



VAT FACT GUIDE

A BASIC GUIDE TO UNDERSTAND THE EUROPEAN VAT REGULATIONS AND THE PROCESSES FOR VAT RETURN.

VALUE ADDED TAX

(Abbreviation: VAT)

[mass noun]

- A tax on the amount by which the value of an article has been increased at each stage of its production or distribution

Source: Oxford Dictionary



VAT IN THE EUROPEAN UNION

WHEN DO YOU PAY VAT??

In Europe, VAT needs to be paid at every step during the production- or distribution process. A VAT number is required to import, sell and export products within the European Union. This number enables a proper VAT registration and the ability to submit tax returns and claim for a refund. Please note that an application and registration for a VAT number in one European country does not cover other European countries. A VAT number is required in the country where products are imported.

Table 1 shows the VAT rates per European member state.

WHEN CAN YOU CLAIM FOR A REFUND?

If VAT is incurred in a member state where the trader is not liable to be registered for VAT, this may still be recoverable under an EU-wide recovery mechanism. Foreign companies have the opportunity to reclaim this VAT on business services incurred abroad. A VAT refund can be claimed on costs from:

- Tradeshow participation
- Training courses
- Management fees
- Transportation costs (car rental, transport)
- Travel expenses
- Marketing and market research services
- Other costs subject to international business

HOW DO YOU PAY VAT?

VAT returns are the mechanism whereby tax owed to the authorities is paid by the trader, and VAT that the trader has incurred in the course of business activities can be recovered, subject to certain rules.

When an entrepreneur would like to recover tax in a certain EU member state and is not

liable to be registered for VAT then it can file a VAT return per member state where VAT can be recovered. This administrative process can often be accelerated when outsourced to an organization offering VAT refund services.

COUNTRY	STANDARD RATE	REDUCED RATE
AUSTRIA	20%	13%, 10%
BELGIUM	21%	6%, 12%
BULGARIA	20%	9%
Croatia	25%	5%, 13%
CYPRUS	19%	5%, 9%
CZECH	21%	15%, 10%
DENMARK	25%	none
ESTONIA	20%	9%
FINLAND	24%	10%, 14%
FRANCE	20%	10%, 5.5%, 2.1%
GERMANY	19%	7%
GREECE	24%	13%, 6%
HUNGARY	27%	18%, 5%
IRELAND	23%	13.5%, 9%, 4.8%
ITALY	22%	10%, 5%, 4%,
LATVIA	21%	12%
LITHUANIA	21%	9%, 5%
LUXEMBOURG	17%	3%, 8%, 14%
MALTA	18%	5%, 7%
NETHERLANDS	21%	6%
NORWAY	25%	10%, 15%
POLAND	23%	8%, 5%
PORTUGAL	23%	6%, 13%
ROMANIA	19%	5%, 9%
SLOVAKIA	20%	10%
SLOVENIA	22%	9.5%
SPAIN	21%	4%, 10%
SWEDEN	25%	6%, 12%
SWITZERLAND	8%	3.8%, 2.5%
UK	20%	5%

Table 1: 2017 VAT rates per country



HOW TO HANDLE VAT

In general, there are two different options how to handle VAT in the Netherlands while doing business in Europe and having your products imported in the Netherlands. Option 1 would be to work with a third party, like EuroDev Services, who can apply and register for a Dutch VAT number on behalf of your organization in the United States or Canada. Having a VAT number in the Netherlands does not lead to risk

regarding a permanent establishment. The second option would be to have a fiscal representative (limited or general). EuroDev Services does not offer services regarding fiscal representation, but we would be more than happy to bring you in contact with an expert. Both options are described on the following pages.

VAT REGISTRATION IN THE NETHERLANDS

WHEN IS REGISTRATION REQUIRED?

VAT registration differs per EU member state. Usually, the entrepreneur has to register and apply for a VAT number in case there is no legal entity in the applicable country where goods are imported, sold or distributed (e.g. warehousing in Europe). In most cases, the entrepreneur assigns a VAT representative, who must be a resident of the state, in case a VAT registration is required by the EU member state.

A trader who registers for VAT in a member state is then obliged to comply with the requirements of that state, regarding record-keeping and furnishing returns and other declarations. Penalty regimes exist for noncompliance, so it is important for a trader contemplating trading in the EU to establish their liability for VAT before they undertake activities there.

PROCESS OF REGISTRATION

- Fill out a VAT application form for the appropriate member state
- Provide original certificates of status provided by your tax authority (IRS form 6166 for the USA)
- Provide a copy of the certification of incorporation
- Copy of ID or passport of authorized person within the organization.

WHAT TO SUPPLY FOR THE VAT REFUND?

To file your VAT return the following documents need to be provided to the Tax office of the member state:

- Copies of all purchase orders
- Copies of all commercial invoices within the EU
- Copies of all commercial invoices outside of EU
- Copies of all commercial invoice within country of VAT registration.

AVOIDING VAT IN THE NETHERLANDS

One of the most beneficial VAT systems in place is the system of the Netherlands. VAT has to be paid for imported goods, but when it has to be paid is variable. The time to pay VAT can be deferred to a periodical VAT return (deferment scheme). However, due to the fact that entrepreneurs can deduct due VAT in the same VAT return, the entrepreneur does not actually pay VAT. Therefore the VAT does not have to be financed in advance, which is a big advantage and one of the main reasons for companies to choose the Netherlands to import their products. Foreign importers that import and sell goods in the EU market can benefit from this deferment regime by appointing a fiscal representative in the Netherlands. A fiscal representative can take care of the VAT compliance with respect to the import and along the supply chain of the goods after import. Appointing a Dutch fiscal representative for VAT does not create a permanent establishment for corporate income tax in the Netherlands.



FISCAL REPRESENTATION THE NETHERLANDS

In The Netherlands two types of representatives for VAT are known:

1. The representative with a general license.
2. The representative with a limited license.

Whether a general or limited fiscal representative should be appointed depends on the activities of the foreign entrepreneur in The Netherlands. Both types of representatives are able to take care of all Dutch VAT formalities related to the activities of the principal for which the representative is formally appointed as fiscal representative for VAT. This means that the fiscal representative will file the VAT returns. The most important difference between these two types of representatives is the ability of keeping inventory in the Netherlands. If the entrepreneur has the objective to keep inventory in the Netherlands, they have to appoint a representative with a general license.

THE LIMITED FISCAL REPRESENTATIVE:

A non-resident entrepreneur can appoint a fiscal representative with a limited license. The limited representative can take care of the VAT formalities with respect to the import and onward supply of goods after the import. Under certain conditions, the limited representative can also be involved in obtaining the best possible VAT system (applying the zero-rate) in relation to the trade in certain bulk goods and excise duty goods of his nonresident principal.

If a limited fiscal representative is appointed, the deferment system for VAT at import can be applied. Another advantage is that the foreign company does not have to register for VAT purposes in The Netherlands (if besides the import and onward supply other activities

are performed such as receiving goods from other EU Member States or performing services, a VAT registration may be required by the foreign entrepreneur). This is because the import will be done by the third party, the limited fiscal representative, using their VAT number. In daily practice, we see that especially forwarding companies (customs brokers) act as limited fiscal representatives. If necessary, a foreign entrepreneur can appoint more than one limited fiscal representative in The Netherlands.

THE GENERAL FISCAL REPRESENTATIVE:

A fiscal representative with a general license acts on behalf of the foreign entrepreneur regarding all supplies of goods and services in The Netherlands, the intra community transactions (the supplies to and acquisitions from other EU Member States) and imports.

The representative with the general license is especially of interest if the foreign entrepreneur is not only involved in the import and supply of goods, but for example also acquires goods from other EU Member States, performs services in The Netherlands or wants to store goods. Foreign entrepreneurs, who did appoint a fiscal representative with a general license, can apply the deferment system for VAT at import.

In case a fiscal representative with a general license represents a foreign entrepreneur, the entrepreneur should be registered for VAT in the Netherlands.

Appointing a fiscal representative with a general license is compulsory in case so-called 'distance sales' (certain sales to consumers in other EU Member States) are being performed.



VAT CASE THE NETHERLANDS

SCENARIO 1:

A US manufacturer of automotive spare parts opens a warehouse in the Netherlands for the distribution of their products in Europe. The manufacturer needs to apply for a Dutch VAT number since the products will be shipped from the Netherlands to European customers. 21% VAT is paid at the moment that the goods enter the Netherlands from the country of shipping.

Once imported the goods are taxed with VAT. They are free to deliver throughout Europe without adding taxes as long as the consignee has a registered VAT number as well. On the quarterly VAT return this imported VAT is declared and refunded by the tax authority.

From NL warehouse selling to:

- Company within the Netherlands: Add line to invoice: "VAT shifted to buyer according to article 12.3 wet op de omzetbelasting 1968"
- Company outside the Netherlands: 0% VAT over the sales price
- Company outside of the Netherlands that has no VAT number: Add 21% VAT over the sales price
- Company outside the European Community: 0% VAT is added over the sales price
- Private person add 21% VAT over the sales price

Besides copies of the purchase orders (imported goods), also copies of the sales invoices need to be handed in when filing the VAT return.

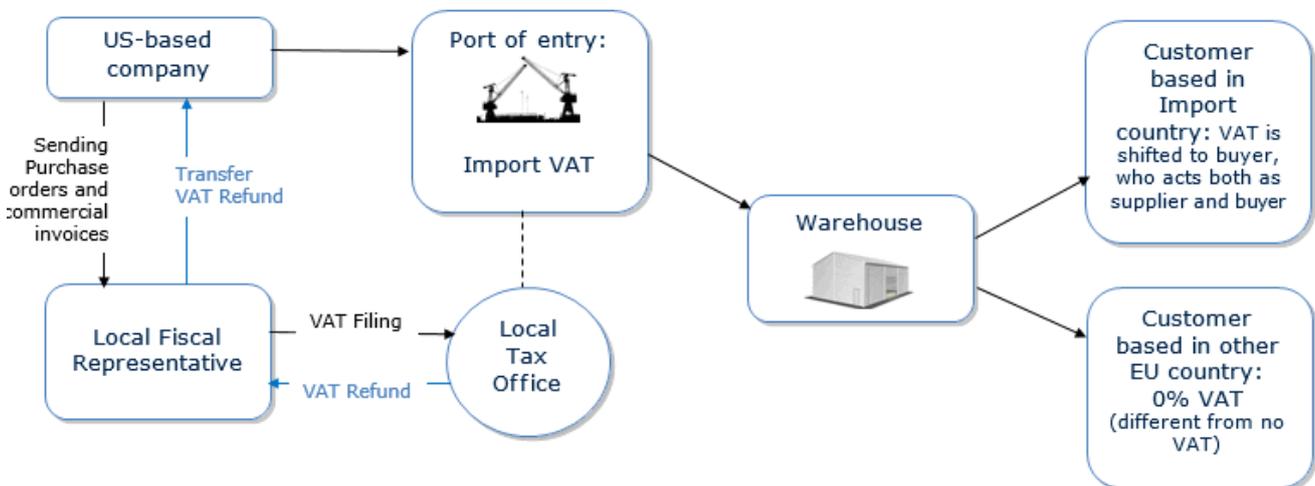


Fig.1 Schematic overview of VAT process through EuroDev Services or other third party.

SCENARIO 2:

A US company is shipping products directly from the US to its customers in Europe. In this scenario it is important for the US company to correctly choose the shipping terms. This will

determine up till where the US company is liable and from which point the buyer is liable for amongst others the VAT. If the customer is liable for the VAT (e.g.: Ex works, FOB) then it will not be necessary for the US company to have a VAT number in Europe.



ABOUT US

EURODEV

EuroDev Services is part of the EuroDev Group. The EuroDev Group, established in 1989, has developed a successful business development model for over 150 American companies that want to expand their business in Europe. Over the years, EuroDev has expanded its services from just consultancy and marketing services to full business support. The organization has three operating divisions:

- Business Development: market entry strategy, lead generation, sales and marketing
- Business Services: Financial, European recruitment, PEO and HR outsourcing services
- Mergers and Acquisitions: M&A buy-side advisory services from research to deal closing.

OUR MISSION

The European Business Development partner for American SME's. Be valuable for all stakeholders

EURODEV SERVICES

EuroDev Services provides pan-European Human Resource and Financial services to medium-sized North-American companies conducting business in Europe.

Our financial experts support you with comprehensive VAT, banking and other administrative services in The Netherlands. We can assist you with the application of a Dutch VAT number and the monthly VAT registration.

"EURODEV SERVICES

YOUR ONE-STOP-SHOP FOR YOUR VAT RETURN, IDENTIFICATION AND INTRACOMMUNITY FILING"

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