Sir William Cash MP  
Chair, European Scrutiny Committee  
House of Commons  
London  
SW1H 9NB  

30 November 2020  

Dear Bill  

Northern Ireland Protocol: reduction of EU VAT rates on COVID-related medical goods  

Thank you for your letter of 19 November regarding the application of EU VAT rates to COVID-related medical goods in Northern Ireland (NI).  

You are correct that the provisions of the Northern Ireland Protocol mean that, after the end of the transition period, import VAT will be due on goods entering NI from outside the EU. For goods arriving in NI from the EU, VAT will continue to be charged and collected through the VAT return system as acquisition VAT. Only goods ultimately entering Ireland or the rest of the EU, or at clear and substantial risk of doing so, will face the EU tariff. The Government is clear that there should be no tariffs on internal UK trade and that NI should benefit from UK trade deals, meaning UK tariffs will be charged on goods from non-EU countries entering NI just as in the rest of the UK. The majority of COVID-related medical goods imported under the current import duty disaster relief are purchased by government departments for use in the UK.  

In September, the Prime Minister announced that from next year the UK will eliminate tariffs on COVID-critical products. This means no customs duty will be charged on these goods entering the UK. Goods moving into NI from GB or non-EU countries will also benefit from these tariff liberalisations unless they ultimately enter the EU, in which case the EU tariff would apply.  

As referenced above, VAT will still be due on goods entering NI; this is also the situation for imports into the rest of the UK. Import VAT relief is a complex area and must be considered alongside the VAT treatment of similar goods that are domestically produced. Were Government to relieve imported goods without introducing a corresponding domestic relief, UK consumer behaviour would be driven to purchasing
goods from abroad. This would disadvantage domestic producers in such a way as to hamper UK-based production of COVID-related goods.

The question of whether to introduce a domestic relief is also a finely balanced one. At the start of the pandemic, to combat price rises of Personel Protection Equipment (PPE) caused by a shortage in the supply chain, the Government introduced a temporary domestic zero rate for medical grade PPE. This relief was designed specifically to relieve the burden of VAT on sectors particularly affected by COVID on a temporary basis while supply did not match demand. The Government is now able to supply COVID-related PPE to these sectors, and so the burden of VAT will still not fall on frontline providers for all COVID-related PPE and demand will be met. In light of this the Government is confident that this relief is no longer needed.

Whilst VAT on goods is generally irrecoverable by the NHS, this is taken into account when determining their levels of funding. This funding provides a direct way of supporting the NHS when compared to the indirect nature of a tax relief, which does not automatically lead to a reduction in prices.

The Government has announced unprecedented support for public services, business and workers in response to COVID. The Chancellor remains clear our vital public services will get whatever they need to protect this country and its people from Coronavirus.

If the EU proposal on COVID vaccines and testing kits is agreed, it would mean EU Member States could apply a reduced or zero-rate of VAT on these supplies from 1 January 2021, if they so wished. The Government will continue to keep its tax policy under review, in the best interests of the UK.

Yours ever,

[Signature]

RT HON JESSE NORMAN MP