

# Brexit Alert: VAT recovery by financial services and insurance providers

## Who should read this Brexit Alert?

This Brexit Alert is relevant for:

- UK providers of specified supplies to EU customers
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## Introduction

Rishi Sunak, the UK Chancellor of the Exchequer, has announced that from 1 January 2021 UK businesses that provide certain financial and insurance services, known as specified supplies, to EU customers will be entitled to reclaim VAT on the costs related to providing those services. This will align the VAT treatment with the current rules that apply to the provision of these services to non-EU customers.

The change could significantly improve the VAT recovery position of UK VAT registered financial services and insurance companies.

## What are specified supplies?

Specified supplies are currently defined in the VAT (Input Tax)(Specified Supplies) Order 1999 as financial and insurance services:

- supplied to a person belonging outside the member states;
- directly related to the export of goods to a place outside the member states; or
- consisting of the provision of intermediary services for these specified supplies.

## What is changing?

Currently UK providers of financial services and insurance, including intermediary services in those sectors, cannot recover VAT on costs related to

supplies made to customers in the UK and EU.

However under the Specified Supplies Order, VAT can be reclaimed when these supplies are made to customers outside the EU.

The Chancellor's announcement confirmed that after the end of the Brexit transition period specified supplies made to EU customers will be treated in the same way as those made to non-EU customers. This will create a level playing field between UK businesses and other non-EU businesses making these type of supplies to EU customers. The change will be effected by replacing the reference to 'member states' with 'UK' in the Specified Supplies Order.

VAT on costs related to supplies made to UK customers will remain irrecoverable.

## What businesses need to do

Businesses that will benefit from this change should carefully review their VAT processes, procedures and partial exemption methods. The attribution and apportionment of VAT on costs should be updated to extend VAT recovery to costs associated with EU customers.

## Specified supplies made by EU businesses to UK customers

Similar benefits will also apply to EU businesses that make specified supplies to UK customers after the transition period.

These businesses should ensure their VAT processes are amended to reflect the fact that the UK is to be treated as a non-EU country from 1 January 2021.

**For further guidance on the VAT treatment of specified supplies please contact us on:**

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