

How VAT works in Europe

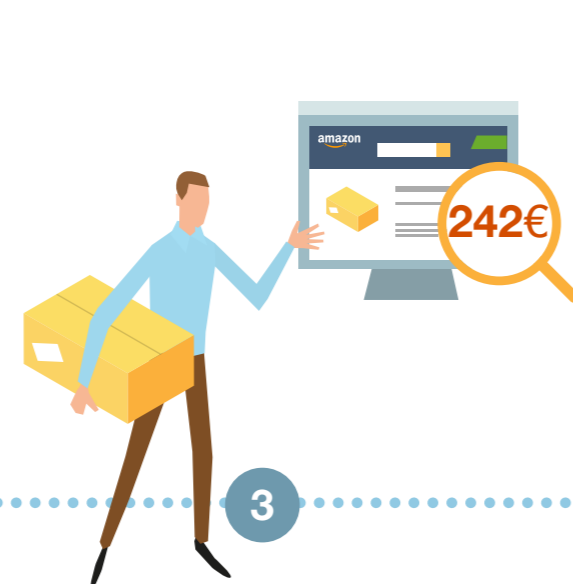
Note: Alberto is importing headphones into Spain from India (a non-EU country) and plans to sell them in Spain. On importation, the goods must be presented to customs and the appropriate formalities completed, including payment of all import taxes, including VAT and duty (if applicable).



The importation process requires Alberto to declare the correct value of goods (which in this example is 100 EUR per headphone). Spanish VAT on import which is due amounts 21 EUR per unit (21% of the declared value of 100 EUR). He imported a total of 10 products, so therefore he must pay 210 EUR to Spanish Customs.



Now Alberto can start selling. He plans to charge a customer 200 EUR for each unit sold.



Alberto is aware that he has to charge VAT on every sale he makes in Spain. So he includes the VAT of 42 EUR (21% of the price) in the displayed price, which now becomes 242 EUR per unit.



Maria, a buyer in Spain, sees and orders a headphone set.

Invoice	
PRICE	200€
VAT	42€
TOTAL PRICE	242€

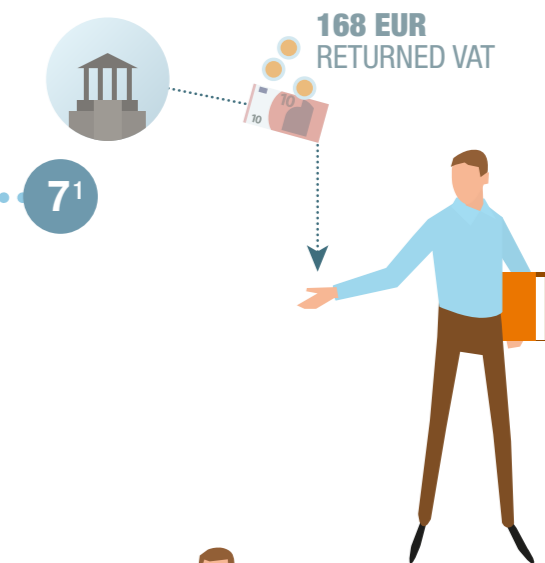


Alberto is happy to ship the product to Maria. When the products is shipped to Maria he also attaches the Spanish VAT invoice.



SCENARIO 1

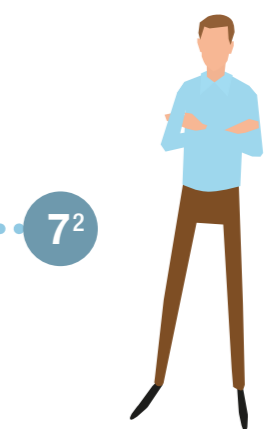
Alberto does not sell any other product by the end of the VAT fiscal period. So he files a VAT return with the Spanish Tax Authority. He declares the VAT amount he paid (210EUR at Customs) and the VAT amount he collected so far on sales (42 EUR collected when he sold one headset). Alberto is in a position to claim back 168 EUR (the difference between VAT paid and VAT collected) from the Spanish tax authorities (please note that such a claim can be subject to approval).



The Spanish Tax Authority is reimbursing Alberto for the difference in VAT (this can include a verification process).

SCENARIO 2

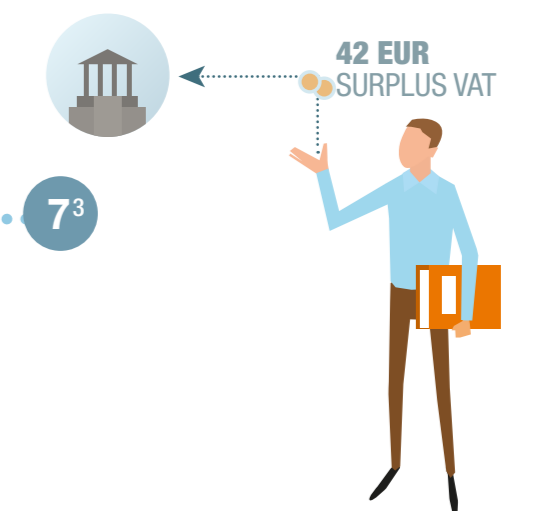
Alberto sells 4 more products by the end of the VAT fiscal period. He files a VAT return with the Spanish Tax Authority. He declares the VAT amount he paid (210 EUR at Customs), the VAT amount he collected so far (42 EUR x 5 units = 210).



VAT collected on sales completely offsets VAT paid at import, so he claims no VAT back but also has no VAT to remit.

SCENARIO 3

Alberto sells 5 more products by the end of the VAT fiscal period. He files a VAT return file with the Spanish Tax Authority. He declares the VAT amount he paid (210 EUR at Customs), the VAT amount he collected so far (42 EUR x 6 units = 252).



The difference between VAT collected and VAT paid is 42 EUR. This amount must be paid to the Spanish Tax Authority.

Please note that there are a number of ways to structure your imports and we recommend you consult a tax adviser.