VAT: Call-off stock: updated HMRC guidance and administrative changes

Indirect Tax

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The European Commission updated Article 17a of the Principal VAT Directive with effect from 1 January 2020 as part of its four quick fixes programme to simplify VAT in the EU. The updated legislation allows all EU member states to offer the simplification known as 'call-off stock'; this simplification prevents the overseas EU supplier having to register for VAT locally in the EU member state where the stock is held provided certain criteria is met.

The UK already had an existing call-off simplification for EU suppliers holding stock in the UK; however, legislation has been enacted so that UK businesses have the choice to account for VAT at the time of call-off instead of the existing time of arrival rules. HMRC updated its guidance with details of the new optional rules on 20 April.

What is call-off stock?

Call-off stock is the term used to describe the transfer of goods by a VAT registered supplier in one EU member state (including the UK during the transition period to 31 December 2020) to a customer in a different EU member state, and the transfer creates a stock of goods from which the EU customer can 'call-off' (and become the owner) at a later time as they require but within 12 months of arrival. The EU customer must be supplied with full details of the deliveries of goods that are stored in their country at the time of their arrival for which they have the right to 'call-off', although it is not essential that the goods are stored in premises operated by the customer.

New HMRC guidance: EU supplier and UK customer

Although the guidance for call-off stock has historically been found in VAT Notice 725 and HMRC's VAT manuals, there are now additional pages on GOV.UK (See Changes to the rules for call-off stock arrangements between the UK and EU member states plus related weblinks on this page) that set out how the quick fix legislation for call-off stock can change the time of accounting for UK VAT, should the UK business opt to do so.

Where an EU supplier creates a stock of goods in the UK for a UK customer to call-off, under the former rules the UK customer had to account for acquisition VAT at the time of the arrival of goods as a 'deemed transaction' and no further UK VAT accounting was required at the time that the goods were called-off.

Under the updated rules, UK customers have the choice to continue to use the above rules and account for the transaction at the time of transport or they can use the 'quick fix' rules that will allow them to defer the VAT accounting date to such time that they call-off the stock. For fully taxable businesses, this may not have much impact as the VAT accounting is a contra entry in the VAT return; however, for businesses subject to restricted VAT recovery, it can delay the tax point which can assist cashflow.

EC Sales List: UK supplier selling to EU customer

When a UK supplier sends stock on call-off terms to be stored by the EU customer prior to a later change in title, it is important that the correct indicator codes are used on the EC Sales List per below; the full details are published on GOV.UK. As the default position for holding stock in an EU country for onward supply would normally result in an obligation for the UK supplier to register for VAT in that country, these indicator codes must be used correctly so that the tax authorities in other EU member states do not deem the UK supplier to be making domestic supplies in their country and pursue a local VAT registration, which may involve associated penalties and interest for failure to notify and account for local VAT.

The new EC Sales List indicator codes are:

- Indicator code 4: Time of transport of the goods (no value of sales required);
- Indicator code 5: Returned stock (no value required); and
- Indicator code 6: Change of intended acquirer.

Once the acquirer calls-off the stock, the UK business must report the sale in the EC Sales List again in the same way as a normal sale of goods (no indicator code and value of goods is required).

Brexit: Post-transition period

It should be noted that the call-off simplification rules are applicable to UK businesses while the UK is in the period of transition with the EU until 31 December 2020, after which time the UK will not be in the single market or customs union. UK businesses should take advice in EU countries where they hold stock to ensure that they meet local rules from 1 January 2021.