

European Scrutiny Committee

House of Commons London SW1A 0AA

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From: Sir William Cash MP

23 February 2022

Rt Hon. Lucy Frazer QC MP
Financial Secretary to the Treasury
HM Treasury
1 Horse Guards Road
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EU rules on minimum VAT Rates: potential implications for the UK under the Northern Ireland Protocol

Thank you for your letter of 3 February on the draft new EU VAT Rates Directive, relating to the potential implications for the UK if the new rules on minimum VAT rates had to be applied in Northern Ireland under the Protocol on Ireland/Northern Ireland from 2025.¹ We note your reluctance to engage on the substance of the new Directive while the Government's negotiations with EU on the overall operation of the Protocol are on-going, and while the legislation itself has not yet been formally adopted by the EU's Council of Ministers.

As set -out in our Eighteenth Report, we remain concerned that the new Directive – if it had to be applied under the Protocol - might necessitate changes to VAT rates in Northern Ireland for specific goods. That could, in turn, have potential knock-on effects for the wider UK internal market were the Government to face a choice between UK-wide alignment of VAT rates within the limits set by EU law or fragmentation of VAT rates between different parts of the country. Indeed, we note that the Government's Command Paper of July 2021 specifically referred to the risk that “issues may multiply as UK and EU VAT and excise rules evolve”, and hope that the talks with the EU will lead to a satisfactory outcome on this point. However, we cannot yet definitively say at this point that the new EU rules on VAT rates will not have an impact in the UK, as you also acknowledged in your letter.

¹ EU document 5335/18, COM(18) 20; ESC number: 39448.

There is no clear timetable for completion of the Government's negotiations with the EU on the Protocol, which could therefore hypothetically carry on for some considerable time. We therefore intend to return to the matter later this year, provided the EU VAT Rates Directive has been formally adopted by the EU Council of Ministers. We hope you will be able to provide more certainty at that stage about the potential ramifications of the Directive for the UK VAT system (also taking into account any relevant developments in the talks to modify the operation of the Protocol).

There is no need to reply to this letter, which I am copying to Simon Hoare MP, Chair of the Northern Ireland Affairs Committee and Stephen Habberley, Clerk of that Committee; to the Rt Hon Mel Stride MP, Chair of the Treasury Committee and to Kenneth Fox, Clerk of that Committee; to Lord Kinnoull, Chair of the House of Lords European Affairs Committee, and to Nick Boorer, that Committee's Clerk; to Victor Peluola and Patrick Lynch at your Department; and to Les Saunders at the Cabinet Office.

CHAIR