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July 2026 | Rev 0

Navigating Value Added Tax and cross-border trade in the UK

A companion to our 'Doing Business in the UK guide'

What is VAT?

Value Added Tax (VAT) is a consumption tax charged on the sale of most goods and services in the UK. VAT-registered businesses charge VAT on their sales (output tax) and can reclaim VAT on their business purchases (input tax), paying the difference to HMRC.

VAT Registration

You must register for VAT if your taxable turnover exceeds £90,000 in any rolling 12-month period, or if you expect to exceed it in the next 30 days alone. The threshold has been frozen at £90,000 since April 2024.

Circumstance	Threshold
Registration threshold	£90,000 taxable turnover (rolling 12 months)
Deregistration threshold	£88,000
Registration deadline (after breach)	Within 30 days
Non-established taxable person (NETP)	Nil

Important for overseas businesses: A foreign company with no UK establishment that makes taxable supplies in the UK must register immediately - there is no registration threshold. Voluntary registration is also possible below the threshold, which can be beneficial for reclaiming input VAT. If you are a NETP, it is not possible to register more than 30 days in advance of making taxable supplies (sales).

UK VAT rates

Rate	%	Applies to
Standard	20%	Most goods and services
Reduced	5%	Domestic energy, children's car seats. mobility aids
Zero	0%	Most food, books, children's clothing, pulic transport, exports
Exempt	N/A	Insurance, financial services, education, health, postal services

Zero-rated vs exempt: Zero-rated supplies are still within the VAT system - businesses can reclaim input VAT on related costs. Exempt supplies are outside the system, and input VAT generally cannot be reclaimed.

Note: VAT on domestic electricity in Great Britain is being temporarily cut from 5% to 0% from 1 October 2026 to 31 March 2027.

VAT accounting schemes

Once registered, you can choose from several schemes to simplify administration or improve cash flow:

Scheme	How it works	Turnover limit (to join)
Standard	Charge and reclaim VAT on each invoice; pay net quarterly	No limit (default)
Flat Rate	Pay a fixed % of gorss turnover; simpler admin	£150,000 or less
Cash Accounting	Account for VAT when cash is received/paid, not invoiced	£1.35m or less
Annual Accounting	One annual return with payments on account	£1.35m or less

Most businesses use the Standard scheme, often combined with Cash Accounting to protect cash flow. All VAT returns must now be filed digitally under Making Tax Digital (MTD) for VAT.

Customs: importing and exporting post-Brexit

Since the UK left the EU single market on 1 January 2021, all goods entering the UK - including from the EU - are treated as imports and are subject to customs declarations and potentially import duty and import VAT.

Key steps for importers and exporters

1. Get a GB EORI number - an Economic Operator Registration and Identification number (format: GB + 12 digits) is mandatory before making any customs declaration
2. Classify your goods correctly - use the right commodity/tariff code, as this determines the duty payable
3. Check the UK Global Tariff - the UK applies its own tariff to imported goods (replacing the EU's Common External Tariff)
4. Register for the Customs Declaration Service (CDS) - the digital platform for all UK customs declarations (which replaced the older CHIEF system)
5. Confirm your incoterms - these determine who is responsible for duties, VAT, and clearance
6. Check for licences - certain goods are restricted or require a licence to import or export

The £135 threshold

> Goods valued at £135 or under: no customs duty; VAT is collected at the point of sale
> Goods valued over £135: import duty and VAT apply at the border, based on the commodity code and country of origin

Rules of origin

The UK-EU Trade and Cooperation Agreement (TCA) allows zero tariffs on goods that genuinely originate in the UK or EU - but only if valid proof of origin is provided. Goods merely passing through (e.g. made in China and transshipped) do not qualify.

Postponed VAT Accounting (PVA)

A valuable cash-flow tool: UK VAT-registered businesses can account for import VAT on their VAT return rather than paying it upfront at the border.

How it works:

> Select PVA on your customs declaration - no VAT is paid at the border
> HMRC issues a Monthly Postponed Import VAT Statement
> You declare the import VAT in Box 1 (output tax) and reclaim it in Box 4 (input tax) of your VAT return - a net-zero cash effect for most businesses

There is no separate application - PVA is available to all VAT-registered importers with a GB EORI number, selected on a declaration-by-declaration basis.

Northern Ireland

The rules for trading in Northern Ireland differ, as it remains aligned with the EU single market for goods under the Windsor Framework. Businesses trading into or out of Northern Ireland should check the specific rules that apply.

SME exemption: Small and medium-sized enterprises are generally exempt from UK transfer pricing requirements. The SME thresholds (applied to the whole group) are:

New from January 2026: A UK-to-UK transfer pricing exemption has been introduced, removing the need to apply transfer pricing rules to certain transactions between UK-resident companies. [13] A new International Controlled Transactions Schedule will be required for accounting periods beginning on or after 1 January 2027.

	Maximum Staff	Annual Turnover	Balance sheet total
Small	50	€10 million	€10 million
Medium	250	€50 million	€43 million

Tax reliefs that reduce your Corporation Tax bill

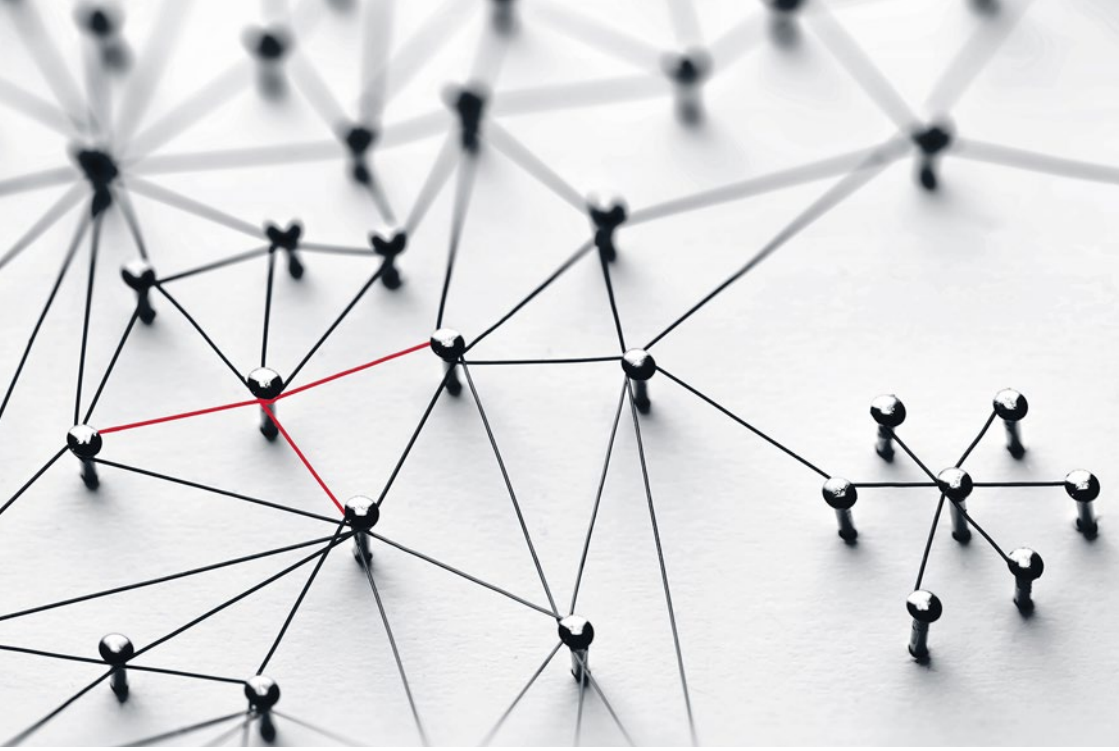
The UK offers a range of generous tax reliefs and allowances designed to encourage investment and innovation. We cover each of these in detail in their own dedicated fact sheets:

- R&D Tax Relief - the merged R&D expenditure credit scheme and enhanced support for R&D-intensive companies
- Full Expensing & First-Year Allowances - 100% tax relief on qualifying plant and machinery, the Annual Investment Allowance, and writing-down allowances
- Patent Box - the reduced 10% Corporation Tax rate on profits from qualifying UK-developed patents
- Creative Industry Tax Reliefs - expenditure credits for film, TV, animation, video games, theatre, and more

Please refer to these fact sheets for full details of each relief, eligibility criteria, and worked examples.

Filing and accounts at a glance

Obligation	Key detail
Register for Corporation Tax	Within 3 months of starrting to trade
Choose your accounting year-end	You can choose any date
Prepare annual financial statements	In accordance with UK company law
File accounts with Companies House	With 9 months of year-end
Pay Corporation Tax to HMRC	9 months and 1 day after year-end
File CT600 with HMRC	12 months after year - end
Audit (if required)	If the company or group exceeds 2 of: £10.2m revenue, £5.1m gross assets, 50 employees



VAT and customs are among the most complex areas for businesses trading across borders. Our team can advise on VAT registration (including for non-established overseas businesses), the most suitable VAT scheme, Making Tax Digital compliance, and the customs procedures needed to import and export efficiently. We can also help you set up Postponed VAT Accounting and navigate the rules of origin under the UK-EU TCA.

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