EU VAT REGISTRATION OSS & IOSS

FOR US & CANADIAN BUSINESSES

OrsaSaiwai

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ESSENTIAL TIPS FOR ENSURING EU VAT COMPLIANCE

All USA and Canadian companies that sell goods and services to European customers are required to collect value-added tax (VAT). However, complying with the varying VAT rules and rates in different European countries can be a complex task.

The European Union (EU) consists of 27 nation states. VAT rules, thresholds and exemptions are not the same in each country. While the European regulators have attempted to simplify VAT collection and payment, US and Canadian businesses still face challenges. For instance, if your business sells to another EU-based business instead of directly to a customer, you may not need to collect VAT depending on both parties' locations.

Additionally, for all EU sales where EU VAT is collected, the government mandates collecting additional data to verify your customer's address.

This guide is specifically designed for North American Businesses selling to EU customers and provides an overview of the VAT Import One Stop Shop (IOSS) and VAT One Stop Shop (VAT OSS).

It covers essential topics such as registering for VAT collection, calculating and collecting VAT, as well as filing your VAT returns. Furthermore, you will discover how Orsa Saiwai Europe can assist you in ensuring effortless compliance.

HOW VALUE ADDED TAX WORKS IN THE EU

VAT is a tax on consumption that is imposed on all goods or services, whether they are digital or physical, and are sold within the European Union. It is levied whenever value is increased in the product's supply chain, starting from its production until it reaches the point of sale.
This tax is applicable throughout the entire supply chain of a product, starting from its production and continuing until it is sold to consumers.

COMPLIANCE WITH EU VAT REGULATION

The European Union has implemented stringent VAT guidelines to ensure fair competition and to protect consumers. Failing to comply with these rules can result in hefty fines, penalties, and even legal action. Moreover, non-compliance may damage your brand image, erode customer trust, and hinder future growth opportunities.

Failure to register promptly or neglecting to register altogether can result in significant financial consequences such as substantial fines and penalties. Additionally, interest will accumulate over time.

To illustrate this further, in Germany, if a business is obliged to register for VAT and fails to do so, they can be liable for significant penalties. The exact amount can vary, but fines can reach up to €25,000, demonstrating how seriously tax authorities take these obligations. While in France, the penalty for late VAT registration can be up to €15,000 and a year in prison in the most severe cases.

VAT rules in Europe may vary depending on your location, the nature of your sales, the base of your customers, and whether they are businesses or individuals. However, it is important to note that regardless of these differences between countries, there are consistent steps for VAT compliance if you are selling within the EU.

VAT AND VAT REGISTRATION IN EUROPE

The registration and collection of VAT in the EU varies depending on the country of your business.

For businesses operating in the Republic of Ireland, there are different thresholds for businesses providing services and businesses selling good. For service sector businesses the threshold in €37,500; for goods businesses the thresholds is €75,000. A similar regime applies in France. These thresholds only apply to domestic or in-country business. However, businesses located outside of Europe or engaging in cross-border consumer sales within Europe must register prior to their first sale in that country.

The key for North American businesses is to understand their potential European VAT liability and the VAT registration that they need to apply.

In many cases where the business does not have any presence in any EU country and deals with EU customers either digitally or dispatches goods directly from the North American to the EU customer, they can apply for one of the EU One Stop Shop VAT regimes.

SCOPE	EU ONE STOP SHOP (OSS)	EU ONE IMPORT STOP SHOP (IOSS)	EU COUNTRY VAT REGISTRATION
US/Canadian businesses selling digital products B2C to EU customers [1]	Possible to utilize the One Stop Shop regime (OSS)		If decided not to use OSS, there is requirement to register for EU VAT in the EU country where the B2C sales occur - this could result in registration in the 27 EU states
US/Canadian businesses selling products B2C with an intrinsic value below Euro 150 [1] [2]		Possible to utilize the Import One Stop Shop regime (IOSS)	If the instrinsic value of the product sold is above 150 Euro or the business decides not to register for IOSS, there is a requirement to register for EU VAT in the EU country where the B2C sales occur - this could result in registration in the 27 EU states
US/Canadian businesses storing goods in the EU for onward sale			If a business holds goods in the EU, either through a 3PL or in another storage method then it must register for VAT in the country where the goods are stored. In the case of some third party logistic (3PL) companies, such as Amazon, this may require VAT registration in several EU countries.
US/Canadian businesses that provide services B2B to EU based businesses			In many cases where the EU business holds a valid VAT registration, VAT registration by the US/Canadian business would not be required

[1] B2B SALES TO EU BUSINESSES THAT HAVE A VALID EU VAT REGISTRATION MEANS THAT THERE IS NO REQUIREMENT TO REGISTER FOR VAT IN THE EU
[2] THE GOODS MUST BE OUTSIDE THE EU WHEN SOLD TO THE EU B2C CUSTOMER

VAT AND VAT REGISTRATION IN EUROPE CONTINUED

On top of different registration thresholds, all EU countries have different registration procedures as well, including widely different registration timelines.

To stay compliant in all EU countries where you are doing business, you should track your thresholds automatically to predict when to initiate registration procedures.

When you register for VAT in an EU country, the tax authorities will issue you a unique VAT identification number.

This number is crucial for conducting business transactions within the European Union (EU) and abroad.

It consists of between 4 and 15 digits and begins with a two-letter country code, such as IE (for Ireland or IT for Italy), representing the member state where your business is registered.

Following the country code, there are an additional 2 to 13 characters that make up the rest of the VAT ID.

Including your VAT identification number on your sales invoices is mandatory in most EU countries.

This enables other businesses to easily verify your VAT registration status when conducting trade with you.

Conversely, when selling goods or services to other VAT-registered businesses, it is important to collect their VAT identification number as well.

This ensures that you are adhering to the correct invoicing procedures and that they can benefit from the intra-community acquisition rules within the EU.

Having a valid VAT ID not only facilitates smoother cross-border transactions but also grants access to entitlements like zero-rated exports.

Additionally, it helps prevent errors in cross-border trade statistics by accurately identifying genuine taxable entities.

Furthermore, including your VAT identification number on invoices can create a professional image for your business and instil confidence in both domestic and international customers.

While each EU member state has its own registration process for obtaining a VAT ID number, it generally involves submitting an application form along with supporting documents such as proof of business establishment and identity verification.

Once approved, you will be assigned a unique identifier that should be used consistently throughout all your operations.

Maintaining accurate records of both incoming and outgoing VAT numbers is recommended since tax audits may require evidence of both sides of any intra-community transactions.

Ensuring compliance with this essential requirement will enable seamless business operations while staying compliant with tax regulations across borders.

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REGISTERING FOR VAT OSS FOR NORTH AMERICAN BUSINESSES

The **VAT One Stop Shop (VAT OSS)** non-Union scheme allows US and Canadian businesses to sell digital products to individual customers in the EU.

By registering for the VAT One Stop Shop, North American businesses gain access to a simplified process for handling Value Added Tax (VAT) obligations. They have the flexibility to choose any European country in which to register for VAT OSS, depending on factors such as customer base or preference.

It is common for non-EU businesses to select countries where their largest customer segments are located, or they may opt for registration with a country that offers favorable tax regulations or administrative processes.

This scheme offers convenience and streamlines the VAT compliance process for these businesses while ensuring they remain compliant with EU tax laws when selling digital products within the European market.

REGISTERING FOR IMPORT ONE-STOP SHOP (IOSS) FOR NORTH AMERICAN BUSINESSES

US and Canadian businesses operating in the European market may avail themselves of a streamlined EU Value Added Tax (VAT) scheme known as the **Import One Stop Shop (IOSS).** This option is available if they sell goods directly to consumers located within the European Union and if the total value of the imported goods does not exceed EURO 150.

IOSS simplifies VAT obligations for businesses engaged in e-commerce by allowing them to collect and remit VAT at the point of sale. By doing so, these businesses avoid complex procedures associated with traditional importations into the EU market.

As a result, this scheme significantly reduces administrative burdens while facilitating smoother cross-border trade operations.

Applying for IOSS provides several benefits to US and Canadian businesses. Firstly, it ensures that VAT compliance requirements are met, promoting adherence to tax regulations within EU member states.

Secondly, it allows for faster import clearance processes, resulting in expedited delivery times and enhanced customer satisfaction.

Furthermore, IOSS enables businesses to offer total product prices to EU consumers at checkout, eliminating any surprises related to taxes or fees upon receipt.

In order to participate in the Import One-Stop Shop (IOSS) system, North American businesses are required to initially register for an IOSS identification number from the appropriate European Union (EU) tax authority.

They will need to appoint an approved EU VAT IOSS agent for this, e.q. Orsa Saiwai Europe, which is an approved IOSS agent.
This registration process ensures that businesses are properly recognized and can effectively utilize the benefits and conveniences offered by the IOSS program.

Once a business has obtained their IOSS identification number, they can proceed with attributing this unique number to their goods' packaging or accompanying documentation, which must be done prior to shipping any consignments valued below 150 EURO to customers located within the European Union.

By labelling their goods with the assigned IOSS number, North American businesses can facilitate smoother customs clearance processes when their consignments enter EU member states. Moreover, this unique identifier assists taxation authorities to accurately assess VAT and customs duties, ensuring compliance with relevant regulations.

The IOSS framework is primarily aimed at easing cross-border e-commerce transactions within the EU. Participating businesses benefit from simplified VAT collection procedures and reduced administrative burdens associated with fulfilling VAT obligations across multiple jurisdictions.

Furthermore, consumers within the EU experience enhanced convenience when purchasing goods from US and Canadian sellers participating in the IOSS program. They no longer face unexpected charges or delays at customs since VAT and customs duties have already been settled during purchase.

This seamless integration of the IOSS system effectively streamlines processes for both businesses and consumers alike, promoting a more efficient cross-border trade environment within the European Union.

Leveraging the advantages of IOSS empowers US and Canadian enterprises by providing a competitive edge in an ever-expanding online marketplace without compromising regulatory compliance.

The simplified procedure helps foster seamless trade relationships between North American businesses and their European customers while enhancing efficiency and reducing costs associated with VAT administration.

Therefore, adopting IOSS proves beneficial for companies seeking EU e-commerce growth opportunities with EU consumers.

FIVE KEY REASONS WHY NORTH AMERICAN BUSINESS SHOULD USE EU VAT IOSS

01 Leveraging the advantages of IOSS enables US and Canadian enterprises to access a larger customer base in the European Union (EU), thereby expanding their market reach.

02 IOSS simplifies cross-border transactions by allowing businesses to collect and remit VAT at the point of sale, streamlining operations and reducing administrative burden.

03 By using IOSS, US and Canadian companies can provide a seamless shopping experience for EU customers, increasing customer satisfaction and loyalty.

04 IOSS empowers enterprises to compete with local EU businesses on equal footing by eliminating customs delays or additional costs associated with importing goods into the EU.

05 By utilizing IOSS, US and Canadian firms can benefit from improved cash flow as they receive immediate payment for VAT from customers at the time of purchase.

KEY POINTS WHEN APPLYING EU VAT ON SALES

Calculating EU VAT (Value Added Tax) on a transaction requires consideration of several key factors. VAT regulations can be complex and can vary between different EU member states. Here are the main points you need to consider:

- **APPLICABLE VAT RATES:**

Each EU member state sets its own VAT rates for different goods and services. These rates can vary, and some goods or services might even be exempt from VAT

- **PLACE OF SUPPLY**

The location of the customer or the recipient of the goods or services will determine which country's VAT rules you need to follow. For business-to-business (B2B) transactions, this is usually the country where the customer is registered for VAT. For business-to-consumer (B2C) transactions, it is the country in which the customer is located.

- **VAT REGISTRATION:**

If your business is selling goods or services across EU borders, you might need to register for VAT in each relevant member state. There are distance selling thresholds that, if exceeded, will trigger the requirement to register for VAT in the customer's country.

KEY POINTS WHEN APPLYING EU VAT ON SALES CONTINUED

- **INVOICING REQUIREMENTS**

EU VAT regulations specify what information must be included on invoices in order for them to be considered valid for tax purposes. This includes a VAT identification number, the customer's VAT number (if applicable), the VAT rate applied, and more.

- **VAT EXEMPTIONS AND REDUCED RATES**

Some goods and services may be exempt from VAT or subject to reduced rates. For example, certain medical products, educational services, and essential food items might be eligible for special VAT treatment.

- **REVERSE CHANGE MECHANISM**

In certain B2B transactions, the responsibility for accounting for VAT may shift from the supplier to the customer. This is known as the reverse charge mechanism, and it's common for certain services like B2B digital services.

- **IMPORT / EXPORT RULES**

For transactions involving the movement of goods across EU borders, import and export rules need to be considered, as well as any VAT and customs duties that may apply.

- **VAT REFUNDS**

If a business incurs VAT in another EU member state, that business may be eligible to claim a VAT refund under certain conditions.

IDENTIFYING WHETHER YOUR CUSTOMERS ARE BUSINESSES (B2B) OR PRIVATE INDIVIDUALS (B2C)

Identifying whether your customers are businesses (B2B) or private individuals (B2C) is crucial in the process of calculating VAT. By accurately categorizing your customers early on, you can adhere to the appropriate tax regulations and ensure compliance.

To determine the status of your customer, thorough assessment and documentation are necessary. For B2B transactions, verifying if the customer possesses a valid VAT registration number becomes imperative.

This can typically be obtained through invoices or other official documents provided by the business entity. Additionally, external databases or verification platforms may offer assistance in confirming their business status.

On the other hand, identifying private individuals for B2C transactions generally involves assessing personal information such as residential addresses and payment methods used. It is important to note that certain transactions with private individuals may fall under special VAT rules, such as those related to distance selling or digital services.

Once you have distinguished between B2B and B2C customers successfully, applying the correct VAT rates becomes more streamlined.

For B2B transactions within the same country, VAT should be charged according to applicable domestic regulations. Meanwhile, cross-border B2B transactions might involve reverse-charging mechanisms where VAT responsibility shifts to the recipient rather than being charged directly by the supplier.

Understanding complex tax requirements surrounding business and individual customers enables businesses to remain compliant with relevant legislation while ensuring accurate implementation of VAT calculations.

These considerations contribute not only to precise financial reporting but also instil trust among customers who rely on transparent pricing structures.

DETERMINING WHICH EU COUNTRY COLLECTS YOUR VAT

Determining which EU country collects Value Added Tax (VAT) on your sales from the US or Canada involves considering several key points.
Here are five key points to consider:

- **Thresholds for VAT Registration:** Each EU country has its own VAT registration thresholds for US and Canadian businesses selling goods or services to consumers within the EU. If sales to EU customers exceed these thresholds in a particular country, you may be required to register for VAT in that country and charge VAT on your sales.

- **Type of Goods or Services Sold:** The type of goods or services you sell can also impact the VAT rules that apply. Some products or services may be subject to different VAT rates or exemptions in different EU countries.

- **Location of Your Customers:** The EU country in which your customers are located can affect the VAT treatment of your sales. If you sell to consumers (non-VAT registered individuals) in the EU, you generally charge the VAT rate applicable in the destination country. However, if you sell to VAT-registered businesses (B2B transactions), VAT may not be applicable under certain conditions (reverse charge mechanism).

- **EU VAT Distance Selling Rules:** If you are selling goods to consumers (non-VAT registered individuals) in multiple EU countries and your total sales to each country surpass their respective distance selling thresholds, you may have to register for VAT in each of those countries.

- **Special Rules for Digital Services:** If you sell digital services to consumers in the EU, such as software downloads, e-books, or streaming services, there are special VAT rules known as the "OSS" (Mini One Stop Shop) that allow you to declare and pay VAT in a single EU country, rather than registering for VAT in the multiple EU countries where you have customers.

DETERMINING EU VAT RATES

The determination of VAT rates in EU countries is an area that allows for some flexibility. The European Union has set a minimum VAT rate of 15% that applies to all its 27 member states. However, individual countries have the discretion to impose higher rates if they choose to do so. This has led to a significant disparity in actual VAT rates across the EU.

Within these member states, the range of VAT rates can vary quite substantially. At the lower end, Luxembourg had a standard VAT rate of 17%, while at the upper end, Hungary had the highest standard VAT rate at 27%

VAT RATES FOR DIGITAL PRODUCTS

While the most common definition of a digital product is any product or service that is delivered, accessed, or consumed electronically through digital means, typically over the internet or other electronic networks. The EU VAT regulations definition also require that the product is essentially automated with minimal human intervention.

The EU VAT definition encompasses a wide range of digital goods and services, including but not limited to:

- E-books and other electronically supplied publications
- Software applications and mobile apps.
- Online games and gaming services.
- Digital music and videos.
- Streaming and downloading of content.
- Webinars, online courses, and e-learning materials.
- Website hosting services.
- Software as a Service (SaaS) subscriptions.
- Cloud computing services.

In the EU digital products are typically subject to standard VAT rates, but this can vary from country to country. Exceptions exist for certain types of digital products in different jurisdictions. For instance, in Austria, the VAT rate for e-books is reduced to 10%, while in Spain it is further reduced to just 4%. These reduced rates aim to promote the consumption and affordability of digital content within these markets.

VAT RATES FOR PHYSICAL PRODUCTS

VAT rates for physical goods can vary among different EU member states, and some items may be eligible for reduced, special, or zero rates based on national regulations and EU directives.

Here are some examples of how VAT rates can differ for physical goods in certain EU countries:

- **Reduced Rates:** Some countries offer reduced VAT rates for specific products. Here are five examples of EU countries that offer reduced VAT rates for specific products:
  - **France**: Reduced VAT rates are applied to a range of products, including certain food items, books, pharmaceutical products, and some cultural events.
  - **Italy:** Italy applies reduced VAT rates to various goods and services, such as basic foodstuffs, newspapers and periodicals, and domestic passenger transport.
  - **Germany**: Reduced VAT rates are applicable to certain foodstuffs, books, newspapers, and other printed matter
  - **Spain**: Spain offers reduced VAT rates for essential products such as basic foodstuffs, pharmaceuticals, and some cultural and entertainment events.
  - **Portugal**: Reduced VAT rates are applied to products like essential foodstuffs, books, and passenger transport services.

- **Zero Rates:** Certain essential items or goods may be subject to a VAT rate of zero percent. This effectively means there is no VAT charged on these products. Each country has its own list of zero-rated goods. Some examples are:
  - **Ireland** applies a zero VAT rate to certain food products, oral medicines, children's clothing, printed books, and newspapers, among other essential items.
  - **Belgium** has a list of zero-rated goods that includes various food products, medical supplies, some passenger transport services, and books.
  - **Luxembourg** applies a zero VAT rate to specific food products, printed books, and certain medicines.
  - **Malta** offers a zero VAT rate on some basic food items, prescription medications, printed books, and certain medical equipment.
- **Special Rates:** Some EU countries have special VAT rates for particular goods or services due to specific economic, cultural, or social reasons. Here are a number of examples:
  - **Greece** has a special reduced VAT rate for some of its islands. These islands benefit from a lower VAT rate compared to the standard rate, as part of an effort to support their economies and tourism sectors.
  - **Poland** has a reduced VAT rate for printed books, newspapers, and periodicals, aiming to support literacy and cultural development.
  - **Italy** applies a reduced VAT rate for hotel accommodation, which is lower than the standard rate, to support the tourism industry.

COLLECTING DATA ON CUSTOMERS.WHY IT MATTERS

Due to the varying Vat rates in the EU, tax authorities require a record that verifies the customer's location during the purchase of digital goods and services.

When selling digital goods and services to customers in the European Union, US and Canadian businesses are required to collect at least two pieces of non-contradictory evidence to ascertain the location of the EU customer.

This is to ensure that the correct VAT rate is applied based on the customer's location.

The information collected can include:

- Billing Address: The address the customer provides for billing purposes can serve as a proof of their location.
- Internet Protocol (IP) Address: The IP address from which the customer made the purchase can give an indication of their location.
- Bank Details: The country of the customer's credit or debit card, or the location of their bank, can also serve as a piece of evidence.
- Country Code of SIM Card: If the purchase is made through a mobile device, the country code of the SIM card can be a clue to the customer's location.
- Location of the customer’s fixed land line: This can be used for services supplied through a fixed land line.

COLLECTING DATA ON CUSTOMERS.WHY IT MATTERS CONTINUED

These are some examples, but other pieces of commercially relevant information can be used, as long as they give a reliable indication of the customer's location.

The two pieces of evidence must corroborate each other to satisfy the requirements. This information should be stored for ten years to ensure compliance with audit requirements.

DIGITAL SERVICES EU VAT COMPLIANCE REGULATIONS FOR US AND CANADIAN BUSINESSES

Under the EU VAT rules for digital services, businesses are required to hold certain information to ensure compliance. The data they are expected to keep includes:

- Customer Details: Businesses should retain the necessary customer details such as name, address, and any other identification information used for VAT purposes.
- Transaction Records: Detailed records of each transaction should be kept. This includes the nature of the goods or services provided, date of supply, the VAT rate applied, and the amount of VAT charged.
- Location Verification: As we discussed earlier, businesses need to collect at least two pieces of non-contradictory evidence to confirm the location of the customer at the time of the transaction. This could be the customer's billing address, IP address, bank details, country code of the SIM card, etc.
- VAT Payments: Businesses should keep records of the VAT they've reported and paid in each EU member state.

All these records should be stored for a period of ten years. This is to ensure that businesses can provide evidence of compliance with the VAT rules if they are ever audited or checked by the tax authorities

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In order to be regarded as sufficiently detailed within the meaning of Article 369x of the VAT Directive, the records kept by the taxable person or the intermediary acting on his or her behalf shall contain the following information:

(a) the Member State of consumption to which the goods are supplied
(b) the description and quantity of goods supplied
(c) the date of the supply of goods
(d) the taxable amount indicating the currency used
(e) any subsequent increase or reduction of the taxable amount
(f) the VAT rate applied
(g) the amount of VAT payable indicating the currency used
(h) the date and amount of payments received
(i) where an invoice is issued, the information contained on the invoice
(j) the information used to determine the place where the dispatch or the transport of the goods to the customer begins and ends
(k) proof of possible returns of goods, including the taxable amount and VAT rate applied
(l) the order number or unique transaction number
(m)the unique consignment number where that taxable person is directly involved in the delivery.

WHY CHOOSE ORSA SAIWAI AS YOUR EU VAT PARTNER

We have been assisting US and Canadian businesses since 2007 in relation to EU VAT registration and compliance.

We currently act as the authorized VAT intermediary for over 650 US and Canadian companies. We pride ourselves in providing our clients with frictionless solutions that allow them to focus on their core business.

Orsa Saiwai's presence in the UK, Europe and North America makes us one of the leading EU VAT compliance companies for North American business and provides you with the assurance of working with a VAT partner that understands the needs and requirements of US and Canadian businesses across multiple business sectors.

DISCLAIMER

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The information described above provides simplified explanations of the new EU VAT new rules OSS and IOSS scheme. However, this information is not exhaustive and it is highly recommended to rely on the existing regulations in force to have a more comprehensive view on the impact of the new rules on your business. For more information about IOSS and the new VAT rules, contact us now at 1-828-378-5593 or visit the EU customs and taxation website.