



axis[®] diplomat

Accounting and Business Information Systems

Brexit White Paper

04.12.2020

Introduction

Whilst it remains unclear what the final shape of the Brexit agreement will be, the Government has continued to release bulletins on what will happen in the case of a "no deal" Brexit.

On the assumption that this is a "worst case" scenario in terms of its impact on how businesses trade with European customers and suppliers, we have prepared this White Paper to look at how the scenario outlined by the Government might be handled by axis diplomat users.

In addition, we have identified a number of software enhancements that would be required in the event of a "no deal" Brexit and these changes are highlighted in this document. These enhancements will be made available to all axis diplomat users with software within mainstream support in a "Brexit Update" which will be available from 11th December 2020.

This is, of course, a constantly evolving and changing subject so please remember to keep alert to the latest Government advice and the information that we will publish from time to time via our website. We strongly recommend that you subscribe to our newsletters via our website or follow us on Twitter.

- <https://www.axisfirst.co.uk/subscribe/>
- <https://twitter.com/axisfirst>

Regards

The axis diplomat Development Team

1 International Trade Under a "No Deal" Brexit

1.1 Imports

Imports from EU countries will be subject to the same rules as imports from non-EU Countries.

HMRC have provided extensive information regarding the treatment of the movement of goods in and out of the UK through both direct communications with UK businesses and via <https://www.gov.uk/transition>.

From 1st January 2021, the UK is also introducing additional measures for overseas goods arriving into Great Britain from outside the UK:

1.1.1 VAT on Import of Goods of £135 and under

Low Value Consignment Relief (LVCR) is being removed. Previously, this exempted imports with a value below £15 from import VAT.

Where online marketplaces are involved in facilitating a sale to the UK, the online marketplace will be responsible for collecting and accounting for the VAT.

VAT on imports with a consignment value of £135 or lower will have VAT applied at the point of sale, rather than collecting import VAT at the point of arrival before release from customs.

For B2C transactions this UK VAT will be charged and collected by the seller meaning that sellers sending goods into the UK will need to charge UK VAT and apply to be part of the UK VAT system when supplying goods with a value of £135 or less to end consumers (that is, non-VAT-registered individuals).

For B2B transactions the VAT will be reverse charged to the customer meaning that businesses who receive goods of £135 or less will have to account for the VAT as part of the reverse charge procedure, declaring the VAT on their next VAT Return.

1.1.2 Postponed VAT Accounting

Prior to 1st January 2021, VAT on goods imported from non-EU countries is payable upon import and must be paid before goods can be released from customs. In order to assist with cash flow for UK businesses, the UK government has introduced the postponed VAT accounting system.

<https://www.gov.uk/guidance/check-when-you-can-account-for-import-vat-on-your-vat-return>

For businesses making use of this scheme, this allows the importer to account and pay for Import VAT on their next VAT Return rather than paying at the point of entry, meaning the goods can be released from customs without the need for payment of VAT due.

Information on how to process postponed VAT accounting transactions in **axis diplomat** for inclusion in your MTD VAT Return is available in our Postponed Import VAT support note:

<https://www.axisfirst.co.uk/documentation/Postponed-Import-VAT/articles/18689>

1.2 Domestic VAT

The Government has stated that VAT will continue in its current form. There may be a change to rates in the future but this is not mandated by a "No Deal" Brexit.

The Government may take the opportunity to change the VAT banding for certain goods - moving Books, for example, from zero to standard rate.

All axis diplomat systems can readily handle changes to the rates of VAT (this has already happened on a couple of occasions within the last ten years). Moving goods between different VAT rates is also possible with any version of axis diplomat although it is made easier by the introduction of VAT Groups in axis diplomat 2018.

In the event that the way this is implemented requires changes to axis diplomat, these changes will be made and released to all axis diplomat versions within mainstream support at that time.

1.3 VAT for overseas businesses sending goods into the UK

Businesses based within the European Union will be able to register for VAT in the UK and account for VAT on shipments up to the value of £135.

On shipments above £135, the importer is liable for VAT and may also still be liable on shipments under £135 if the supplier is not VAT registered or fails to comply.

For axis diplomat users based outside of the UK but within the European Union, the optional Multiple VAT Registrations module, available for axis diplomat 2018 and above, will handle the requirements of being registered for VAT in their own country and in the UK.

1.4 UK Businesses Exporting to EU Consumers

Goods and services sold to consumers within the European Union by businesses based in the UK will be subject to the customs and tax rules in the EU country to which they are exported (in the same way as any non-EU country applies its own rules).

The pressure for UK businesses to hold VAT registrations in each EU country with which they trade is likely to increase as businesses will not want their consumers having to pay tax or duty when their delivery arrives.

Remember that as a consumer currently buying from overseas suppliers (for example those found on marketplaces such as eBay and Amazon) it is more likely that you will choose to buy from a European supplier than, for example, a US supplier since you will not need to be concerned about duty and VAT when buying from a European supplier.

The optional Multiple VAT Registrations module, available for axis diplomat 2018 and above, will handle the requirements of being registered for VAT in a number of European countries in addition to the UK.

1.5 UK Businesses Exporting to EU Businesses

Exports to EU countries will continue to be zero-rated (just as they are for exports to non-EU countries).

There will no longer be a requirement to submit EC sales lists or Intrastat despatches declaration reports.

The customer will be liable for import duties and import VAT in the same way that currently applies to their imports from other non-EU countries.

All axis diplomat systems already handle this and many axis diplomat customers already export around the world.

Accounts within axis diplomat for those customers outside of the UK are marked as either "EC Export" or "Non-EC Export" and VAT rules for exports are applied based on the delivery address and the presence of a VAT registration number.

axis diplomat users will NOT be required to amend their customer account classifications as the software available as part of the "Brexit Update" will identify pre- and post-Brexit transactions with the EU and account for VAT accordingly.

1.6 UK Businesses Sending Goods to an EU country

Goods exported to the EU may be subject to additional customs and VAT processes which will be checked at the EU border.

This will require a Commercial/Customs Invoice. A Customs Invoice is a document that travels with your delivery and contains information about the items inside your delivery. This is required for customs clearance and your shipment cannot leave the country without one.

Currently, if you are sending a delivery to a country outside of the EU, you must provide a customs invoice which specifically details every item that you are exporting.

This requirement would therefore now include shipments to the EU.

Many carriers (Delivery Service Providers) are also modifying their software to require additional information on consignments. This typically includes more detailed information on the contents of each package that will be required as part of customs declarations in the event of a "No Deal" Brexit.

For some axis diplomat users, this may mean improving your data, changing documents and making process changes.

The additional information required typically includes commodity codes, countries of origin and values for each item (SKU) within the delivery.

If you are currently using any of the Delivery Service Provider Interfaces available within axis diplomat to send goods to countries within the Europe Union, please contact our Customer Services team to check whether you will be affected by these changes.

1.7 UK Businesses selling their own goods from an EU country

A UK business may continue to sell goods it has stored in an EU member state within the same rules that already apply to any non-EU country.

UK businesses would be REQUIRED to register for VAT in the EU member state where sales are made in order to account for VAT in those countries. This would require the optional Multiple VAT Registrations module, available for axis diplomat 2018 and above.

Remember that when selling goods fulfilled by Amazon ("FBA") this is likely to be the case as they maintain warehouses throughout Europe.

1.8 EORI

The EU uses the Economic Operator Registration and Identification (EORI) number to register and track customs data and is required by any business that trades with European nations. This applies to both imports and exports.

axis diplomat allows recording of EORI numbers, both your own EORI and those of your customers and suppliers.

If you have the multiple VAT registrations module, you will also be able to store an EORI against each 'registration'.

The EORI fields are available for use within document designer.

1.9 Delivery Terms (Incoterms)

Delivery Terms refers to the International Commercial Terms (normally abbreviated to Incoterms) used to define which elements of costs are to be paid for by the seller (consignor) and which by the buyer (consignee).

Within axis diplomat, Delivery Term fields are made available on customer and supplier records and transactions for systems with either the Intrastat or Despatch and Delivery Management modules. A Delivery Term takes the format of a three character code (e.g. DDP).

Incoterms are maintained by the International Chamber of Commerce (see <https://iccwbo.org/resources-for-business/incoterms-rules/>)

1.10 MOSS (Mini One-Stop Shop)

The UK will cease to have access to MOSS (used for handling VAT on the supply of services between EU member states).

This is unlikely to affect any axis diplomat user as it only applies to businesses supplying certain digital services.

1.11 Intrastat

EC Sales Lists and Intrastat dispatches declarations are no longer required for goods exported from Great Britain (England, Scotland and Wales) to the EU from 1st January 2021.

Intrastat arrivals declarations for goods imported from the EU into Great Britain are still required for those businesses exceeding the £1,500,000 annual arrivals threshold until 31 December 2021.

axis diplomat will continue to maintain the functions provided to assist with submitting EC Sales Lists and Intrastat declarations to assist with collation of equivalent reporting requirements for those axis diplomat customers based within the EU.

1.12 EU VAT Registration Number Validation

The UK will continue to have access to the EU VAT registration number validation system (VIES).

The functionality provided within axis diplomat's Customer and Supplier Enquiries to store and validate an EU VAT registration number will continue to be available.

1.13 UK VAT Registration Number Validation

UK VAT registration numbers will no longer be held in the EU database and therefore will be unable to be validated using VIES.

HMRC is developing a system so that UK VAT numbers can continue to be validated.

We are committed to adding support for that system once it is operational and we have technical information on it. This will be made available to all axis diplomat versions within mainstream support at that time.

2 Software Functionality

Over the past months we have identified and provided numerous enhancements to axis diplomat that will be required, or beneficial, in the event of a "No Deal" Brexit. These enhancements have been released to our customers over the course of the past 15 months with all required changes being made available to all axis diplomat customers with axis diplomat 2016 and above.

Other recent enhancements that may be beneficial, but not essential, have been released to those customers running axis diplomat 2018 and subscribing to Software Assurance or who have already upgraded to axis diplomat 2020.

All customers running axis diplomat 2016 and above will need to download and install a full software update prior to 31st December 2020 to ensure that they have all of the essential software changes.

Listed below are a selection of some of the changes implemented.

2.1 Maintain No Deal Brexit Settings

A new axis diplomat supervisor function, Maintain No Deal Brexit Settings, has been provided to allow a system to be flagged for a No Deal Brexit and to specify the start date for the application of the new VAT rules applicable to UK import and export trade with the EU and the rest of the world.

In order to handle any last-minute changes to the arrangements for 1st January 2021, upon loading this function, axis diplomat attempts to pick up the current date for a No Deal Brexit from a central server maintained by axisfirst. The software is configured to use a default No Deal Brexit date of 1st January 2021 and this will only change if axis diplomat can successfully download the new settings from the axisfirst server.

As negotiations are still ongoing with the EU and there is still a chance of a deal, it is strongly recommended that this function is used to check the 'No Deal' setting and date configured on your axis diplomat system are correct prior to entering any transactions on 1st January 2021.

2.2 EORI

axis diplomat has been enhanced to allow you to record both your own and your customer's and supplier's EORI numbers.

This information is available for use within Document Designer.

2.3 Customer Account Classification

You will be able to leave customers within the EU set to an account classification of "EC Export". axis diplomat will correctly account for VAT before and after Brexit.

2.4 Customs Invoice

A new Document Designer document type of Customs Invoice is available for those with the Despatch and Delivery Management module and a default template is included in current software releases which can then be customised to suit your own layout and design requirements.

For those without this module, amending the Despatch Proforma Invoice document template to contain the required invoice may be an appropriate solution or the document may need to be produced outside of axis diplomat.

Some carriers provide the ability to produce Customs Invoices from within their software. axisfirst has been working with these carriers to extend our interfaces accordingly. For those without axis diplomat carrier interfaces, it may be possible to produce customs invoices when manually loading your consignment.

Key information required for Customs Invoices includes:

2.4.1 Commodity Codes (CN/TARIC)

This field is available on Stock items in axis diplomat 2016, 2018 and 2020 systems and is available to sales and purchase Document Designer documents.

Stock records should also be set to the correct 'Type of Supply' (Goods, Services or Directly Related Services).

2.4.2 Stock Weights

Stock weights can be recorded within axis diplomat.

2.4.3 Stock Dimensions

For those axis diplomat customers using the Despatch and Delivery Management module, the ability to record stock record dimensions is available.

2.4.4 Country of Origin

The Country of Origin field is available on axis diplomat stock records.

In order to provide all the required columns of information on documents in a legible format, you may need to transition to landscape documents. Should you require assistance with this, please contact our Customer Services team.

2.4.5 Delivery Terms (axis diplomat 2018 SA and above)

For those axis diplomat customers using the Despatch and Delivery Management module, Delivery Terms (Incoterms) can be recorded on customers, sales orders/quotations and delivery records. In addition to being available to Document Designer sales documents such as Customs Invoices, this field is also can also be passed through to those Delivery Service Providers requiring the information in electronic consignment files. Delivery record creation and picking functions have also been modified to prevent sales order consolidation where orders have differing delivery terms.

2.5 Supplier Account Classification

You will be able to leave suppliers within the EU with an account classification of EC Member State. axis diplomat will treat supplies from EC suppliers in the same manner as supplies from those classified as Non-EC Member State.

2.6 Delivery Terms

For those axis diplomat customers using the Despatch and Delivery Management module, Delivery Terms (Incoterms) can be recorded on suppliers, purchase orders, purchase delivery advices and invoice/credit note transactions. The Delivery Terms field is also available to Document Designer Purchase Orders.

2.7 Purchase Invoice/Credit Note Booking

Purchase Invoice and Credit Note booking functions have been modified to record supplies of goods and directly related services from all non-UK suppliers as Imports. These functions have also been enhanced to support the recording of reverse charge VAT for imports valued at £135 and below.

2.8 Purchase Delivery Advice

axis diplomat systems with both the Despatch and Delivery Management and Purchase Delivery Advice modules (which together also form part of Warehouse Management) will benefit from additional fields on the Purchase Delivery Advice in which to record additional customs data including:

- Delivery Method – this will link to a list of delivery methods that are flagged as in use for 'Arrivals'. Each delivery method will have the 'Mode of Transport' defined against it.
- Delivery Terms – a drop down list of current Incoterms is available.
- Where the Delivery Method is configured with a 'Mode of Transport' set to 'Sea' or 'Air', the following additional fields will be presented:
 - Port (Origin)
 - Port (Destination)

- Vessel (ship or plane on which the delivery was transported)
- For all delivery methods the following prompts will be displayed:
 - Number of packages
 - Total Weight (Kgs) – this defaults to the sum of the weight of the items received based on the stock record weight
 - Total Volume (m3) – defaults to the volume based on the sum of the volumes calculated by the stock record's dimensions

2.9 Landed and Supplemental Stock Costs

This new module provides greater control and analysis of the supplemental stock costs associated with purchasing stock. It will be particularly valuable to importers, who need to ensure that transport, duty and insurance costs are correctly analysed.

It is available as an additional option for axis diplomat 2020 but with no additional licence or support costs.

For further information, please refer to the Landed and Supplemental Stock Cost module overview at <http://www.axisfirst.co.uk/software/axisdiplomat/modules/>

3 axis diplomat services

In addition to the software development carried out in preparation for the end of the Brexit transition period, the axisfirst Software Services team has been busy addressing the impact on business processes for many of our customers.

For common topics affecting the majority of users, our online documentation is updated regularly with support notes covering common accounting topics and the handling of specific scenarios in axis diplomat. These can be found at:

<https://www.axisfirst.co.uk/documentation/axis-diplomat-2020-Accounts-Support-Notes/chapters/592>

Recently added support notes include:

- Dealing with VAT in axis diplomat from 1st January 2021
- VAT handling for UK Exports and Imports from 1st January 2021
- Postponed Import VAT
- Shipping goods internationally

Many axis diplomat users have identified that Brexit not only involves a change to how they need to record information in their software but also requires changes to business processes.

Our Software Services team has been extremely busy over recent months helping customers adapt their business processes to meet current and future demands by providing training and consultancy services and implementing additional axis diplomat modules. By utilising both remote meeting tools and 'Covid safe' on-site working practises, it is 'business as usual' for the team.

Please contact your Account Manager or speak to a member of the Software Services team if you too would like us to review the way in which you use our software and work with you to build a business improvement plan for the use of axis diplomat in your business.

4 GDPR

As we move out of the Brexit transition period, companies need to ensure that their handling of personal data as defined by Data Protection Act of 2018 and EU GDPR is being managed in compliance with the regulations.

Organisations must understand their roles and responsibilities within the legislation. Companies transferring data between the UK and EU need to be clear how the transfer of personal data must be managed and ensure they have templates, policies and procedures in place to demonstrate appropriate safeguards are operating and that data can continue to be shared across international borders.

Companies must also demonstrate that knowledge and understanding of the legislation is present at all levels throughout the organisation.

axisfirst is able to offer both GDPR practitioner services and training so please talk to us if you are unsure whether you are on track to be able to share personal data across borders. See <https://www.axistechnology.co.uk/gdpr/> for more information.

5 Further Reading

Further information on EORI, including applying for an EORI number, can be found at:

<https://www.gov.uk/guidance/get-a-uk-eori-number-to-trade-within-the-eu>

Information on how to complete your VAT Return to account for import VAT in a "No Deal" Brexit can be found at:

<https://www.gov.uk/guidance/complete-your-vat-return-to-account-for-import-vat-in-a-no-deal-brexit>

More general information from the government on how to prepare for a "No Deal" Brexit can be found at:

<https://www.gov.uk/transition>

This document is for general guidance only and represents our interpretation of the official guidelines at the time of writing. It is not intended to represent any commitment to deliver the functionality described. Both official government guidelines and our own are subject to change as this is a developing and changing situation; always check for the latest information.

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Document Reference: axisddiplomatbrexit/4.0