

Written Evidence submitted by Borderfree Trade Limited

Borderfree Trade Limited, trading as SimplyVAT.com, is a UK-based tax agent providing UK and EU VAT compliance services to worldwide companies. As a UK tax agent with approximately 800-900 UK-VAT registered, non-UK clients, we have garnered significant experience, and increasing concerns, in HMRC's management of UK VAT compliance of overseas companies.

High Levels of Refusal of VAT Registration of Non-UK Companies

Following Freedom of Information requests, HMRC have confirmed to us that, in the tax year 2022-23, of almost 45,000 applications for VAT registration for non-UK companies, 56.79% were refused. Though it is clear that HMRC must have robust measures in place to ensure fraudulent or disingenuous applications for VAT registration are not accepted, it is our suggestion that it is unlikely that this figure represents a genuine assessment by HMRC that over 50% of non-UK company applicants should not be issued a UK VAT number. Furthermore, our experience in applying for VAT registration for hundreds of non-UK companies during this time confirms that HMRC's processes do not ensure that genuine applications are accepted while disingenuous ones are refused.

In the Public Standards Committee's HMRC Annual Report and Accounts 21-22 enquiry session of 20th October 2022, HMRC Chief Executive Mr Jim Harra was questioned by MP Peter Grant about fraudulent VAT applications, with particular reference to a fraudulent application which was not identified by HMRC but the same fraudulent case was rejected by German tax authorities; and HMRC's processes to combat fraud in the VAT registration process – to which Mr Harra stated that HMRC has implemented additional verifications whilst attempting to balance the need to accept legitimate applications.

We feel it important to raise that HMRC's checks, in our view, do not meet effective standards implemented by other tax authorities to combat fraudulent applications – namely, HMRC require applicants to provide minimal, if any, company documents to verify company information submitted; focusing on evidence of activity rather than legitimacy of a company itself – as is the case with other tax authorities across the EU.

Additionally, in our experience – and seemingly likely, based on the high levels of refusal of applications – HMRC's processes frequently deny genuine traders from registering for VAT; resulting in high likelihood of VAT not being remitted to HMRC as traders have been denied the ability to do so – encouraging overseas traders not to comply with UK VAT regulations and not report or remit tax to HMRC by virtue of having been denied UK VAT registration by HMRC themselves despite traders wishing to report and pay appropriate tax.

For example, we have been made aware of frequent occasions of traders registered

- with incorrect/illegitimate company names;
- more than once (being issued with multiple UK VAT numbers);
- in the name of an individual, rather than a company, where the individual in question has no responsibility for the company

At the same time we have experienced instances of traders not being registered because:

- they do not sell goods in GBP (despite selling goods to UK customers in US dollars);
- they have not purchased goods in the last 6 months (despite selling goods to UK customers purchased previously);
- they're online marketplace store has been suspended (despite this being in line HMRC legislation when a trader is not VAT registered in the UK)

In raising these issues with HMRC directly, we have been told on different occasions that HMRC's previous assessments have been incorrect as they are subjective; or that HMRC is following guidance detailed in legislation (though the legislation quoted was not applicable as later confirmed by HMRC); or that HMRC has no legislative basis for its assessment of VAT registration applications.

Moreover, the administrative burden of these processes on HMRC appears to be unnecessarily high. The quantity of applications being received which do not meet HMRC's acceptance standards highlights that HMRC do not provide sufficient, or correct, guidance to companies wishing to apply for VAT registration; which results in greater burden to HMRC of assessing, answering queries about, and issuing guidance and/or rejections for, high numbers of seemingly unacceptable applications.

In our extensive experience, HMRC's guidance is frequently at least contradictory, if not incorrect when considering UK VAT regulations. We have experienced numerous occasions of HMRC openly admitting that their guidance is

incorrect or that they have acted in contradiction to their own guidance, yet no change in guidance or process to prevent future such occurrences.

Currently, on a widespread scale, HMRC's VAT registration processes cause increasing levels of frustration for applicants and agents whilst, worryingly, not seeming to have either any legislative basis (as has been confirmed to us by HMRC) nor logical validity in preventing fraudulent applications or ensuring that legitimate companies can make necessary payment of tax owed to HMRC.

Poor Customer Service

In addition to issues with the management of compliance via the VAT registration process, we are concerned by HMRC's continued restriction of their own ability to provide adequate customer service. This year, HMRC's VAT Registration Services telephone helpline was taken out of service. We have noted that there have been other telephone services removed related both to VAT and other tax services provided by HMRC. Not only has this resulted in increasing difficulty and burden on tax agents and taxpayers and/or applicants in the UK and worldwide, the burden on HMRC seems to remain in that agents and taxpayers are not receiving suitable advice and therefore making additional contact to other teams or departments with HMRC where phone contact can be made – in the case of the VAT Registration Services telephone helpline being removed, the general VAT helpline now quotes extended wait times due to higher traffic; or instead are highly likely to submit incorrect information to HMRC or follow incorrect processes (having not been provided with necessary support) resulting in equivalent administrative burden on HMRC in having to assess and advise on incorrect information.

It is clear that HMRC drives towards reduction of phone-based customer service in line with increased online services. This seems, of course, a sensible move – however, currently HMRC's online guidance is woefully insufficient to allow taxpayers and agents to proceed with using online services with confidence. Additionally, HMRC's online systems themselves face challenges which frequently lead HMRC themselves to move away from online services – for instance, during the VAT registration process, whilst phone contact is discouraged and difficult, if not impossible, with HMRC, HMRC continue to only issue rejection letters and VAT certificates in physical paper form; despite applications and any contact with HMRC from applicants/taxpayers/agents being requested online.

Whilst we would welcome increased ability to utilise online services to manage UK VAT compliance, HMRC's systems fall short of facilitating this effectively and continue to necessitate other means of contact with HMRC which are frequently denied leading to a clear fall in customer service levels and likelihood of mis-management of UK VAT compliance.

We have written to HMRC on numerous occasions to request further discussion in order to seek improved ways of managing UK VAT compliance, particularly for non-UK taxpayers and applicants. However, as yet, no change appears to have been made to improve HMRC's struggling processes and systems.

We would be grateful if you could acknowledge safe receipt of this submission, and ensure that the Borderfree Trade Limited is included in the List of Respondents when any outcome of the enquiry is published.

October 2023