



VAT in International Trade



Business Support on Your Doorstep

Enterprise Europe Network London

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1. Introduction

The aim of this factsheet is to provide a short and general overview of the current VAT rules and issues that apply to businesses trading within the European Union (EU).

The EU tax policy is aimed at upholding the principles of the single European market and free movement of goods, services and capital. The governments of each EU member state are responsible for their own policy with regards to how much tax you pay. The EU plays only a secondary role and ensures that national tax rules are consistent with the EU's overarching goals of job creation and that they do not give businesses from one country an unfair advantage over their competitors in another country. Therefore, as the Value Added Tax (VAT) rates are fundamental to proper functioning of the single market and fair competition across the EU, the EU has set upper and lower limits on the VAT rates that can be charged.¹

2. What is VAT?

The Value Added Tax (VAT) in the EU is a consumption tax assessed on the value added applying to goods and services that are bought and sold for use or consumption in the EU. This means that goods that are sold for export or services to customers abroad are normally not subject to VAT. Conversely, in order to keep the system fair for EU producers, imports are taxed so that they can compete on equal terms on the European markets with suppliers situated outside the EU.

VAT is a general tax that applies, in principle, to all commercial activities involving the production and distribution of goods and the provision of services. It is borne ultimately by the final customer. It is not a charge on businesses. The VAT is charged as a percentage of price, which means the actual burden is visible at each stage of the production and distribution chain.

Although VAT is paid to the revenue authorities by the seller of the goods, who is the "taxable person", it is actually paid by the buyer to the seller as part of the price. This means it is an indirect tax. The VAT is collected fractionally, via a system of partial payments. The VAT-registered business collects VAT on their sales and from this amount it deducts the amount of VAT it has paid to other businesses for their own purchases.²

3. VAT rates across the EU

As mentioned above, each country across the EU has its own VAT rates. All EU countries apply a standard VAT rate of at least 15 per cent, although it can be as high as 25 per cent. In addition, there are reduced VAT rates for certain products. Each EU country individually defines what products qualify for which rates. In the following table you can see the standard and reduced VAT rates per EU Member State.

Table 1:

Country	Standard rate	Reduced rate(s)	Threshold to register for VAT payments	Distance selling threshold
Austria	20%	10%	30,000 EUR	100,000 EUR
Belgium	21%	12%, 6%	5,580 EUR	35,000 EUR
Bulgaria	20%	7%	50,000 BGN	70,000 BGN
Cyprus	15%	8%, 5%	15,600 EUR	35,000 EUR
Czech Republic	20%	10%	1,000,000 CZK	1,140,000 CZK
Denmark	25%	None	50,000 DKK	280,000 DKK
Estonia	20%	9%	250,000 EEK	550,000 EEK
Finland	23%	8%, 12%	8,500 EUR	35,000 EUR
France	19.6%	5.5%, 2.1%	32,000 EUR or 80,000 EUR	100,000 EUR
Germany	19%	7%	17,500 EUR	100,000 EUR
Greece	23%	11%, 5.5%	10,000 EUR or 5,000 EUR	35,000 EUR
Hungary	25%	18%, 5%	5,000,000 HUF	8,800,000 HUF
Ireland	21%	13.5%, 4.8%	70,000 EUR or 35,000 EUR	35,000 EUR
Italy	20%	10%, 4%	30,000 EUR	35,000 EUR
Latvia	21%	10%	10,000 LVL	24,000 LVL
Lithuania	21%	9%, 5%	100,000 LTL	125,000 LTL
Luxembourg	15%	6%, 12%	10,000 EUR	100,000 EUR
Malta	18%	5%	35,000 EUR	35,000 EUR
Netherlands	19%	6%	10,000 EUR	100,000 EUR
Poland	22%	7%, 3%	50,000 PLN	160,000 PLN
Portugal	20%	12%, 5%	9,976 EUR or 12,470 EUR	35,000 EUR
Romania	24%	9%	118,000 RON	118,000 RON
Slovakia	19%	10%	35,000 EUR	35,000 EUR
Slovenia	20%	8.5%	25,000 EUR	35,000 EUR
Spain	18%	8%	10,000 EUR	35,000 EUR
Sweden	25%	12%, 6%	90,000 SEK	320,000 SEK
United Kingdom	17.5%	5%	68,000 GBP	70,000 GBP

Table 1: VAT and threshold rates across the EU (rates and values correct as of 29 July 2010)^{3 4 5 6 7 8}

4. When to register for VAT payments

VAT is charged upon the sales you make. However, it is not always necessary to register for VAT payments. Each EU Member State has determined its own threshold. If the sum of all goods you have sold and services you have provided that belong to the group of VAT-taxable (VAT-taxable turnover) exceeds a certain amount (the threshold) you are obligated

to register for VAT. As mentioned earlier, each Member State has determined its own threshold that applies to you if you have a registered seat, place of business or establishment in that particular Member State. Please find the thresholds across the EU in Table 1.

Distance sellers may sell to consumers across the EU applying their own local national VAT rates until they reach the distance selling threshold of any particular country. Once this threshold is reached, the retailers must start charging its customers local VAT rate. This requires the retailer to register for VAT payments with the local authorities, and report and pay the VAT collected.

For example, if you are a supplier from another EU country selling to customers who are not registered for VAT in the UK, then until the value of your distance sales goes over the UK distance selling registration threshold you pay VAT in the Member State in which you are registered. If the value of your distance sales to UK customers in a calendar year is more than the distance selling registration threshold, you must register and account for VAT in the UK as soon as they go over the threshold. See Table 1 for the distance selling thresholds across the EU.

5. EC Sales List and Intrastat

If you are a VAT-registered business in the UK that supplies goods and certain services to a VAT-registered customer in another EU country, you will have to inform HM Revenue & Customs (HMRC) about the supplies. You do this by completing an EC Sales List (ESL) showing details of each of your customers in the EU and the value (in sterling) of the supplies you have made to them in a given period.

A guide explaining further details on the EC Sales List can be found on the website of HM Revenue & Customs: <http://www.hmrc.gov.uk/vat/managing/international/esl/reporting-esl.htm>.

If your trade as a registered business in the UK in goods (not services) within the EU exceeds £600,000 for Arrivals and/or £250,000 for Dispatches in a calendar year (Jan-Jan) you are also required by law to submit monthly Intrastat Supplementary Declarations to HM Revenue & Customs. This is a method of collecting information and producing statistics on the movement of goods between Member States of the EU.

The Intrastat homepage takes you through the entire Intrastat process. It can be accessed via the following link: <https://www.uktradeinfo.com/index.cfm?task=Intrastat>.

The EC Sales List and Intrastat are used in all EU Member States. However, the specific requirements for both vary from country to country. For example, the filing period and the reporting thresholds for each EU country vary.

6. VAT refunds⁹

If you are registered for VAT in any of the Member States of the EU and you buy goods or services in another Member State, it is possible that you have to pay VAT in that Member State. This does not need to happen if you buy goods for removal from that Member State (dispatches of goods are usually zero-rated), but it may apply if what you buy is also used there. This could be, for example, trade fair expenses, hiring of means of transport, accommodation, fuel, travel expenses, and restaurant services.

You can use a scheme called “Refunds on VAT” to reclaim VAT paid in another EU Member State. There are certain restrictions on who can use the scheme, what goods and services it can be used for, how much you can reclaim, etc. Further details about these restrictions can be found on the website of HM Revenue & Customs:

http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?_nfpb=true&_pageLabel=pageVAT_ShowContent&propertyType=document&id=HMCE_CL_000860#toc

With effect from 1 January 2010, you are able to get a VAT refund by using the new electronic cross-border refund system replacing the old paper-based system. UK businesses wishing to claim VAT incurred in other Member States need to do so through an electronic portal hosted by HM Revenue & Customs. You have to register on the UK portal via the Government Gateway. The claim will then be sent to the Member State of Refund (MSR), via the business’s own tax authority (the Member State of Establishment). The amount of refundable VAT will be determined under the VAT rules of the MSR and the relevant payment will be made directly by that Member State to the business. More details about the changes to the VAT refund procedure can be found on the website of HM Revenue & Customs: <http://www.hmrc.gov.uk/VAT/refund-procedure.pdf>

7. VAT and trade

Intra-EU trade

Inside the EU, different rules to determine the place of taxation will apply depending on the nature of the transaction. With regards to the supply of goods, the place of taxation is determined by where the goods are supplied. This depends on the nature of the goods supplied and on how the supply is made. With regards to the Intra-Community acquisition of goods, the place of taxation is determined by where the intra-Community acquisition of goods is made (i.e. the Member State where the goods are finally located after transportation from another Member State).

When looking at the place of taxation for the supply of services, from 1 January 2010, new rules have been introduced to ensure that VAT on services will better accrue to the country of consumption. The place of taxation is determined by where the services are supplied. This depends on the nature of the service supplied but also on the status of the customer receiving the service. A distinction must be made between a taxable person and a non-taxable person. As a basic rule, services are made where the supplier belongs, however a special place of supply rules might sometimes apply. If the place of supply is determined to be the UK, then you must charge the UK VAT due and account for it regardless of where your customer is based.

For full listing of the special place of supply rules and detailed explanation of the principles of place of taxation, please visit:

HM Revenue & Customs: Place of supply of services

http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?_nfpb=true&_pageLabel=pageVAT_ShowContent&propertyType=document&id=HMCE_CL_000346

European Commission: Where to tax?

http://ec.europa.eu/taxation_customs/taxation/vat/how_vat_works/vat_on_services/index_en.htm

Reverse charge

Normally, it is the supplier of a service who must account to the tax authorities for any VAT due on their supplies. However, for certain services (e.g. advertising services, supply of staff, banking, financial and insurance services, etc.), where the recipient belongs to one EU

Member State and the supplier belongs to another country, the position is reversed and it is the customer who must account for any VAT due. This situation is called reverse charge or a tax shift. For your VAT accounting, it means that you act as both the supplier and the customer. You charge yourself the VAT on the value of the supplied service and then, assuming that the service relates to the VAT taxable supplies that you make, you also claim it back.^{10 11} This means the two taxes cancel each other out. To read more on when the reverse charge on services applies, visit the section 'VAT on services supplied from abroad' at this website: <http://www.hmrc.gov.uk/vat/managing/international/imports/importing.htm#3>

Trade with non-EU countries

Exports of goods to destinations outside the EU are eligible to be zero-rated for VAT, provided you get and keep evidence of the export, and comply with all legislative requirements. Furthermore, you must also make sure the goods are exported, and you must get the evidence, within three months from the time of the sale. The time of the sale is the earlier of the day you send the goods to your customer or the day you receive full payment for them. If your customer asks for the sales to be delivered to a UK address, you must not zero-rate the sales. If the customer arranges to collect them from you, as an indirect export, you may be able to zero-rate the sale as long as certain conditions are met.

If you export to countries outside the EU, check with the HM Revenue & Customs VAT Helpline on 0845 010 9000 to confirm if your goods are zero-rated. For more information on the conditions for zero-rating exports to destinations outside the EU, please visit HM Revenue & Customs:

<http://www.hmrc.gov.uk/vat/managing/international/exports/goods.htm#6>

When you import goods from outside the EU, you have to pay the VAT – and report in on your VAT return – at the same rate as if the goods have been supplied in the UK. You can similarly reclaim the VAT.¹² The place of importation is determined by where the goods are at the first point of entry into the EU.

8. Cross-border VAT changes effective since January 2010

Since 1 January 2010 several changes to the cross-border VAT rules were introduced and it is important to know that some of these changes are scheduled to be implemented in the future. The changes to the cross-border VAT rules represent significant reform of the VAT regime applying to services and introduce important changes to the intra-EU reporting regime for goods. Businesses who are supplying services to overseas businesses, receiving services from overseas businesses, supplying goods to other EU countries and that want to reclaim VAT incurred in another country are and will be affected by the changes. The changes include changes to the place of supply rules, changes to the time of supply rules, new ESLs (EC Sales Lists) for services and changes to ESLs for goods, and changes to the procedure for obtaining refunds of VAT paid in other EU Member States. Please visit the following website of HMRC to know more about the changes and when they have and will be implemented: <http://www.hmrc.gov.uk/VAT/cross-border-changes-2010.htm>

9. Useful links for more information

HM Revenue & Customs (HMRC)

HMRC ensures the correct tax is paid at the right time, whether this relates to payment of taxes received by the department or entitlement to benefits paid. Most of the information is available online. HMRC also runs VAT Helpline which can be used to get your VAT related questions answered.

W: www.hmrc.gov.uk

T: 0845 010 9000

HM Revenue & Customs - International

This link provided by HMRC gives detailed information relating to international trade, international visits and VAT: <http://www.hmrc.gov.uk/vat/managing/international/>

HM Revenue & Customs– Place of supply of services

The following link provides information on how to determine the place of supply of your services, who must account for any VAT, in which country the tax is due to be paid and how to deal with supplies you receive from outside the UK.

http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?_nfpb=true&_pageLabel=pageVAT_ShowContent&propertyType=document&id=HMCE_CL_000346

HM Revenue & Customs - VAT rates

In this section of the HMRC website, the different VAT rates that apply to different types of goods and services are explained.

<http://www.hmrc.gov.uk/vat/forms-rates/rates/rates.htm>

European Commission – Directorate for Taxation and Customs Union – VAT

The European Commission's Directorate for Taxation and Customs Union promotes the general interest of the EU in the area of taxes. Their homepage on VAT provides important information on the legislative framework and how VAT works across the EU.

http://ec.europa.eu/taxation_customs/taxation/vat/index_en.htm

European Commission – Directorate for Taxation and Customs Union – VIES database

This link provides information on the VIES (VAT Information Exchange System) database through which you can obtain rapidly confirmation of the VAT numbers of your trading partners.

http://ec.europa.eu/taxation_customs/taxation/vat/traders/vat_number/index_en.htm

Business Link – VAT, Excise & Duty

Business Link is the official government website providing free business advice and support service, available online and through local advisers. The link below provides information on VAT, excise & duty in international trade.

<http://www.businesslink.gov.uk/bdotg/action/layer?r.s=tl&r.l1=1079717544&r.lc=en&toPicId=1079840880>

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The Enterprise Europe Network London team are able to assist with any enquiries regarding VAT in International Trade.

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We provide practical, hands-on support and information for London's small and medium sized businesses seeking funding, hoping to expand their business into Europe, or wishing to develop (technology) partnerships with other European businesses. For more information please go to: www.een-london.co.uk

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¹ European Commission http://europa.eu/pol/tax/index_en.htm

² European Commission http://ec.europa.eu/taxation_customs/taxation/vat/how_vat_works/index_en.htm

³ Business Link

<http://www.businesslink.gov.uk/bdotg/action/detail?r.l5=1083399878&r.s=sc&r.l4=1084109534&r.l1=1079717544&r.lc=en&r.l3=1084109530&r.l2=1084109527&r.i=1083400239&type=RESOURCES&itemId=1083399946&r.t=RESOURCES>

⁴ TMF Group <http://www.tmf-vat.com/vat/eu-vat-rates.html>

⁵ The European Institute

<http://www.europeaninstitute.org/June-July-2010/vat-a-european-style-tax-that-may-be-coming-to-us.html>

⁶ European Commission

http://ec.europa.eu/taxation_customs/resources/documents/taxation/vat/how_vat_works/rates/vat_rates_en.pdf

⁷ European Commission

http://ec.europa.eu/taxation_customs/resources/documents/taxation/vat/traders/vat_community/vat_in_ec_annexi.pdf

⁸ Business Link <http://www.businesslink.gov.uk/static/html/layer-36.html>

⁹ HM Revenue & Customs

http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?_nfpb=true&_pageLabel=pageVAT_ShowContent&propertyType=document&id=HMCE_CL_000860#toc

¹⁰ HM Revenue & Customs <http://www.hmrc.gov.uk/manuals/vatpossmannual/VATPOSS14100.htm>

¹¹ HM Revenue & Customs <http://www.hmrc.gov.uk/vat/managing/international/imports/importing.htm#3>

¹² Business Link <http://www.businesslink.gov.uk/static/html/detail-6821.html>