

VAT number in another EU country?

(Lecture B1065 – 12.19 minutes)

In most situations, sales of goods and services by a UK business to a customer based in an EU country outside the UK will not require the UK business to get a VAT registration number in that country. In many situations, UK VAT will be charged, even though the sale is to a customer outside the UK – for example, this is the default situation for a B2C supply of services. It is also the default position for a sale of goods to a customer who is not VAT registered in the other country, subject to the distance selling thresholds which I will consider in this session.

In relation to B2B transactions, most VAT on services will be accounted for in the customer's country because the customer must do a 'reverse charge' entry on his own VAT returns. And in the case of goods sold to a VAT registered business, the customer will account for acquisition tax on his return (and claim input tax as a separate entry, assuming the goods are used for his taxable business).

But there are situations when a UK business might need to get a VAT number in another EU country, which I will consider in this session.

Distance selling

Example 1

A UK based business sells men's shoes to a variety of customers throughout the UK and EU as a result of online orders, both to retailers and wholesalers, and also directly to private individuals. What are the VAT issues?

The good news is that any sales made to customers outside the UK in another EU country will be zero-rated if the goods leave the UK and the customer is VAT registered in his own country. Our UK supplier will need to keep evidence of the goods being shipped to that country, and also show the customer's VAT number on his sales invoice. The customer will account for acquisition tax on his own VAT returns.

In relation to sales to non-registered customers, the distance selling thresholds become relevant. Each EU country can choose one of two annual distance selling thresholds – either 35,000 or 100,000 Euros. In general terms, the countries with the higher rates of VAT opt for the lower threshold eg Denmark and Sweden. So a UK business selling goods into an EU country must keep a record of all sales made on a calendar year basis to customers in that country without a VAT number. Once the relevant distance selling threshold has been exceeded on sales made since 1 January, the UK business stops charging UK VAT on its sales and obtains a VAT number in the customer's country. It will charge the rate of VAT that applies in that country to the goods in question and complete VAT returns in that country. So the end result is that sales of shoes to private individuals in Denmark will be subject to Danish VAT of 25%.

Land services – an exception to the general rule

In most situations involving services, the place of supply is where the customer is based for a B2B sale and where the supplier is based for B2C sales.

These outcomes are known as the general place of supply rules. So if the place of supply is outside the UK, then no UK VAT is charged. There are important exceptions – for example, many B2C services are based on the customer’s location if the customer is outside the EU – see VAT Notice 741A, section 12. But a very important exception relates to land services, where the key issue is where the land or building is based.

Example 2

John is a builder in Manchester and VAT registered in the UK. He has secured two labour only jobs in other EU countries, carrying out bricklaying services.

A private house in France, working for the home owner ie B2C.

A restaurant in Italy is building an extension to its premises ie B2B.

In the first scenario, John will need to obtain a French VAT number and charge French VAT on his services. This is a bit of a nuisance but the good news is that he will be able to claim input tax on expenses he incurs in France, subject to the domestic French rules about input tax deduction.

In the case of the work for the restaurant, many EU countries apply legislation that avoids the need for an overseas builder providing B2B services having to register for VAT in that country.

This outcome is known as a ‘reverse charge extension to land services’ and means that output tax is accounted for on the VAT return of the customer ie a reverse charge calculation. The customer must be VAT registered in the country where the work is being carried out. However, Italy does not apply the reverse charge land extension (we apply it in the UK for overseas builders – see HMRC Notice 741A, para 7.6), so John will need to get an Italian VAT number and charge Italian VAT to the restaurant owner.

Zero registration threshold

You might be wondering why I said that John had to get Italian and French VAT numbers without thinking about the total fees he will earn and whether these will exceed the domestic registration thresholds in those two countries. The reason is because a business only gets a threshold in its own country. So John can earn £85,000 in any rolling twelve-month period in the UK before needing to worry about UK VAT but a zero threshold applies to work he does in the other 27 Member states. So even if the bricklaying work in France was for 25 Euros, he would still need a French VAT number to do things correctly ie because 25 exceeds zero.

Professional land services

A land service relates to all direct construction work eg services provided by electricians, plumbers, bricklayers and decorators. But it also extends to professional services that relate to a specific building or piece of land.

Example 3

Mary the accountant is confused and is not sure whether either of the following UK clients will need to become VAT registered in France:

Bill is a solicitor and has been asked to do the conveyancing work for a property that his UK client is buying in France

Ben is a property expert and is advising his UK client (private individual) about the best region in France to buy a property to obtain long term capital growth

Bill is supplying a land service in France and will need a French VAT number. Ben is providing a consultancy service rather than a land service so his services follow the general B2C rule ie he will charge UK VAT based on where he has his business.

Exhibition services and conferences

This is a confusing part of the legislation and a good reference if you have any clients involved with organising exhibitions, conferences and events is HMRC VAT Notice 741A, section 9.

A key challenge for the EU legislators is to try and ensure that businesses in different countries trade on a level playing field, and one outcome of this strategy is that the VAT liability of admissions to events is based on where the event is held.

Example 4

Janet is organising a conference in Spain on the benefits of a healthy lifestyle. She will charge an admission fee of £20 per delegate – the delegates will be a combination of business people and private individuals.

Janet must register for VAT in Spain and account for Spanish VAT on the admission fees. It is irrelevant that some of the customers are in business. The Spanish VAT registration will mean she can claim input tax on costs incurred in Spain (subject to the input tax rules in Spain).

Another important point is that many other sources of income linked to an event or conference will follow the general B2B and B2C rules. For example, if a German based pharmaceutical company sponsored our conference in Spain, the place of supply would be Germany and the German company would deal with the VAT on its own return by doing the reverse charge calculation based on the sponsorship fee charged by Janet.

Contributed by Neil Warren