that you sell to – you'll need this for duty calculation. Determine whether your products will have a zero, standard, or reduced VAT rate, and keep a table of these rates for each country. Make this information easy to access so you can quickly reference it for rate determination, and in case you need to edit a code if the classification system changes (this happens sometimes!). Your ecommerce solution or ERP may have standard tax tables.

### Resources for more details

#### [Cross-border selling resources](#)

Get more information about import-related compliance at this Avalara resource page for cross-border selling.



### A note about HS codes and customs duties

It's a best practice to **calculate total landed cost** (shipping costs, customs fees, customs duties, and VAT) of a product at checkout for your customers. Customs duty rates are determined by a product's HS code.

These 8-12-character codes are part of the **Harmonized Commodity Description and Coding System**, an internationally standardized system of names and numbers for classifying physical goods.

5 2 8 5 3 0 ? ? ? ? ? ?

While the first six characters of HS codes are the same for a product regardless of its destination, **the last characters vary by country**. You will need to know the HS codes for each of your products in each country to correctly calculate the total import (or landed) cost of your products.

If you're holding stock in Europe, you'll also need HS codes to report movement of goods between EU member states. Incorrectly assigned HS codes can result in packages getting held up in customs, or even heavy fines.

\* For more details about customs duties compliance, download the in-depth guide: [Selling Cross-Border for Dummies](#).

### How Avalara can help

Avalara resources like those linked above can help you determine the VAT rates for your products in the EU and U.K. As for the Harmonized System, Avalara can map your entire product catalog to correct HS codes with **Avalara Item Classification**. With your products all properly codified, you'll be ready for **Step 4** ▶

# STEP 04

## Calculate the correct VAT and customs duties

### Overview

After you know in which countries your business has VAT reporting obligations (step 1), you've registered with those countries (step 2), and you know how these countries classify your products (step 3), it's time to calculate the correct VAT rate for each of your transactions. In principle, this is as simple as providing inputs into an equation. In practice, this step can be an enormous and complicated task, especially with high transaction volumes, product variability, and multiple shipping locations.

### What to do

You have a few options for determining VAT when you sell products. One is to manually calculate VAT at the time of sale. This is only sustainable for a very low transaction volume scenario, and even then, it can be a tedious process. Another way is to create tax tables for VAT and customs duties in your ecommerce solution or ERP and use these tax tables to calculate the correct VAT for each transaction. Rates and rules may change, so make sure you keep these tax tables up to date. Avalara AvaTax can help many businesses to fully automate this step. Contact us at 877-811-7961 to see if we can do the same for your company.

### Remember

When you sell into the U.K. or the EU, your customers will be happiest if they aren't met with surprise VAT or customs duties charges. So even if calculating and collecting import taxes is optional for certain transactions, save your customers a headache by charging all taxes, duties, and fees at checkout (and keep their goods from getting destroyed in customs).

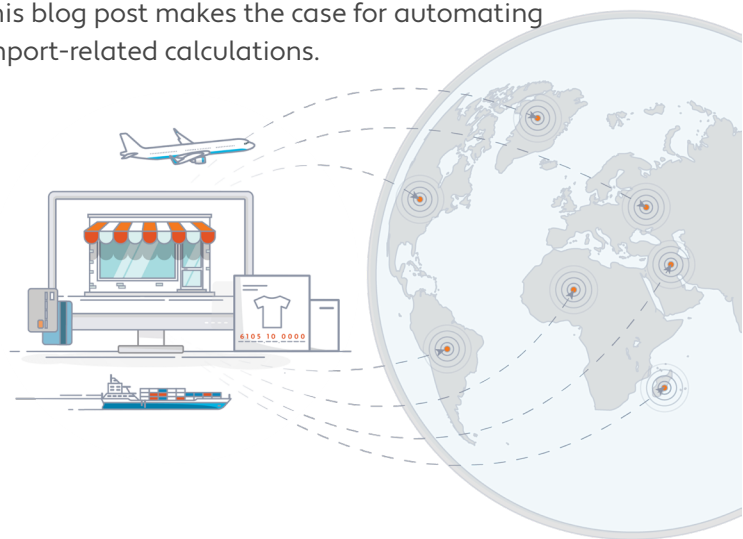
### Resources for more details

#### [What online sellers need to know about landed cost](#)

This quick read covers what constitutes landed cost and how to best calculate it.

#### [5 reasons to automate customs duty and import tax calculations](#)

This blog post makes the case for automating import-related calculations.



### How Avalara can help

You can automate VAT determination at checkout with [Avalara AvaTax for VAT](#), while [Avalara AvaTax Cross-Border](#) automates all your customs duties calculations at checkout. After determining the correct VAT, you'll be ready for [Step 5](#) ▶

# STEP 05

## Report VAT to the relevant tax authority

### Overview

The final step in managing VAT compliance is to report your business activities to tax authorities via periodic returns. Filing frequencies and other reporting requirements vary by country. In essence, though, the purpose of filing reports is to show the corresponding tax authorities you calculated the correct tax for your sales and to show them how much VAT you now owe. Some countries have specific portals or electronic filing protocols. For example, the U.K. Making Tax Digital (MTD) portal prohibits manual entry.

### What to do

Ensure you understand the reporting requirements for each jurisdiction where you have registered to report VAT. Make a plan to report so you don't miss deadlines, because determining your VAT liability, finding and preparing the required forms, and properly submitting the report can be incredibly time consuming. Better yet, have a solution that automatically reports VAT before due dates. If you have input VAT you wish to recover, report this on the VAT return. There may be supplementary returns in addition to the VAT return, so make sure you understand which forms are required in each country. Establish dedicated resources for these tasks every reporting period.

### How Avalara can help

Avalara offers **Avalara Managed VAT Reporting** for both the EU and the U.K. A dedicated VAT compliance team can prepare and submit VAT returns for your business. If you already manage your own VAT returns, our VAT reporting software can simplify your process. Avalara also offers a stand-alone solution for the U.K.'s Making Tax Digital (MTD) scheme, **Avalara MTD Cloud**.

# Conclusion

## It's time to sell into Europe more confidently

As you can see, selling into Europe and managing VAT compliance is not for the faint of heart. But with Avalara, you can relax knowing we've simplified the hardest parts with end-to-end VAT compliance solutions. Avalara is here to help you understand where your business has VAT obligations, register your business to report VAT with the appropriate tax authorities, understand the taxability of the products you sell, calculate the correct VAT and customs duties, and properly report VAT.

### Your VAT obligations can continue to evolve as your business changes

Visit this guide as often as you need to. And while we hope you find this information valuable, it's not a substitute for advice from a tax professional.

#### Are you selling into other countries in the world?

Avalara supports VAT determination throughout the globe, GST calculation and compliance in India, and VAT compliance in Brazil. Visit the [Avalara International Tax Solutions](#) webpage for more information.

**STEP 01** / Know where your business has value added tax (VAT) obligations

**STEP 02** / Register to report VAT to the appropriate authorities

**STEP 03** / Understand the taxability of the products you sell

**STEP 04** / Calculate the correct VAT and customs duties

**STEP 05** / Report VAT to the relevant tax authority

**Avalara**  
Tax compliance done right

877-780-4848  
[avalara.com](https://www.avalara.com)

Avalara helps businesses of all sizes get tax compliance right. In partnership with leading ERP, accounting, ecommerce, and other financial management system providers, Avalara delivers cloud-based compliance solutions for various transaction taxes, including sales and use, VAT, GST, excise, communications, lodging, and other indirect tax types. Headquartered in Seattle, Avalara has offices across the U.S. and around the world in the U.K., Belgium, Brazil, and India. More information at [avalara.com](https://www.avalara.com).