Taxmatic

VAT in Europe

A Guide for eCommerce B2C Sellers

VAT for ecommerce businesses in the EU - B2C

Global eCommerce is an ever-changing landscape which is evolving year on year. eCommerce businesses face many challenges, especially with ensuring tax compliance across all jurisdictions where sales transactions occur.

Value Added Tax (VAT), alternatively know as Sales Tax and GST in different jurisdictions, is an additional barrier for eCommerce businesses to overcome when establishing a presence in the European Union (EU).

There are currently 27 EU member states, each governed by their own local VAT legislation. Although broadly aligned with EU VAT legislation, every member state has the autonomy to establish unique VAT rules and rates applicable to their specific jurisdiction.

This guide gives you an outline of the basics of EU VAT compliance for eCommerce businesses. It aims to provide sufficient information for businesses to make well informed decisions regarding the establishment of the appropriate setup and structure to ensure a successful launch into to selling cross border in the EU.

There are several important questions that need to be answered to fully understand a business's VAT compliance requirements.

Where is the business established?

For VAT purposes, a business is usually only established in one country, and that country is where the head office is located, and the place where functions of the business's central administration are carried out.

Do you supply business to business (B2B) or business to consumer (B2C)? Different VAT rules will apply.

Do you supply goods or services?

VAT rules differ depending on whether the supply relates to goods or services.

If supplying goods, where will the goods be supplied from?

Holding inventory in a country generally gives rise to a VAT registration requirement in that country.

EU VAT rules summary for B2C transactions

On July 1, 2021, the European Union implemented new VAT rules for cross-border ecommerce transactions. The key changes fall into four categories.

One-Stop-Shop (OSS) Scheme Enhancement

The OSS scheme was expanded to cover distance sales of goods (including intra-EU sales) and certain domestic supplies of services.

Businesses can now use the OSS to declare and pay VAT on their business-to-consumer (B2C) sales in multiple EU member states through a single online portal.

Low-Value Consignment Relief (LVCR) Removal

The LVCR, which previously exempted VAT on low-value consignments, in other words goods with a value below a certain threshold, was abolished from law.

This means that all goods imported into the EU are now subject to VAT, regardless of their value.

Import One-Stop-Shop (IOSS) Established

The IOSS was introduced for the declaration and payment of VAT on the importation of low-value goods (not exceeding €150) by businesses into the EU.

This allows businesses to collect and pay the VAT to customs in a simplified manner, reducing the previous administrative burden.

eCommerce Marketplace Facilitation

Online marketplaces have become more involved in the VAT collection process for certain transactions. Marketplace facilitators are required to collect and remit VAT on certain sales made by non-EU businesses on their platforms.

EU VAT registration – B2C

Understanding your VAT registration requirements is the first step for any Ecommerce businesses to take when planning to sell in the EU.

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As a basic principle, your business will require a VAT registration for any country within the EU where you hold inventory.

For example, if your business uses Fulfilled by Amazon (FBA) services, and you hold inventory in several different Amazon fulfilment centres across the EU, you must have a VAT registration in each of these countries.

If you sell direct to a consumer within an EU country, you will need a VAT registration in that country. For example, you operate a drop shipping arrangement where you have a supplier/manufacturer based in the Netherlands and supply direct to consumers in the Netherlands.

Where you sell cross-border within the EU direct to consumers (also known as distance sales) and the total value of your sales exceeds EUR 10,000, you have two options to consider.

Option one is to register for the One Stop Shop (OSS) scheme in the country you are established in the EU. This option enables you to sell into all EU countries and file just one VAT return per quarter. The alternative would be to register for VAT in every country you sell into separately, which would be neither very practical nor efficient.

If your business is based outside the EU and sells directly to consumers within the EU. In this case you may register for the Import One Stop Shop (IOSS) scheme to simplify your VAT compliance requirements.

EU One Stop Shop scheme – B2C

The One Stop Shop scheme applies to businesses engaged in cross-border distance sales of goods. Distance sales are sales direct to consumer (B2C) from one EU country to another.

Businesses can use the OSS to declare and pay the VAT on their B2C transactions in multiple EU member states through a single online portal. This eliminates the need for businesses to register for VAT in each member state where they make sales. Usually, the business will register in the country they are established and just file one VAT return every quarter which covers all sales cross border within the EU to consumers.

Businesses using the OSS apply the VAT rate of the country of the consumer.

The OSS is not limited to EU businesses; non-EU businesses can also use the scheme to fulfil their VAT obligations on certain transactions within the EU.

Special Considerations:

There are some special considerations to be aware of with the OSS Scheme.

The OSS does not replace existing domestic VAT obligations for businesses with fixed establishments in a member state. Certain supplies, such as goods located in a member state at the time of sale, may not be eligible for OSS treatment.

For example, if an Irish business is registered for OSS but has multiple warehouses across the EU (France, Germany and the Netherlands), they will also need local VAT registrations in the countries they hold inventory.

If there is a sale from a warehouse direct to consumer in the same country, then technically that transaction should be reported on the local VAT return and not the OSS, as it's not a cross border distance sale.

In summary, the One-Stop Shop simplifies VAT compliance for businesses engaged in cross-border transactions within the EU, offering a centralized and streamlined approach to reporting and paying VAT on B2C sales of goods and services. It is a significant step toward harmonizing VAT procedures and creating a more efficient system for businesses operating in the EU market.

EU Import One Stop Shop scheme – B2C

The Import One-Stop Shop (IOSS) is a special scheme introduced by the European Union to simplify the collection and payment of Value Added Tax (VAT) on the importation of low-value goods.The IOSS is designed to streamline the customs process and reduce the administrative burden on businesses.

Here's a concise summary:

The IOSS is applicable to businesses that import low-value goods (not exceeding €150) into the European Union for sale to consumers.

For consignments over €150, the normal VAT rules apply and import VAT and customs duty may be due on importation into the EU.

If the seller is the importer of record, they will also require a local VAT registration in all countries they sell into.

Under the IOSS, businesses can collect, declare, and pay the VAT on low-value imports at the point of sale rather than at the point of importation. This aims to expedite the customs clearance process and enhance the overall efficiency of cross-border e-commerce. IOSS VAT returns are due monthly, which is different to the OSS which are quarterly.

Participation in the IOSS is voluntary for businesses. However, choosing to use the IOSS can offer advantages in terms of simplifying VAT compliance.

VAT Rates:

Businesses using the IOSS apply the VAT rate of the destination country for the low-value goods they sell to EU consumers.

Registration:

Businesses need to register for the IOSS in an EU member state of their choice. Once registered, they obtain a unique IOSS identification number that is used for customs and VAT purposes. For non-established EU businesses, they would need an EU established intermediary to register for IOSS on their behalf. Taxmatic will offer this service to non-EU businesses selling direct to consumers where the goods are shipped from a destination outside the EU to a country within the EU. Taxmatic can register the IOSS for the seller in Ireland, the country Taxmatic is established. The IOSS registration will be in the name of the seller and just have Taxmatic as the EU established intermediary.

Benefits:

Facilitates a smoother customs process for low-value imports, reducing delays and administrative complexities. Enhances the competitiveness of businesses by providing a more straightforward and transparent process for consumers.

In summary, the Import One-Stop Shop simplifies the VAT process for businesses involved in the cross-border sale of low-value goods into the EU. It offers a voluntary mechanism for businesses to collect and pay VAT at the point of sale, providing a more efficient and consumer-friendly approach to VAT compliance for low-value imports.

One significant market that could leverage the simplified rules of the IOSS is comprised of UK-based E-Commerce businesses aiming to directly reach EU consumers. Taxmatic provides a comprehensive and compliant solution, enabling these businesses to sell directly to EU consumers from the UK.

EU VAT rates by country – B2C

VAT rates vary across all EU member states, with rates varying from 0% to 27% depending on the country

Understanding and applying the correct VAT rate to your products based on where the goods are being delivered is a difficult task and is one of the biggest challenges and risks faced by Ecommerce businesses in the EU. Not only does each member state have different VAT rules and rates, but these are also ever changing and keeping on top of VAT rate changes in 27 countries is no small task.

In general, each member state has a standard rate, reduced rate and often a super reduced rate of VAT.

The standard rate of VAT applies to all goods and services that do not fall under any of the reduced VAT rates based on local legislation in the relevant jurisdiction. Based on EU guidelines, the standard rate must be at least 15%.

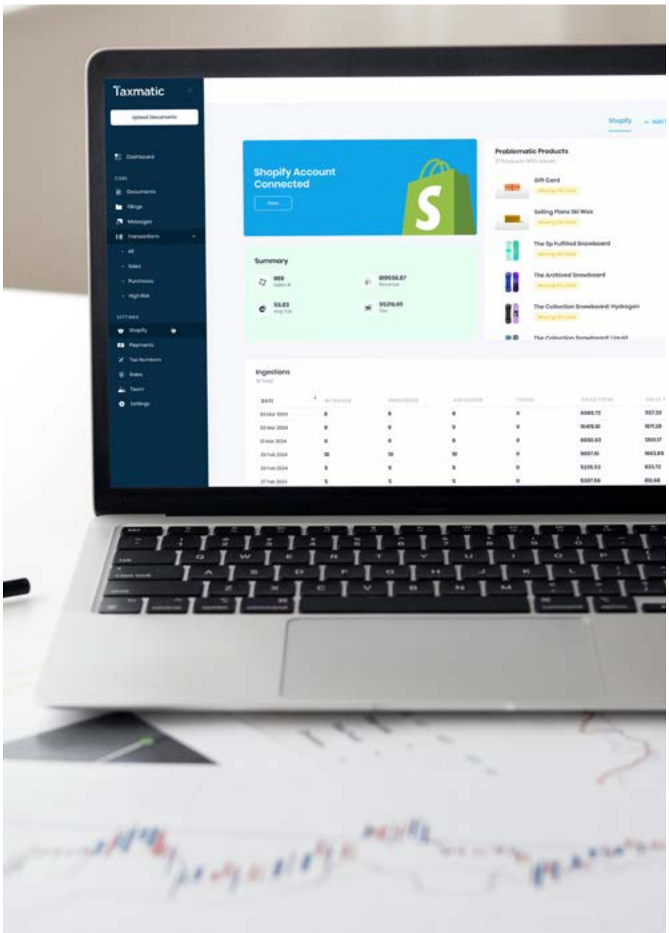
Reduced VAT rates are also commonly used across the EU, mainly for more essential items such as food for human consumption, domestic fuel, public transport, and clothing. Each EU member state has the autonomy to set their own VAT rates. Obtaining professional advice on the correct VAT rates to apply to your products is considered essential as current rates are subject to change.

List of VAT rates applied in EU Member States from Jan 01, 2024

Member State	Country Code	Super-Reduced Rate	Reduced Rate	Standard Rate
Belgium	BE		6% or 12%	21%
Bulgaria	BG		9%	20%
Czech Republic	CZ		12%	21%
Denmark	DK			25%
Germany	DE		7%	19%
Estonia	EE		9%	22%
Ireland	IE	4.8%	9% or 13.5%	23%
Greece	EL		6% or 13%	24%
Spain	ES	4%	10%	21%
France	FR	2.1%	5.5% or 10%	20%
Croatia	HR		5% or 13%	25%
Italy	IT		5% or 10%	22%
Cyprus	CY		5% or 9%	19%
Latvia	LV		5% or 12%	21%
Lithuania	LT		5% or 9.5%	21%
Luxembourg	LU	3%	8% or 14%	17%
Hungary	HU		5% or 18%	27%
Malta	MT		5% or 7%	18%
Netherlands	NL		9%	21%
Austria	AT		10% or 13%	20%
Poland	PL		5% or 8%	23%
Portugal	PT		6% or 13%	23%
Romania	RO		5% or 9.5%	19%
Slovenia	SI		5% or 9.5%	22%
Slovakia	SK		10%	20%
Finland	FI		10% or 14%	24%
Sweden	SE		6% or 12%	25%

Practical tips and guidance for VAT in EU – B2C

There are a number of actions you can take to ensure your business is well prepared to manage EU VAT obligations.



- Ensure you fully understand the countries in which a VAT registration is required in advance of any sales in the EU. VAT registrations can take 4-8 weeks to be approved by local tax authorities depending on the country and time of year, so it's very important to get on top of your registration requirements early.
- Understand what VAT rates apply to your products for each country you sell into. If this is not something you can manage yourself, then we would strongly advise engaging a professional tax service provider for assistance.
- Research and find an automated VAT solution that suits your needs and can connect directly to your online store to automate the VAT return preparation process.
- Consider VAT rates when setting the price for your products. Some online marketplaces like Shopify do have tax determination options available at checkout which adds the VAT rate of the specific country to the sale. It is also possible to have the VAT rate built into the total price, so the total price is consistent across all countries.
- Keep up to date with changes in VAT legislation. The EU VAT landscape has changed significantly over the last number of years and it extremely important for all businesses to stay on top of the latest legislative changes and be proactive in planning for future changes to ensure compliance.

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This guide is not intended to provide specific tax advice tailored to your situation. For personalized advice regarding your VAT obligations or any other tax matters, it is recommended that you consult with a qualified tax professional or contact the relevant tax authorities.