

How VAT works in Europe

Note: Pietro is importing headphones into Italy from India (a non-EU country) and plans to sell them in Italy. 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 Pietro to declare the correct value of goods (which in this example is 100 EUR per headphone). Italian VAT on import which is due amounts 22 EUR per unit (22% of the declared value of 100 EUR). He imported a total of 10 products, so therefore he must pay 220 EUR to Italian Customs.



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



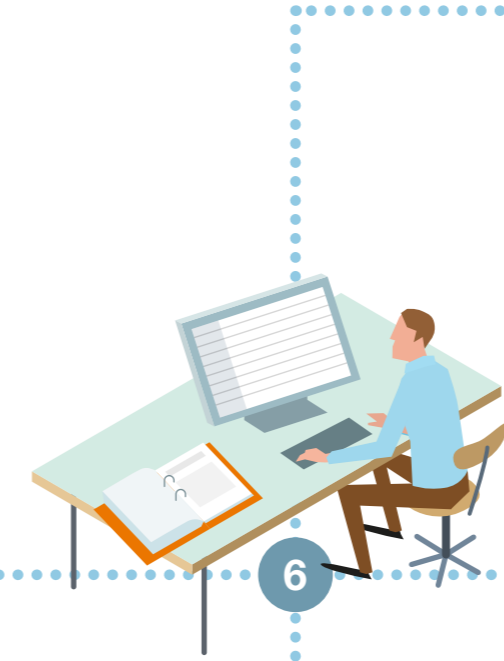
Pietro is aware that he has to charge VAT on every sale he makes in Italy. So he includes the VAT of 44 EUR (22% of the price) in the displayed price, which now becomes 244 EUR per unit.



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

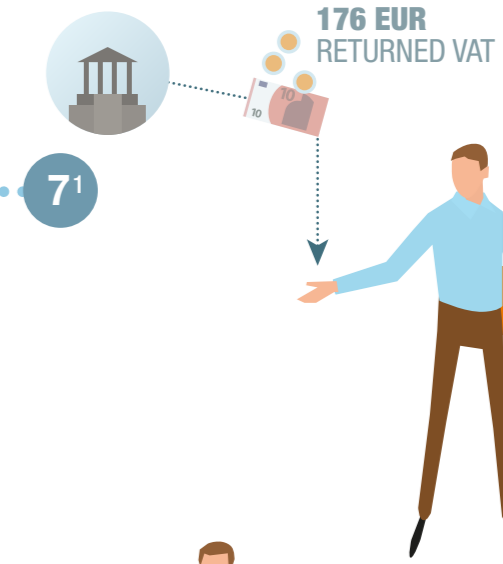
Invoice	
PRICE	200€
VAT	44€
TOTAL PRICE	244€

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



SCENARIO 1

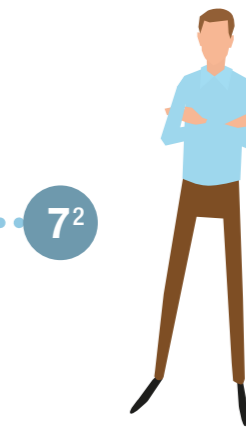
Pietro does not sell any other product by the end of the VAT fiscal period. So he files a VAT return with the Italian Tax Authority. He declares the VAT amount he paid (220 EUR at Customs) and the VAT amount he collected so far on sales (44 EUR collected when he sold one headset). Pietro is in a position to claim back 176 EUR (the difference between VAT paid and VAT collected) from the Italian tax authorities (please note that such a claim can be subject to approval).



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

SCENARIO 2

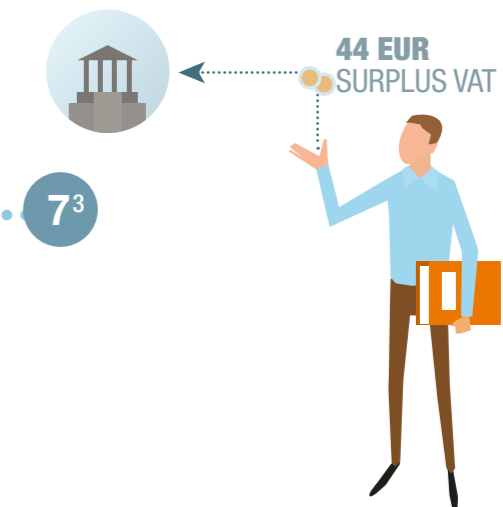
Pietro sells 4 more products by the end of the VAT fiscal period. He files a VAT return with the Italian Tax Authority. He declares the VAT amount he paid (220 EUR at Customs), the VAT amount he collected so far (44 EUR x 5 units = 220).



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

Pietro sells 5 more products by the end of the VAT fiscal period. He files a VAT return file with the Italian Tax Authority. He declares the VAT amount he paid (220 EUR at Customs), the VAT amount he collected so far (44 EUR x 6 units = 264).



The difference between VAT collected and VAT paid is 44 EUR. This amount must be paid to the Italian Tax Authority.

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