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Our Ref

Your Ref

www.gov.uk/HMRC

Dear Stakeholder

VAT Retail Export Scheme: Improvements

In the 2016 Autumn Statement the Government announced that HMRC was taking forward plans to modernise the VAT Retail Export Scheme (RES) to improve the customer experience and protect revenue. HMRC has since been working with many of you; retailers, refund providers, technology companies and others to identify solutions.

We are grateful for the engagement and innovative thinking that you have shown, in particular how modern technology could smooth the process and improve the visitor experience.

We have carefully considered your ideas and feedback and I can now tell you we propose to amend the RES rules to permit digital verification and electronic and consolidated invoices. This letter outlines those proposals. We are also taking the opportunity to update the rules for the paper based process.

We are undertaking a limited consultation with you, our known stakeholders, on the proposals. We would welcome any feedback to better ensure that these proposals do support improvements to the RES process and work for the benefit of visitors to the UK.

Although the attached document letter asks a series of questions on which we'd be grateful for any feedback, I'd welcome any additional thoughts you may have.

Please email your feedback to resconsultation.idt@hmrc.gov.uk by 6th September.

Yours faithfully

Peter Bennet
Senior Policy Advisor

Interim Director: Sally Beggs

VAT Retail Export Scheme: Stakeholder Consultation

1. Background

We are aware that a number of businesses have developed, or are actively developing Apps or digital processes for RES. These proposals aim to better facilitate this innovation through amending the scheme rules.

We are keen to ensure that what we are proposing does in fact facilitate improvements to the process, which balance VAT relief on retail exports with revenue protection against fraud and error.

The proposed changes to the RES rules provide the retail export sector with greater choice on how to administer the scheme.

2. Objectives

This sets out the key objectives we are seeking to facilitate.

- To permit the overseas visitors' eligibility to use the scheme to be verified through on-line systems. This can be at the time of sale with individual retailers or through pre-registration with retailers or specialist companies prior to visiting the UK.
- To allow the visitors to be issued with electronic validation which would indicate they were eligible to make RES purchase, with the aim of minimising the impact on the visitor and reduce the time taken to complete transactions.
- To encourage better use of existing electronic invoicing rules and regulations.
- To facilitate more of the VAT 407 content being printed rather than being hand written, for example, the visitor's personal details. This should ease problems with illegible and part complete forms speeding up the validation at airports.
- To facilitate consolidation of certain RES sales to an individual visitor onto a single VAT407 claim form. Refund companies operating the Direct Refund Scheme or Disclosed Agency Model are likely to be the primary users of this, though individual retailers could consolidate sales to the same person over a number of visits.
- To facilitate delaying the production of a physical VAT 407 until the visitor is ready to return home.

The rest of this paper expands on our thinking.

3. Key Definitions:

To aid clarity, the following definitions are proposed to be used in the Notice 704:

Retailer: The primary seller of the goods that the overseas visitor wishes to take home with them.

Refund provider: A third party company that enters the supply chain between the retailer and the overseas visitor under the Direct Refund Scheme, or through the Disclosed Agency Model. The refund provider becoming the de-

facto retailer to the overseas visitor and the company entitled to zero-rate the supply.

Cash refunder: A business that provides the overseas visitor with a cash advance of the VAT claim. This may be an independent business or one of the others described in this part.

RES retailer: the business making the supply to the overseas visitor and thus the person entitled to zero-rate the supply. That will either be the Retailer or the Refund provider.

Refund agent: An agent company that provides RES processing facilities on behalf of the retailer where the retailer remains the person entitled to zero-rate the supply.

Direct Refund Scheme (DRS): At the time of sale by the retailer there is first a sale by the retailer to a refund provider followed immediately by a sale by the refund provider to the overseas visitor. The retailer acting as selling agent of the refund provider. This is a well established model.

Disclosed Agency Model (DAM): The overseas visitor discloses to the retailer that they are purchasing the goods as purchasing agent of the refund provider. The visitor then (acting as selling agent of the refund provider) immediately purchases the goods from them as a RES supply. HMRC issued a letter to stakeholders about this in September 2018 and a copy is attached to this letter.

Verification provider: A person that undertakes ID verification of the visitor's eligibility to use the scheme and issues a Unique Verification Reference. Verification providers could be individual retailers, shopping centre operators, chambers of commerce or by specialist providers of that service.

Are respondents happy with these definitions and labels attached to them?

Are there any other definitions or models that need to be considered or that it would be helpful to include?

4. Eligibility of the traveller

VAT Regulations require that the overseas visitor is a person who does not normally reside within the EU. Currently a retailer is obliged under the scheme conditions to verify that an overseas visitor is eligible to use scheme and to sign the VAT 407 form to say they have so verified. HMRC is aware that currently the required checks are not always undertaken as rigorously as they should.

Digitalisation proposals

ID verification

Businesses engaged in the discussions have reacted positively to HMRC's suggestion of verifying the overseas customer's eligibility to use the scheme through on-line verifications systems. We are aware that some stakeholders have developed tools that will enable this to work and HMRC is keen to formally facilitate this in the RES process.

It is not our intention to be too prescriptive in our requirements. Equally, we want the verification system to be robust. We also need to ensure that the rules are properly framed legally to provide certainty as to what's acceptable and what's not.

In order to give some legal structure to this HMRC is proposing that the eligibility of an overseas visitor should be established through means similar to the

[“Customer due diligence requirements”](#) used by financial institutions under the Money Laundering Regulations.

That is, the overseas visitor provides their personal details (as set out on the approved VAT 407 form) together with a copy of their ID documentation, similar to those required by financial institutions, through a digital portal.

The primary requirements would be to:

- a) Verify the identity of the overseas traveller
- b) Verify the person normally resides outside the EU

Passports of themselves do not prove residency and we would be interested to suggestions of other forms of verification that could be used.

We invite suggestions for conditions that will provide a balance between these aims.

Unique verification reference

Perhaps the greatest burden with the current scheme is the necessity for a visitor to go through the face-to-face verification process every time they make a purchase. This is a burden on the visitor and on the retailer.

We wish to allow a visitor to be verified once [per visit/per year] as eligible to use RES. When verified they are issued with a unique verification reference (UVR). For example in the form of an Optical Charter Reader (OCR) code such as a QR or barcode.

The eligibility having being established the UVR would be scanned by the retailer’s systems when a sale is made. To gain maximum benefit for the visitor mutual recognition by retailers of UVRs issued by different verification providers would, we think, be welcomed by visitors.

Retailers accepting UVRs issued by third party verification providers will need to undertake their own *due-diligence* into the provider.

Do you have any suggestions as to how this can be made secure, for example to prevent the UVR being shared?

How feasible would mutual recognition of UVRs be?

Should a UVR be time limited and for what time period?

Given that the RES retailer is ultimately responsible for the zero-rating do you foresee difficulties with mutual recognition of UVRs and if so do you have any suggestions as to how these could be mitigated?

5. Retail Sales

Currently a single VAT 407 is issued for each discrete visit to a shop; this can generate a lot of paperwork to be presented at Customs and for retailers and refund companies to process. The current rules require each VAT 407 form to be completed at the retailer’s premises at the time of each sale.

HMRC is keen to harness the digital age to consolidate a visitor’s purchases to a single VAT407 form for each RES retailer.

For example, a visitor shopping at a retailer three times during their trip could have all their RES purchases recorded on a single VAT407. Equally a refund provider that deals with a number of retailers could issue a consolidated VAT407 for all RES purchases by a visitor.

To facilitate this we would permit the sales data to be stored electronically to be retrieved on to VAT407(s) when the visitor was ready to return home. We would expect any transactions already outside the time limit for refunds to be excluded from the VAT 407.

In achieving that we would encourage participants to take advantage of electronic invoicing. Participants would need to adhere to the requirements of the VAT Regulations for Electronic Invoicing.

Respondents are invited to give their views on how this could be achieved.

6. Endorsement by Customs

A hard copy of a VAT407 will still required for Customs to stamp, so a visitor will need to have a print out of their VAT407(s) when they return home. Visitors would need to have the ability to print out their own VAT407, for example at an internet café, or at the airport.

Is this feasible?

Have you any suggestions as to how printing could be facilitated at (say) an airport?

7. Future phases

HMRC will continue to work towards RES claims being validated electronically.