

Indirect Tax Alert

Council of the European Union publishes Draft Directive on identification of taxable persons in Northern Ireland

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The United Kingdom (UK) left the European Union (EU) on 31 January 2020 and is now a "third country" to the EU. However, the EU and UK jointly agreed on a transition period until the end of 2020, during which EU value-added tax (VAT) legislation continues to apply to the UK.

Effective 1 January 2021, the UK will leave the EU VAT system. However, based on the Ireland/Northern Ireland Protocol, Northern Ireland will remain under EU VAT legislation regarding trade in goods with a view to avoiding a hard border between Ireland and Northern Ireland. For supplies of services, Northern Ireland will be considered to be outside the EU, together with the rest of the UK.

VAT identification numbers

This situation inevitably leads to a dual or mixed VAT system in Northern Ireland. The European Commission asserts that for the EU VAT system to function properly, it is essential that taxable persons carrying out supplies of goods in Northern Ireland (including intra-community supplies and acquisitions) are identified for VAT purposes according to EU rules. It is important, therefore, that those taxable persons are identified using a separate EU VAT identification number, different from any UK VAT identification number (currently identified with the prefix GB).

Accordingly, the Council of the European Union has published a [Council Directive](#) proposing distinct VAT identification numbers with a specific prefix in Northern Ireland to distinguish between taxable persons and non-taxable legal persons whose transactions in goods located in Northern Ireland and subject to provisions of Union law on VAT, on the one hand, and persons carrying out other transactions for which they are identified for VAT purposes in the UK.

As a rule, prefixes of VAT identification numbers in the EU are based on ISO code 3166-alpha 2 - by which the Member State of issue may be identified. Under this system, Northern Ireland has no specific code under that system, but the ISO foresees the possibility to use X-codes for territories that do not have a specific code. It is proposed to use the code 'XI' for Northern Ireland.

For further information on this topic, see:

- ▶ [Proposal amending the VAT Directive regarding the identification of taxable persons in Northern Ireland](#)
- ▶ [Cabinet Office Guidance on the movement of goods to or from Northern Ireland](#)
- ▶ [Commission's proposal](#) to amend the EU VAT rules to accommodate trade with Northern Ireland after the transition period

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