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VAT in Europe an introduction

General comments

- European Union: 27 member states
- All subscribe to the same rules of VAT compliance.
- The EU VAT rules are laid down in Directives
- Directives should ensure harmonization throughout the EC free trade area, in fact there remain many differences:
  - Members still remain free to apply certain exceptions
  - Members are slow to implement some details of the Directives.
- Key: Companies operating in EU countries must still abide by the local VAT laws.
- EU countries are free to set their own standard VAT rates, not lower than 15%, and no higher than 25%.
- In addition to this standard VAT rate, there are many reduced rates in each country.

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General comments

- VAT is one of the first taxes when non-EU companies intent to commence international business within the EU.
- Selling goods & services across Europe's borders usually do not have to register for VAT in the country of the customer.
- There are however important exceptions - complicated by inconsistent interpretation of the rules between the EU-member states.
- It is essential that companies determine whether they:
  - should be registered
  - Are obliged to appoint a fiscal representative
- Penalties for non-compliance and late registrations are significant and VAT authorities are paying increasing more attention to this area.

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What is VAT?

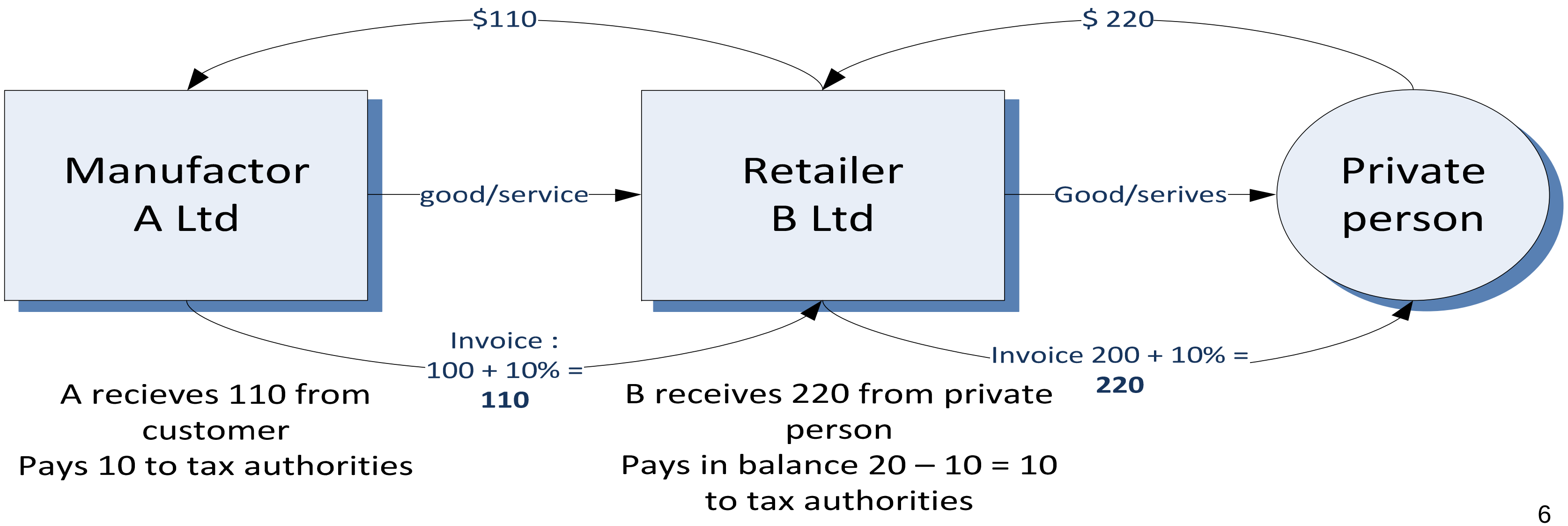
- General tax that applies basically to all commercial activities (goods and services)

- Charged as a percentage of price, at each stage in the production and distribution chain.

- Paid to the revenue authorities by the seller of the goods/service provider, who is the "taxable person", but it is actually paid by the buyer to the seller as part of the price. It is thus an indirect consumption tax because it is borne ultimately by the final consumer. It is not a charge on businesses.

How does VAT work?

- Companies that operate within the EU are obliged to charged VAT (some exemptions)
- If they sell to another entrepreneur (B), that entrepreneur is entitled to reclaim the charged VAT
- B must in turn charge VAT on its onward sales



Goods moving between Member States

- No frontier controls exist within the EU, therefore VAT on goods traded between EU Member States is not collected at the internal frontier between tax jurisdictions.

- Goods supplied between taxable persons (or VAT registered traders) are zero rated with a right to deduct the input VAT on dispatch if they are sent to another Member State to a person who can give his VAT number in another Member State. This is known as an "intra-Community supply".

- The VAT due on the transaction is due on acquisition. This is known as "intra-Community acquisition". The customer accounts for this VAT due in his normal VAT return at the rate in force in the country of destination.

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Import & Export

- For the purpose of exports between the Community and non-member countries, no VAT is charged on the transaction and the VAT already paid on the inputs of the good for export is deducted - this is an exemption with the right to deduct the input VAT, sometimes called 'zero-rating'. There is thus no residual VAT contained in the export price.

- However, as far as imports are concerned, VAT must be paid at the moment the goods are imported so they are immediately placed on the same footing as equivalent goods produced in the Community. Taxable people registered for VAT will be allowed to deduct this VAT in their next VAT return.

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Registration

- Foreign companies can operate across the EC borders without (the need to form) local companies and branches - provided permanent establishments are not formed.

- In the case where taxable supplies of goods or services are involved, there may be the requirement to register with the relevant country tax offices, and charge local VAT. In this situation, companies may also offset any VAT incurred on their local costs. This is known as non-resident trading.

- Examples of when companies have to register in a foreign country where they are doing business and do not have an establishment, ('non-resident'), include:
  - ✓ Holding stocks abroad and then selling it to local customers;
  - ✓ Buying and selling products in a foreign country without the goods leaving the country;
  - ✓ Distance sellers of goods to individuals (e.g. internet retailing).

VAT Compliance

- Companies with an EU VAT number must complete periodic VAT returns. These can be yearly, quarterly or monthly, depending on the country and the threshold rules.
- EU countries are moving over to electronic-only submission, however with respect to foreign VAT registered companies, many countries still operate on paper returns.
- EU VAT Returns summarize the foreign business' sales and acquisitions, plus the VAT.
- Besides VAT returns, companies may be required to submit additional statistical information if they are trading in the European Union. Each EC member state has slight variations on these reporting systems, including differences in reporting thresholds.

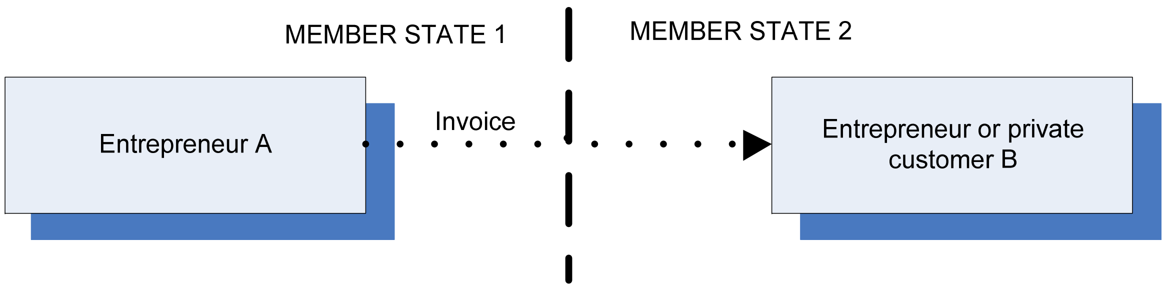
Introduction to VAT; Services VAT-Package in scheme

B2B Place of supply:

Place of supply (taxable) where the recipient is established, unless an exception applies

B2C Place of supply:

Place of supply (taxable) where the supplier is established.



	B2B - New VAT rules (Reverse-charge mechanism)	B2C- Current and new VAT rules
	Place of supply is in Member State 2 where recipient is established	Place of supply is in Member State 1 where service provider is established
	Recipient is subject to VAT in Member State 2, required to pay VAT and possible reclaims VAT in Member State 2	Service provider is subject to VAT in Member State 1, required to invoice and pay VAT in Member State 1

VAT Reclaim

- Non EU Companies that are not obliged to be VAT registered are able to reclaim incurred, We can also help non-European companies recover their European VAT. It is a requirement that the company's home state has a reciprocal VAT agreement.

- Some countries require a fiscal representative to be in place before granting non-European companies refunds, e.g. France. Also, claims must still be submitted on a country-by-country basis, often requiring local language and procedural understanding. t.

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For further information please do not hesitate to contact us:

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