

Common system of value added tax: identification of taxable persons in Northern Ireland

2020/0165(CNS) - 07/08/2020 - Legislative proposal

PURPOSE: to amend Directive 2006/112/EC on the common system of value added tax (VAT) as regards the identification of taxable persons in Northern Ireland.

PROPOSED ACT: Council Directive.

ROLE OF THE EUROPEAN PARLIAMENT: the Council adopts the act after consulting the European Parliament but without being obliged to follow its opinion.

BACKGROUND: the United Kingdom withdrew from the European Union on 31 January 2020 in accordance with the Withdrawal Agreement of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community.

The Agreement provides for a transition period ending on 31 December 2020. Until that date, EU VAT legislation continues to apply to the United Kingdom and its territory. After the transitional period, EU VAT legislation shall no longer apply in the United Kingdom or on its territory.

However, on the basis of the Protocol on Ireland/Northern Ireland, which is part of the Withdrawal Agreement, Northern Ireland shall remain under the EU VAT legislation regarding goods with a view to avoiding a hard border between Ireland and Northern Ireland. For services, on the other hand, Northern Ireland is, together with the rest of the UK, considered as outside the EU. This inevitably leads to a dual or mixed VAT system in Northern Ireland.

For the proper functioning of the Union VAT system, it is essential that a distinct VAT number is granted to every taxable person who carries out supplies of goods in Northern Ireland or makes intra-Community acquisitions of goods (including by non-taxable legal persons) are identified in Northern Ireland via a separate EU VAT identification number, granted according to the EU rules and that is different from any UK VAT identification numbers (starting with “GB”) which shall be granted according to the UK legislation.

CONTENT: the proposal to amend the VAT Directive aims to introduce VAT identification numbers in Northern Ireland with a specific prefix to distinguish between, on the one hand, taxable persons and non-taxable legal persons whose transactions involving goods located in Northern Ireland are subject to EU VAT legislation and, on the other hand, persons carrying out other transactions for which they are identified for VAT purposes in the United Kingdom.

Therefore, it is proposed that VAT identification numbers in Northern Ireland have the specific prefix “XI”. A new specific prefix is necessary since Northern Ireland has no specific ISO code 3166 – alpha 2, which is used to determine the prefixes of VAT identification numbers in the EU as stipulated in the VAT Directive. However, the ISO foresees in the possibility to use X-codes for territories that do not have a specific code; the code “XI” is therefore a logical choice.

Member States shall transpose the Directive by 31 December 2020 at the latest.