



# Preparing for a no-deal Brexit

With the UK's transition period ending on December 31<sup>st</sup> 2020, and as of yet no deal having been reached, here are some insights and recommendations for EU trade post-Brexit.





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## Overview of the upcoming regulatory changes to EU trade in a no-deal Brexit scenario

### JAN 2021

**BREXIT:** Unless a deal is reached, the UK will trade according to World Trade Organisation (WTO) rules, changing from a member state to a third-party country when selling to EU27 customers.

**This will mean that** any sale will involve an export from the UK, and an import into the EU, including the need for a Customs Declaration for all shipments from EU to GB and GB to EU. Northern Ireland, as it currently stands, remains part of both the UK and the EU.

### MAR 2021

**ICS2 (Import Control System 2):** ICS is the electronic security declaration management system for goods destined to the EU Union Customs territory (both final destination or just transiting within the EU).

**This will result in** the need for certain data elements to be sent to the EU customs authorities - prior to loading at the country of export on a flight into or transiting the EU, Norway or Switzerland.

### JUL 2021

The VAT ecommerce package will come into effect, resulting with the EU abolishing the De Minimis threshold for VAT applied for imports into the EU. The threshold for local VAT registration will also be abolished, therefore merchants will need to adopt a mechanism referred to as IOSS and start reporting VAT in their own name through the scheme for all sales to consumer in the EU27.

## Changes to VAT and Tax Regulation

This information refers to a no-deal scenario, however if a deal is reached, merchants will still need to ensure they are prepared for handling customs paperwork after the UK leaves the EU.

Currently no Customs Declaration is required for shipments from the United Kingdom (UK) to the 27 EU member states (EU27), or vice versa.

As of January 1<sup>st</sup> 2021, all these shipments (EU27 to GB, and GB to EU27) will require a Customs Declaration that will replace the current 'distance selling regime'.

Northern Ireland will be subject to a special regime whereby it remains part both of the EU market as well as the UK's VAT area.

### Goods in commercial flows:

- In a No Deal scenario, all goods leaving GB to the EU, will be subject to customs clearance in the same way that goods travelling from non-EU destinations (such as Canada or the US) are processed now.
- The GB to EU flow of goods exceeding the de-minimis thresholds will be subject to customs duties and VAT in the EU27, as applicable. **VAT will be paid at the point of import** into the EU where the product is cleared by customs for import, unlike the current 'distance sale' regime.
- Import VAT (and duties, if applicable) can be paid by the shopper before receiving the order, by paying directly to the shipping provider (DDU shipment).

### Goods in postal flows:

- The movement of parcels via the postal flow will necessitate the production of CN22 or CN23 documentation for movement across borders. This will enable the correct customs formalities to be completed upon entering the EU, thus facilitating customs clearance within the quickest time possible. This means that the receiver of the goods will be requested to pay duties & taxes for the goods being delivered.

## Additional Costs for Customs Clearance

These new outbound and inbound customs clearance activities for the EU will have associated costs. It is anticipated that such costs will be in line with clearance activities for non-EU countries today. Some of the shipping companies have already published their additional charge for clearance costs. The associated costs for customs clearance are different between shipping providers.

Retailers need to decide if they will absorb these costs, or if they will pass them onto their customers. If they choose to pass on the costs, they have the option to build costs into product prices, add them to the shipping fee, or a combination of both methods. The decision depends of course on the merchant's focus. However, if passing costs on, it is generally recommended to include the costs within product prices, and not to increase the price of shipping, in order to preserve conversion rates.

# Tax and Duty Charges and Thresholds

Orders over 150 EUR will be liable for import duty. The percentage will vary per product.

The local VAT rates and thresholds for EU markets are listed below:

Country	VAT rate	Duty Threshold	VAT Threshold	
Austria	20%	150 EUR	22 EUR	
Belgium	21%	150 EUR	22 EUR	
Bulgaria	20%	150 EUR	15 EUR	
Croatia	25%	150 EUR	22 EUR	
Cyprus	19%	150 EUR	17 EUR	
Czech Republic	21%	150 EUR	22 EUR	
Denmark	25%	150 EUR	10 EUR	
Estonia	20%	150 EUR	22 EUR	
Finland	24%	150 EUR	22 EUR	
France	20%	150 EUR	0 EUR - Mail Orders 22 EUR	
Germany	19%	150 EUR	22 EUR	Current VAT rate is 16% until 31/12/20
Greece	24%	150 EUR	22 EUR	
Hungary	27%	150 EUR	22 EUR	
Ireland	23%	150 EUR	22 EUR	Current VAT rate is 21% until 28/2/21
Italy	22%	150 EUR	22 EUR	
Latvia	21%	150 EUR	22 EUR	
Lithuania	21%	150 EUR	22 EUR	
Luxembourg	17%	150 EUR	22 EUR	
Malta	18%	150 EUR	22 EUR	
Netherlands	21%	150 EUR	22 EUR	
Poland	23%	150 EUR	0 EUR - Mail Orders 22 EUR	
Portugal	23%	150 EUR	22 EUR	
Romania	19%	150 EUR	10 EUR	
Slovak Republic	20%	150 EUR	22 EUR	
Slovenia	22%	150 EUR	22 EUR	
Spain	21%	150 EUR	22 EUR	
Sweden	25%	150 EUR	0 EUR - Mail Orders 22 EUR	

For example:

An order to Austria with total products value of 120 EUR and 10 EUR cost of shipping will attract 20% VAT on 130 EUR and no duties.

An order to Austria with total products value of 300 EUR and 30 EUR shipping will attract the relevant import duties (depending on the commodities codes) plus 20% VAT on the total order value inclusive of shipping and duties.

## Returning Goods to GB

Goods returned to GB from customers in the EU27 could also be subject to import duties and VAT.

## Orders Placed Before 1/1/21 and Shipped or Cleared After 1/1/21

In order to ensure a positive experience for shoppers, and protect margins, we advise ecommerce retailers to plan ahead for orders placed just before the Brexit transition period end due date, that will cross the EU border after January 1<sup>st</sup>. Imports crossing the EU borders after January 1<sup>st</sup>, that breach local thresholds will incur tax and duty fees, and these unexpected additional costs could make for unhappy customers and costly returns for retailers.

## Recommendations: Delivery, Clearance Fees and Documentation

- With import taxes and duties now due at the point of import, we highly recommend merchants to adjust their pricing strategy to absorb additional costs for duty and taxes within the product price and provide their EU shoppers with a guaranteed landed cost, informing them that there will be no additional costs upon delivery. Working with your delivery partners to pay these charges at the point of import on behalf of the shopper will preserve the existing shopping experience for EU customers.
- In order to facilitate smooth customs clearance at the destination and to avoid unnecessary delays, it is crucial to provide all the required documents and customs data to the shipping provider.
- Keep in mind that delays at the border due to customs and excise checks seem inevitable so make sure to adjust your expected delivery times accordingly.
- Make sure to decide on your strategy for orders placed in the last days of December and shipped after January 1<sup>st</sup>.
- Offering your EU customers the same seamless shopping experience that they are used to pre-Brexit, is key for maintaining conversation rates and customer satisfaction and encourages customers to continue to buy from you once the Brexit transition period ends.

# The Pre-Brexit Checklist for GB Merchants Selling to the EU

## Post-Brexit Merchant Requirement

## How Global-e helps its merchants

- ❑ Are you registered for an EORI (EU Union Registration and Identification) number?

An Economic Operator Registration and Identification number will be required for GB imports and exports from 2021, in order to release goods from Customs.



As the exporter on record, Global-e is already registered and therefore you would not need to register independently.

- ❑ Are all your products classified and do they have the correct commodity code to ensure accurate tax and duties calculation?



As part of the integration with Global-e, your product catalogue is scanned and classified to calculate duties and taxes per item. No action is required from your side.

- ❑ Are you able to adjust your prices to absorb the duties into Europe and the additional carrier costs for custom clearance?



Global-e's advanced pricing engines enable you to easily adjust your pricing to absorb additional costs for duty and taxes and additional carrier costs within the product price and provide your EU shoppers with a guaranteed landed cost.

- ❑ Are you able to support local messaging to guarantee no hidden costs for EU customers post Brexit?



Global-e's solutions allow you to easily adjust messaging per market throughout the browsing journey to inform shoppers that no costs will be added to their purchase upon delivery.

- ❑ Will your shipping providers handle the customs clearance process?
- ❑ How much will they charge you and how will you incorporate that into your customer proposition?
- ❑ Do you have backup carriers in case some fail?



Global-e is working with multiple leading shipping providers that are preparing to deliver shipments to EU customers under both commercial and postal clearances to offer the most effective shipping solution to EU markets.

- ❑ Have you considered your return policy and fees?

Goods returned to the UK by customers in the EU could also be subject to import duties and VAT.



Global-e has a fully managed returns portal and our Success Managers can advise you on how to manage your returns proposition per market.





## Brexit FAQs for GB Merchants Selling to the EU

### TAXES AND DUTIES

- **How will EU VAT and duties be calculated from January 1<sup>st</sup> 2021?**

If no trade deal will be signed by the end of 2020, as of January 1<sup>st</sup> 2021, all shipments between the EU27 and GB will require a Customs Declaration that will replace the current 'distance selling regime'. All goods will be subject to import VAT and duty on arrival into the EU, subject to the local threshold and VAT rate in each country (see table on p6). This means that the customer would need to pay these charges in order to take delivery of the goods.

- **How will VAT in the EU be charged and collected from January 1st 2021?**

EU shoppers buying from GB merchants will be responsible for paying the VAT if they have bought over the local threshold. VAT will be due at the point of import into the EU where products are cleared by customs for import. VAT can be paid by the shopper before receiving the order, by paying directly to the shipping provider (DDU shipment). However, in order to keep the customer experience as it is today (guaranteed costs show in browsing), GB retailers are highly recommended to avoid this scenario where EU shoppers have to pay additional tax and duty upon delivery as well as high consumer clearance fees, which they are not accustomed to and may hinder customer satisfaction, conversion rates and returning customers.

To maintain a seamless experience for EU customers, GB merchants are advised to ship all goods as DDP. This will require retailers to include tax and duties in product prices or at the checkout and work with delivery partners to pay the destination VAT and duties on behalf of the shopper at the point of import and deliver the order without the shopper needing to pay any additional charges at the point of import.



## Brexit FAQs for GB Merchants Selling to the EU

- **Will any additional fees apply on EU purchases from GB?**

Yes. All orders over 150 EUR will be subject to relevant import customs duties, depending on the commodity codes of the items ordered. For example, an order to an EU market with total products value of 300 EUR and 30 EUR shipping will attract the relevant import duties plus VAT according to the local rate on the total order value inclusive of shipping and duties.

On top of duties and taxes, the new outbound and inbound customs clearance activities for the EU will incur additional costs to account for customs clearance fees and handling fees. It is anticipated that such costs will be in line with clearance activities for non-EU countries today.

To avoid those costs being charged to your customer upon delivery, it is recommended to make sure your shipping providers are able to support DDP and can handle customs clearance for your EU customers. It's also important to understand the costs, and to configure your pricing strategy accordingly: Will you subsidise these costs? Will you include them in product prices? Will you provide a calculation of all fees that will apply to the order at the checkout?

Please note, DDP shipping is not available for postal delivery.

- **How will the EU VAT and duties be calculated from July 1st 2021?**

From July 1<sup>st</sup> 2021, the EU is abolishing distance selling thresholds and introducing new regulation that will prevent the need for multiple EU VAT registrations. According to the new regulations that will come into place on July 1<sup>st</sup> 2021, the threshold for local VAT registration will also be abolished, therefore merchants selling Low Value Goods will also need to register for local VAT.

As of January 1<sup>st</sup> 2021, UK businesses will not be able to benefit from distance selling thresholds. Therefore UK retailers selling to EU shoppers will need to implement a plan for January 1<sup>st</sup> 2021 until July 1<sup>st</sup> 2021, and another plan for July 1<sup>st</sup> 2021 onwards.



## Brexit FAQs for GB Merchants Selling to the EU

### DOCUMENTATION

- **Will all EU exports require a commercial invoice going forward?**

Yes. Commercial invoices, licences, certificates as well as customs clearance documents will all be required post-Brexit to allow the correct customs formalities to be completed upon entering the EU, thus facilitating customs clearance within the quickest time possible.

- **What documentation will be needed for items sent via post?**

The movement of parcels via the postal flow will necessitate the production of CN22 or CN23 documentation for movement across borders. This will enable the correct customs formalities to be completed upon entering the EU, thus facilitating customs clearance within the quickest time possible. This means that the receiver of the goods will be requested to pay duties & taxes for the goods being delivered.

### RETURNS

- **Will goods returned to the GB by customers in the EU be subject to import duties and VAT?**

With the Return Goods Relief, goods can be returned to the GB by customers in the EU without the need to pay import duties and VAT on the items. Without this you could be subject to import duties and VAT for these returns.



## Brexit FAQs for GB Merchants Selling to the EU

### CLIENT COMMUNICATION

- **How can GB retailers preserve the pre-Brexit shopping experience for EU customers?**

Offering your EU customers the same seamless shopping experience that they are used to pre-Brexit, is key for maintaining conversion rates and customer satisfaction. We highly recommend merchants to adjust their pricing strategy to absorb additional costs for duty and taxes within the product price and provide their EU shoppers with a guaranteed landed cost, informing them that there will be no additional costs upon delivery. Working with your delivery partners to pay these fees at the point of import on behalf of the shopper will preserve the existing shopping experience for EU customers.

- **As a GB merchant selling online to EU shoppers, are there any other issues I should prepare for?**

Merchants should expect longer delivery times due to customs clearance activities at the border which have been highlighted as a potential backlog area, as neither the EU nor the UK have stated clearly what systems and procedures will be in place. We highly recommend that you clearly communicate these extended delivery times to customers and offer a variety of shipping methods with a range of delivery times.

GB merchants should also be aware that any order placed before 1/1/21 but crossing the EU border in 2021 will be subject to import VAT and duties (if applicable) therefore they must implement their post-Brexit protocols before this date to ensure a smooth transition.

If you have more questions regarding your international ecommerce, please contact us at [info@global-e.com](mailto:info@global-e.com)



## About Global-e

Global-e is the leading provider of cross-border ecommerce solutions, with a proven track record of successfully enabling hundreds of leading retailers and brands across Europe, the USA and Asia, to boost their global online sales and revenues.

With Global-e's Smart Cross-Border™ solutions, merchants substantially increase international conversion rates, returning customers share and customer satisfaction scores by offering shoppers in over 200 destinations worldwide an optimal shopping experience that is localised and customised per market.

Smart Cross-Border™ solutions support 100+ currencies, 150+ local and alternative payment methods, multi-lingual checkout, guaranteed duty and tax calculation with a pre-payment option for a guaranteed landed cost, as well as multiple shipping options at unbeatable rates and pre-paid and local returns. Our advanced localisation capabilities are complemented by extensive local market insights and know-how, based on big-data analysis and vast cross-border ecommerce experience, to optimise our retail clients' ROI and support their continuous global growth.

Global-e's end-to-end solutions cover all aspects of cross-border ecommerce, including fraud and currency fluctuation hazards, duty and tax regulations as well as country restrictions and import processing, for a simplified, risk free and streamlined global expansion.

For more information, please visit: [www.global-e.com](http://www.global-e.com)