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Meridian Global Services

Distance Selling

The International VAT issues arising

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The incidence of cross border distance selling to consumers over the Internet has had explosive growth in recent years. Many businesses are now increasing their concentration on this business, especially as the global recession makes trading in domestic markets more difficult. The trade has long since moved beyond cassettes and small value items and now includes main ticket items like expensive, designer/branded clothing, bicycles, outdoor equipment, and even complete bathrooms delivered cross border to consumers in flat pack format. There have been significant advances in transport of goods ordered, with next day delivery common in many parts of the world.

Businesses have to grapple with the international VAT issue that comes with this business, often requiring local VAT registration in multiple countries across the EU.

The distance selling thresholds in the EU, above which businesses have to register in foreign jurisdictions, are set at quite low thresholds, with EU legislation allowing Member States discretion to set this at either Euro 35,000 or Euro 100,000. The strict application of the combined rules in EU Legislation of articles 33 and 34 of the Principal European VAT Directive leads to a three stage process for a proper assessment of the taxation of distance sales which is quite complex.

This can cause problems, if companies are not monitoring their foreign turnover thresholds and exceed the distance selling thresholds in a number of countries, without registering in the country where the thresholds have been exceeded.

The application of this set of rules presents clear challenges for Traders, and if they are not compliant, they can be exposed to significant penalties and interest, due to lack of compliance with VAT legislation in the country that they are selling into.

Foreign tax administrations are increasingly concerned at the lack of compliance in this growing area of business, as this can result in material VAT sums lost to the foreign tax authorities, and have set up specialist sections to deal with this specific area. With European VAT rates ranging currently between 15% and 27%, this can lead to very material understatements of tax.

There have been a number of recent developments that have come to our attention, where local VAT authorities are now contacting foreign businesses directly, to make enquiries as to their distance selling operations to consumers in their country.

In one case, the Swedish VAT authorities contacted a UK business in the motor accessories industry enquiring as to the level of turnover in Sweden.

In another case a German business in the specialist clothing industry, was contacted by the Swedish authorities, to enquire as to the extent of their distance selling in Sweden, and there are other examples.

Tax authorities are also using Mutual assistance programs, to ensure compliance with local legislation.

Meridian provides all necessary support to assist all clients engaged in cross border distance selling operations, and provide practical help to deal with all aspects of foreign VAT compliance. This includes any systems support that may be necessary, voluntary disclosures required to recover VAT incorrectly charged in the Member State of establishment of the supplier and to provide any risk management and penalty /interest mitigation on behalf of clients.

Distance Selling Thresholds

Where is your Business?		
You may need to register in one or more foreign jurisdictions		
Country If you sell into these countries:	Distance Selling Threshold And you exceed these thresholds:	Euro equivalent
Austria	€35,000	
Belgium	€35,000	
Bulgaria	70.000 BGN	€35,790
Croatia	HRK 270.000	€35,600
Cyprus	€35,000	
Czech Republic	1.140.000 CZK	€44, 700
Denmark	280.000 DKK	€37,670
Estonia	€35,000	
Finland	€35,000	
France	€35,000	
Germany	€100,000	
Greece	€35,000	
Hungary	8.800.000 HUF	€35,000
Ireland	€35,000	
Italy	€35,000	
Latvia	24.000 LVL	€34,300
Lithuania	125.000 LTL	€36,200
Luxembourg	€100,000	
Malta	€35,000	
Netherlands	€100,000	
Poland	160.000 PLN	€35,770
Portugal	€35,000	
Romania	118.000 RON	€35,000
Slovakia	€35,000	
Slovenia	€35,000	
Spain	€35,000	
Sweden	320.000 SEK	€35,850
United Kingdom	70.000 GBP	€83,800

*Table is correct at time of publishing. Published January 2016.



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For more information about our organisation
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