

How VAT works in Europe

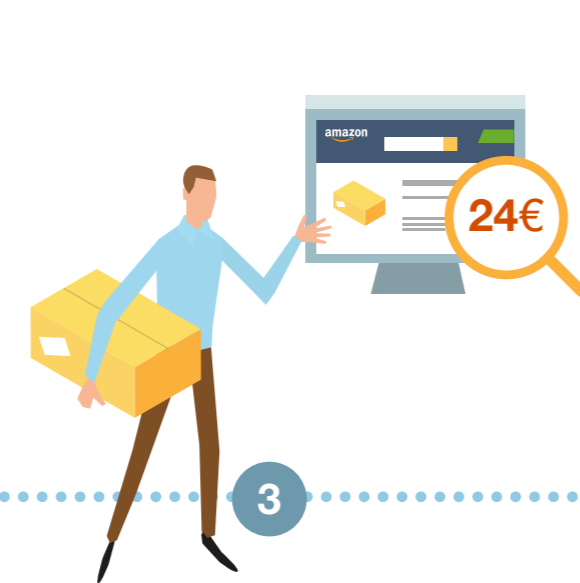
Note: Pierre is importing headphones into France from India (a non-EU country) and plans to sell them in France. On importation, the goods must be presented to customs and the appropriate formalities completed, including payment of all import taxes, including VAT and duty (if applicable).



The importation process requires Pierre to declare the correct value of goods (which in this example is 10 EUR per headphone). French VAT on import which is due amounts 2 EUR per unit (20% of the declared value of 10 EUR). He imported a total of 10 products, so therefore he must pay 20 EUR to French Customs.



Now Pierre can start selling. He plans to charge a customer 20 EUR for each unit sold.



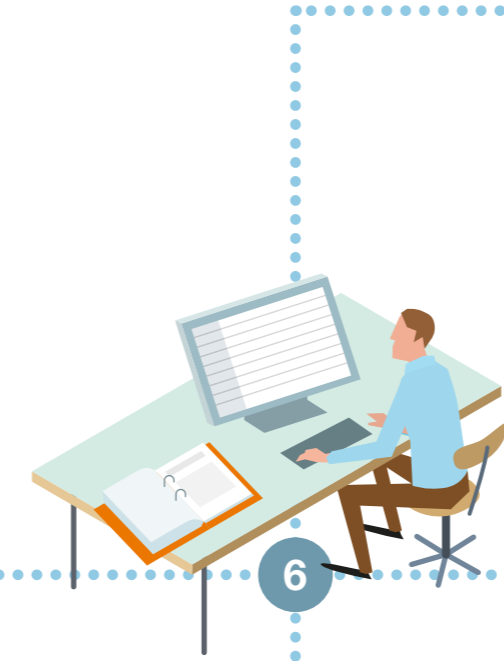
Pierre is aware that he has to charge VAT on every sale he makes in France. So he includes the VAT of 4 EUR (20% of the price) in the displayed price, which now becomes 24 EUR per unit.



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

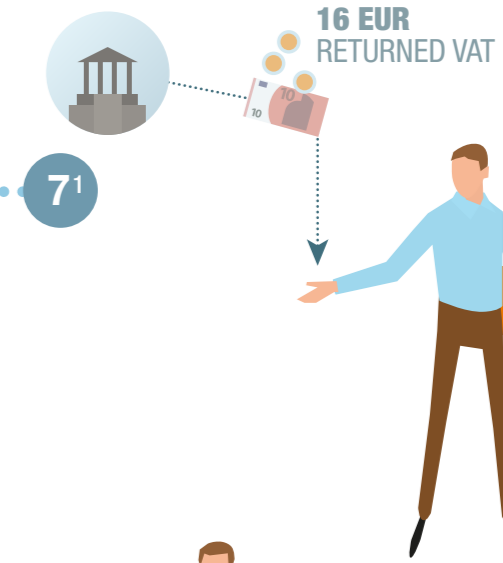
Invoice	
PRICE	20€
VAT	4€
TOTAL PRICE	24€

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



SCENARIO 1

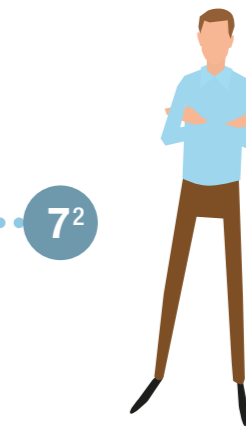
Pierre does not sell any other product by the end of the VAT fiscal period. So he files a VAT return with the French Tax Authority. He declares the VAT amount he paid (20 EUR at Customs) and the VAT amount he collected so far on sales (4 EUR collected when he sold one headset). Pierre is in a position to claim back 16 EUR (the difference between VAT paid and VAT collected) from the French tax authorities (please note that such a claim can be subject to approval).



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

SCENARIO 2

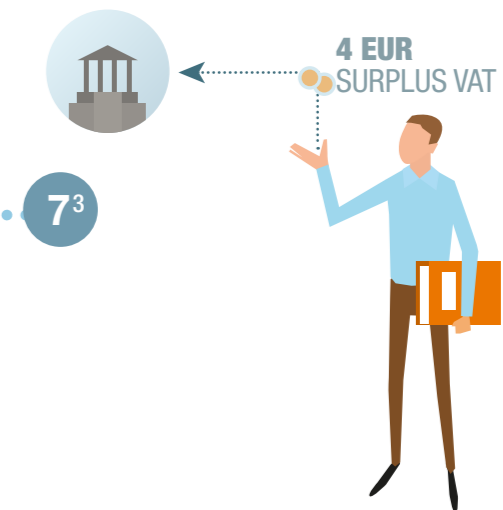
Pierre sells 4 more products by the end of the VAT fiscal period. He files a VAT return with the FRANCE Tax Authority. He declares the VAT amount he paid (20 EUR at Customs), the VAT amount he collected so far (4 EUR x 5 units = 20).



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

Pierre sells 5 more products by the end of the VAT fiscal period. He files a VAT return file with the French Tax Authority. He declares the VAT amount he paid (20 EUR at Customs), the VAT amount he collected so far (4 EUR x 6 units = 24).



The difference between VAT collected and VAT paid is 4 EUR. This amount must be paid to the French Tax Authority.

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