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VAT in the European Union

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an independent member of BAKER TILLY INTERNATIONAL

Welcome

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Start ups heading to Europe: Understanding VAT

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What is VAT?

- Value Added Tax, or VAT, applies to most EU business transactions that involve a supply of goods or services.
- Europe-wide tax, different regulations in different countries.
- Allows VAT charge to be passed through the process tree, with the end user (usually) suffering the ultimate irrecoverable VAT cost.
- The national tax authority collects/pays any VAT due via the VAT return.

How does it work?

- VAT registered business must charge the appropriate rate of VAT on their sales (output VAT) depending on nature of supply and the customer

- VAT suffered on related purchases (input VAT) can be reclaimed via the VAT return

- VAT returns filed on a regular basis with all states in which the Company is VAT registered – normally monthly or quarterly.

Simplified process tree

Raw Materials producer

Processing cost £100 + VAT, reclaims VAT from HMRC	Sells for £120+VAT, forwards VAT received to HMRC

Manufacturer

Buys component at £120+VAT, reclaims VAT suffered from HMRC	Sells to end user for £200 + VAT

End user

Buys for £200 + VAT. Cannot reclaim VAT as not VAT registered.	

Sounds simple so far?

Jaffa Cakes

Chocolate biscuits

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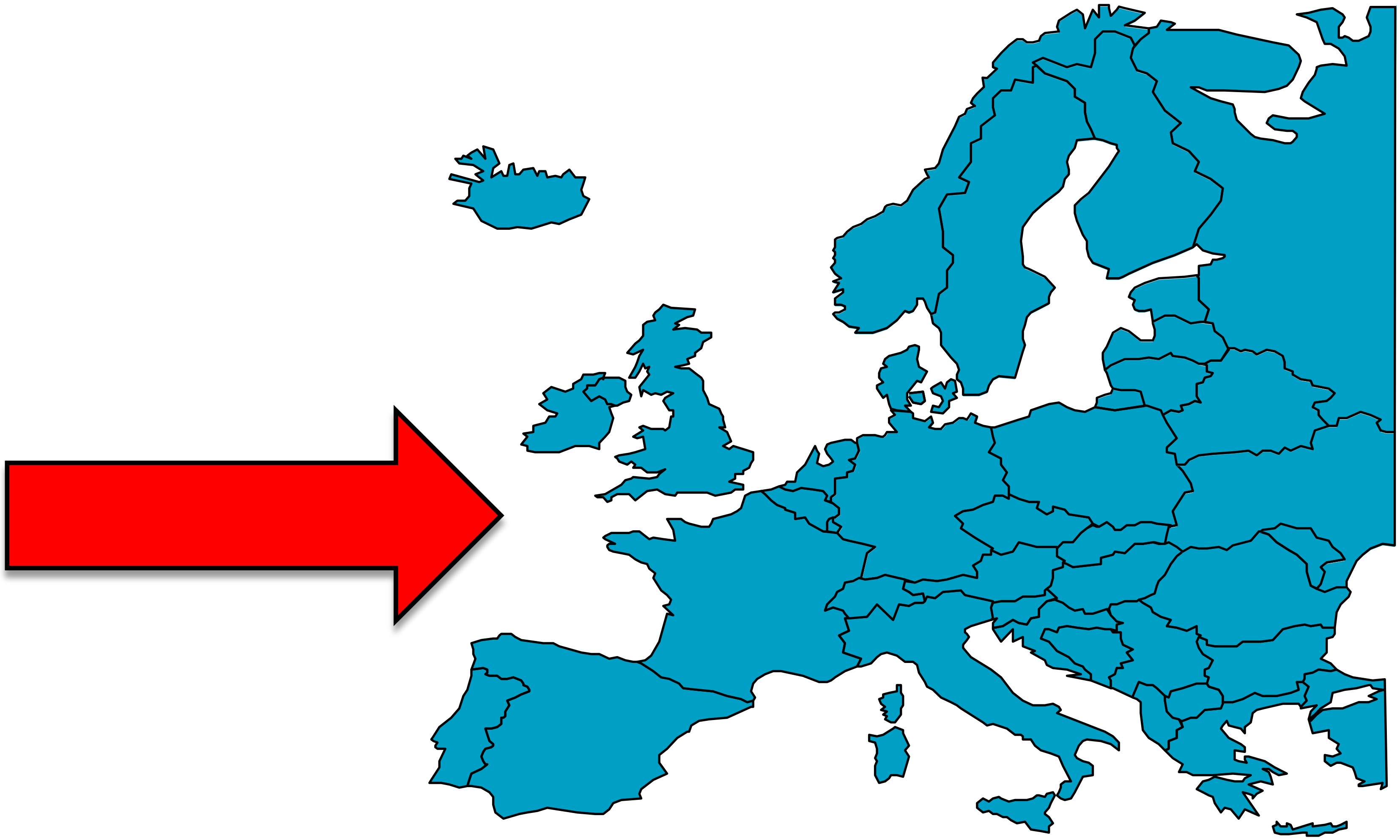
BIGGER PACKS...BETTER VALUE
YUMMY GONE NUTS!
THE MOST CHOC CHIPS!
£1.09
99p
99p
£1.38
Digestives
42p Half Price
83p
77p
32p
99p
Jaffa Cakes
TRIPLE PACK
45p
Creams
44p Half Price
£1.75

And yet

Jaffa "cakes" are VAT free being a cake whilst chocolate biscuits as a "chocolate covered biscuit" are subject to VAT (20%).

This was confirmed by the Court who decided that Jaffa cakes was a cake and not a biscuit. This was despite a poll of consumers in the *Sun* newspaper the majority thought it was a biscuit.

Doing business with Europe



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The European Union is made up of 27 countries each with slightly different VAT rules

Setting up in Europe for VAT

- Some countries require VAT registration from the first taxable supply in that country.

- Others have a threshold of taxable sales - creates a liability to register for VAT when breached.

- Taxable supply is any supply of goods/services which is not exempt.

- Can VAT-register as "intending trader". Must be able to show proof that company intends to make taxable supplies.

Is your customer “in business”?

- Different definitions depending on country
- Some require a VAT number as proof of being “in business”
- UK requires limited proof – such as business letterhead or other commercial documents
- Your customer’s status affects the VAT liability

Place of business

- Business is regarded as being established in the EU if it has a principal or fixed place of business in one or more EU countries.

- Fixed place of business is staff/offices. Travelling salesman do not constitute a fixed place of business.

- If a business has more than one place of business, it must decide which is the most relevant for that supply.

Importing goods into Europe

- VAT is payable at port of entry into Europe
- Rate of VAT payable is equivalent as same item sold in that country
- Receive C79 certificate as proof of VAT payment at the port
- Include this certificate in the VAT return to reclaim VAT suffered.

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Goods within Europe (dispatches/removals)

Can be zero-rated (VAT applied but at rate of 0%) under following conditions:

- Goods are physically moved between countries
- Recipient registered for VAT. VAT number shown on invoice
- Evidence of removal of goods obtained
- Goods removed and evidence obtained within 3 months of sale

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Services “reverse charge” mechanism

- Applies to supplies of services only
- No VAT charged on supply. Onus is on recipient to account for VAT
- Treated as if recipient has supplied and received the service (value included as purchase and sale on VAT return)
- Net effect is cancelling out of VAT liability

Treatment of goods or services

	Goods	Services
Into Europe	VAT paid at port of entry. C79 certificate issued as proof of payment. VAT can usually be reclaimed by VAT registered businesses.	B2B services are accounted for by recipient under “reverse charge” mechanism. B2C – no VAT
Within Europe	B2B can be zero rated. B2C charge VAT at normal rate	B2B as above. B2C services – charge VAT at normal rate.

Intra-company supplies

- European branches of non-European companies are separate entities for VAT if they are a separate legal entity to the “parent” company
- Transfer of own goods between branches of the same legal entity is not a supply for VAT purposes and therefore no VAT needs to be accounted for.

Other considerations

As well as a VAT return, there are other European reporting requirements for VAT

EC Sales List – Details all goods/services sold to other EU VAT registered companies. Usually completed quarterly.

Intrastat Declaration – Once intra-EU movement of goods breaches set annual thresholds, monthly declarations must be made detailing nature of item and value

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Corporate Income Tax
& other Compliance Obligations

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Form of UK presence

- Two fundamental choices
  - UK branch of US company
  - UK incorporated entity (Ltd, PLC, LLP)
- Compliance obligations similar, but important distinctions
  - UK branch:
    - no public filing of branch accounts, and no audit requirement
    - accounts of US corporation must be filed on public record
  - UK entity:
    - UK entity accounts must be filed on public record
    - audit requirement (subject to de minimis limit based on ***worldwide group*** size)

UK incorporated entity

- Statutory accounts must be filed with UK Registrar of Companies within 9 months of year end
- On account payment of estimated corporate income tax liability payable by same date
- Corporate & income tax return required three months later (i.e. within 12 months of year end)
- Worldwide profits of UK company within scope of UK corporate income tax (at maximum 24%, falling to 22% in 2014)

UK branch

- US corporation's accounts must be filed with UK Registrar of Companies within 13 months of year end
- If there are already publicly filed accounts in US, these must be filed in the UK
- If not, format, GAAP and minimum disclosure requirements
- Not necessarily a UK *taxable* presence (PE/no PE?), but very likely
- Profits earned by UK PE subject to UK corporate income tax at maximum 24% (falling to 22% from April 2014)

Other UK compliance obligations

- Payroll taxes - an early priority:
  - PAYE & NIC due on UK earnings of resident and non-resident employees
  - Any employer (UK or US) must register promptly with HMRC
  - No requirement to withhold payroll taxes for genuinely independent consultants – but local advice should be sought
- Take advice on UK employment law/contracts of employment, check on visa and immigration requirements
- Company Law
  - Other filings with UK Registrar of Companies
  - “annual return”, plus notification of certain changes during the year (e.g. change of directors, or of share capital)
- Other European countries follow similar principles but local advice should be sought

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Banking in Europe

Presented by Silicon Valley Bank
Dan Drancik
April 24, 2012

Banking in Europe: State of the Union

- Eurozone Overview
- Establishing Banking Services in Europe
- Payment Landscape
- SEPA: Single European Payments Area

United States of Europe? - Eurozone Overview

- The eurozone consists of 17 member states of the European Union.

- Despite the common currency, the eurozone remains 17 distinct countries, with unique local factors:
  - Each country retains its own rules covering cash management techniques
  - The respective domestic payment systems are still significantly different
  - The popularity of payment types varies from country to country

- Beyond the eurozone:
  - Multiple national currencies exist within the EU, adding complexity to banking
  - Connectivity exists today, additional integration is on the way

- Banking Landscape
  - Local Banks – domestic branches or multi-country branches, none with total coverage
  - Global Banks – Few with total coverage, and lacking expansive branch networks

When Do I Establish Banking Services In Europe?

- At a crossroads: Managing cross border activity out of your USD account in the U.S..
  - Small number of European clients or Representative Office
  - Invoicing and collecting in USD
  - Few expenses in foreign currency paid via wire (spot)
  - Small overall transaction volume

- Anticipating changes in cashflows:
  - Growing number of customers
  - Desire to offer variety of payment types and local currency invoicing to be competitive
  - Concerns about currency volatility

When Do I Establish Banking Services In Europe?

Some basic questions to ask:

1. Are goods / services sold invoiced in foreign currency?
2. Are goods / services bought invoiced in foreign currency?
3. Do you buy and sell in the same currency?

- Perform a simple cost – benefit analysis:
  - What costs are incurred by not having an account?
  - What additional charges/costs are incurred in opening a currency account?
  - What are the liquidity, foreign exchange and interest rate risks with and without an account?

Opening a Foreign Currency Account

- Scenario 1
  - A company in Minneapolis exports goods in EUR to clients in Belgium. Orders are irregular, and the company received a single payment every other month that averaged €60,000.
    - Expenses are in USD, not EUR
    - Payments are infrequent, and value is not substantial

- Scenario 2
  - A company in Chicago is growing in Europe, and has a sales staff, service staff, and operations group in France. Orders have increased substantially, with incoming payments tripling in volume and value, and clients requesting ACH payment option.
    - Expenses are in USD and EUR
    - Payments are more numerous and coming through different channels

Opening a Foreign Currency Account

- Start with your U.S. banking partner
- Legal and tax considerations are key inputs
- Understand your options
  - Multi-currency account (Bank's nostro account)
  - In Country Account
    - Bank's foreign branch
    - Correspondent Bank
- Account opening process
  - Process can take 4+ weeks
  - US banking partner may be able to help
  - Documentation can be arduous
- Day to day banking activity
  - Centralized or decentralized
  - E-banking options

Opening a Foreign Currency Account: Additional Key Concepts

- Importance of SWIFT
  - Can enable centralized e-banking management of accounts
    - Balance / transaction reporting through MT 940 / MT942
    - Wire origination through MT101
  - Some functionality may require multiple e-banking platforms

- IBAN and BIC
  - IBAN - an international standard for identifying bank accounts. It was developed to facilitate payments within the European Union but the format is flexible enough to be applied globally.
  - BIC - the unique identification code of a particular bank across the world. These codes are used when transferring money between banks, particularly for SEPA or international wire transfers.
  - It is critical that all accounts have an IBAN to facilitate cross-border payments in the eurozone.

Payments in Europe

Exhibit 6.4: Use of payment instruments by non-banks

(% of total number of transactions by non-banks)

	Total Volume	Cheques	Credit Transfers	Direct Debits	Cards	E-Payments
	In Millions	% of Total				
Belgium	2,202.0	0.4	42.2	11.3	42.4	3.7
Canada	9,319.0	13.0	11.6	7.9	67.4	nav
France	15,893.0	22.1	17.1	19.2	41.5	0.2
Germany	15,965.0	0.4	35.2	50.0	14.1	0.3
Italy	3,816.0	11.1	30.6	16.0	40.2	2.1
Netherlands	4,775.0	nap	31.1	25.8	39.4	3.7
Singapore	2,220.0	3.8	1.4	2.3	8.2	84.3
Sweden	2,753.0	0.0	32.3	8.3	59.3	nap
Switzerland	1,223.0	0.1	55.4	3.6	39.6	1.4
United Kingdom	15,260.0	9.2	20.9	20.2	49.8	nav
United States	102,555.0	26.0	6.7	10.7	56.7	nav
nav = not available						
nap= not applicable						

Source: 'Statistics on Payment and Settlement Systems in Selected Countries' published by BIS 2010

Common Payment Vehicles

- Urgent Payments – Wire Payments
  - Comparable to the U.S. Fedwire
  - Domestic real time settlement
  - Higher transaction costs
- ACH Payments
  - Commonly referred to as “low value payments”
  - Can be originated via e-banking or direct transmission
  - Lower transaction costs
  - Not real-time settlement
- Card Payments
  - Debit or Credit
- Paper Based Payments
  - Cheque
  - Giro

The Single Euro Payments Area was launched successfully in 2008

- SEPA electronic credit transfers (SCT), SEPA debit cards framework, and SEPA direct debit framework (SDD) have all been introduced.

- Vision is to introduce Pan-European ACH for clearing and settlement that will replace domestic ACHs.

- Benefits include:
  - Standardized formats across all countries
  - Guaranteed transmission of remittance data to improve reconciliation
  - Ability to rationalize bank relationships
  - Consistency of charges for transactions
  - Payments must be made in full without deductions (no “lifting” or “bene deduct”)

– 2014 end date set for full migration

Disclosures

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Thank you for attending!

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