Multi Country Inventory (MCI) shipments and VAT

Do not let VAT be a barrier to using MCI Programme

May 2014

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Questions we will be answering today…

Q: "What **VAT related obligations** do I have when I move my inventory under the Multi Country Inventory (**MCI**) Amazon programme within the EU?"

Q: "What is the **difference** between Amazon´s **MCI** and **EFN** (European Fulfillment Network) programme **from VAT perspective**?

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For the avoidance of doubt…

- We will be talking about sales to <u>private individuals</u> today, whereby inventory is sold / shipped to the customer directly either from your local **EFN location**; or the inventory is firstly moved under the **MCI programme** and subsequently sold from the respective Fulfillment Centre (FC).

- Different rules apply if you sell to businesses who are registered for VAT in other EU countries.

- We will mainly be talking about shipments <u>from one EU country to other EU countries</u> today. Different rules apply if you ship to / from non-EU countries such as Norway, Switzerland, the US etc.

- If you sell to businesses, to customers in non EU countries or have imports into the EU from outside the EU, the related VAT rules are complex and we would be happy to discuss them with you individually.
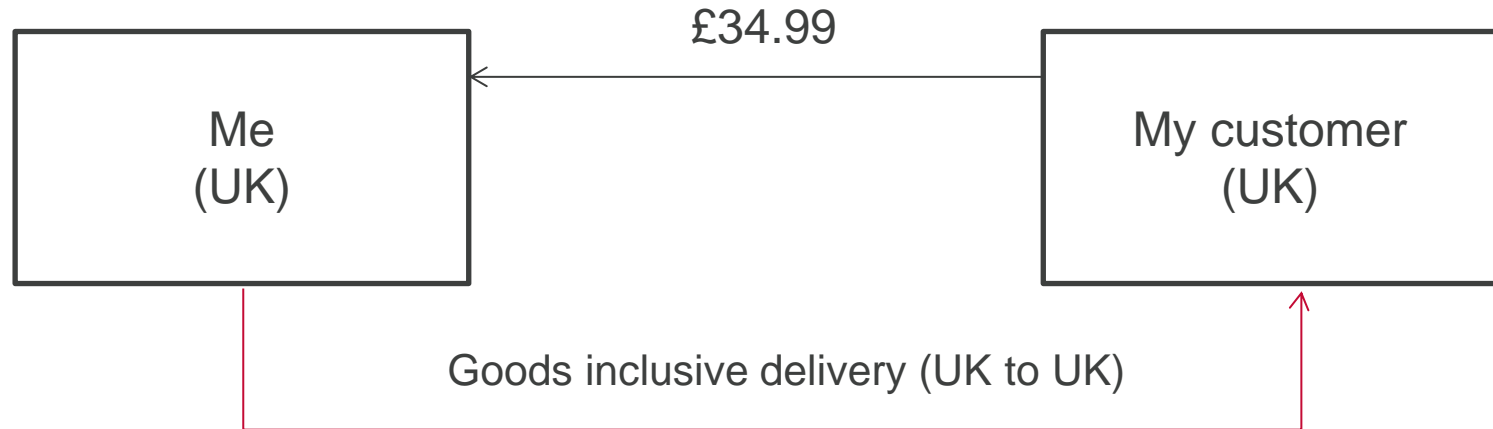
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For the avoidance of doubt…

- We will only be talking about sales of <u>goods</u> today (i.e. products that are subject to physical shipment). Different rules apply for sale of services online, e.g. apps, music downloads, etc.

- "I have heard about changes to the EU VAT rules for online traders that are due to come into force from 1 January 2015. How will they affect me?"

- Those 2015 changes <u>only</u> relate to supplies of <u>services</u>, e.g. apps, downloads, not to supplies of goods that are subject to physical shipment.

- There are currently no plans to change the rules that we will be discussing today.

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Recognise this scenario?

£34.99

| Me (UK) | ← | My customer (UK) |

Goods inclusive delivery (UK to UK)

Gross: Customer pays £34.99 for the goods, including shipping.

VAT: UK VAT @ 20% = £34.99 / 120 x 20 = £5.83

Net: £34.99 (gross) - £5.83 (VAT) = £29.16

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EFN Programme
So what does that mean for me…?

£34.99

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┌─────────────┐  ←──────────────  ┌─────────────────┐
│     Me      │                   │  My customer    │
│    (UK)     │                   │   (Germany)     │
└─────────────┘                   └─────────────────┘
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Goods inclusive delivery (UK to Germany)
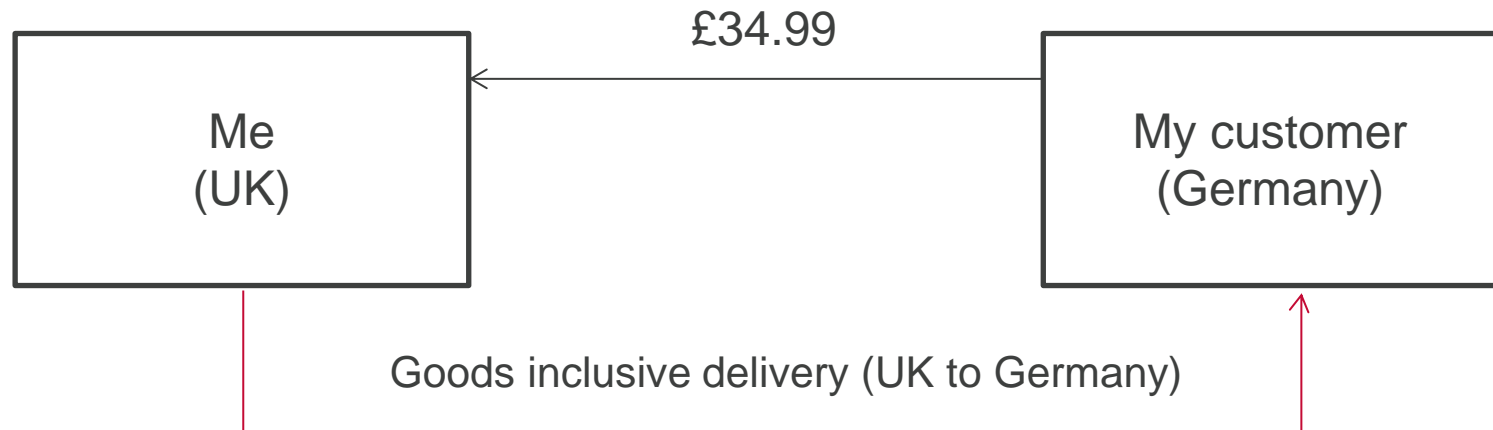
Relevant period:	Calendar year (1 January – 31 December)
Net sales:	< EUR 100,000 = UK VAT (VAT of "ship from" country)
	≥ EUR 100,000 = German VAT (VAT of "ship to" country)

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What does that mean for me…?

- If my net sales to private individuals in Germany exceed the German distance selling threshold, I need to register for VAT in Germany (obtain a German VAT number). If my net sales are below the distance selling threshold, I am charging UK (ship from country) VAT.

- Once registered, I need to file German VAT returns in addition to UK VAT returns.

- I need to charge / account for German VAT at the appropriate rate on all shipments to private individuals in Germany going forward.

- I need to pay that German VAT to the German tax authorities (instead of UK VAT).

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How does MCI work?

Inventory

| Me (UK) | Inventory → | Amazon´s German FC |

Inventory movement (UK to Germany)

Does VAT have to be accounted for in this scenario and if so, what VAT?	
A. UK VAT	B. No VAT
C. German VAT	D. It depends

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And the correct answer is…


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┌──────────────┐        Inventory        ┌──────────────┐
│     Me       │ ──────────────────────► │  Amazon´s    │
│    (UK)      │                         │  German FC   │
└──────┬───────┘                         └──────▲───────┘
       │   Inventory movement (UK to Germany)   │
       └────────────────────────────────────────┘
```

Does VAT have to be accounted for in this scenario and if so, what VAT?	
A. UK VAT	B. No VAT
C. German VAT	D. It depends

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Why do I have to account for German VAT if I am only moving my inventory from the UK to Germany...?

- Movement of goods between EU countries by a company is considered as taxable supply from VAT perspective.

- I have not sold anything (yet) out of the German FC, only moved my inventory from the UK to the German FC...

- Such movement alone gives rise to:
  - VAT registration obligation in Germany
  - VAT reporting obligation in the UK
  - VAT reporting obligation in Germany

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MCI and VAT (inventory movement)

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┌─────────────┐       Inventory        ┌─────────────┐
│             │ ─────────────────────> │   Amazon´s  │
│     Me      │                        │  German FC  │
│    (UK)     │                        │             │
│             │                        │             │
└─────────────┘                        └─────────────┘
       │                                       ▲
       └───── Inventory movement (UK to Germany) ──────┘
```

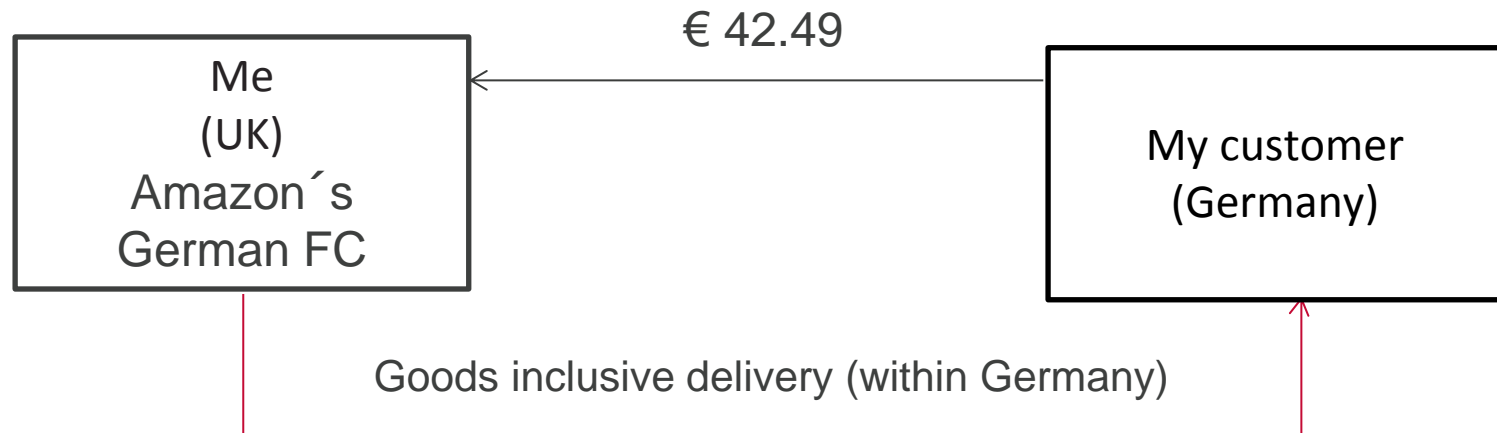| VAT reporting / accounting obligation	
UK: Zero rated intra-Community supply	DE: VAT registration liability
UK: EC Sales List (report with all zero-rated intra-Community supplies)	DE: Self-accounting for German intra-Community acquisition VAT (declaring output / input VAT in the same VAT return)
UK: Intrastat (subject to threshold, statistical report about movements of goods)	DE: Intrastat (subject to threshold, statistical report about movements of goods)

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MCI and VAT (sale to customer in Germany)

€ 42.49

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┌─────────────────┐                    ┌─────────────────┐
│       Me        │ ◄──────────────    │   My customer   │
│      (UK)       │                    │    (Germany)    │
│    Amazon´s     │                    │                 │
│   German FC     │                    │                 │
└─────────────────┘                    └─────────────────┘
        │                                       ▲
        └──── Goods inclusive delivery (within Germany) ────┘
```

VAT reporting / accounting obligation	
DE: German VAT to be charged	

- When selling to EU customers from the German FC, the regular distance selling rules apply (if my sales to customers in France out of the German FC exceed the French distance selling threshold, I will have to VAT register in France and charge French VAT).

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So what is the difference between MCI and EFN?

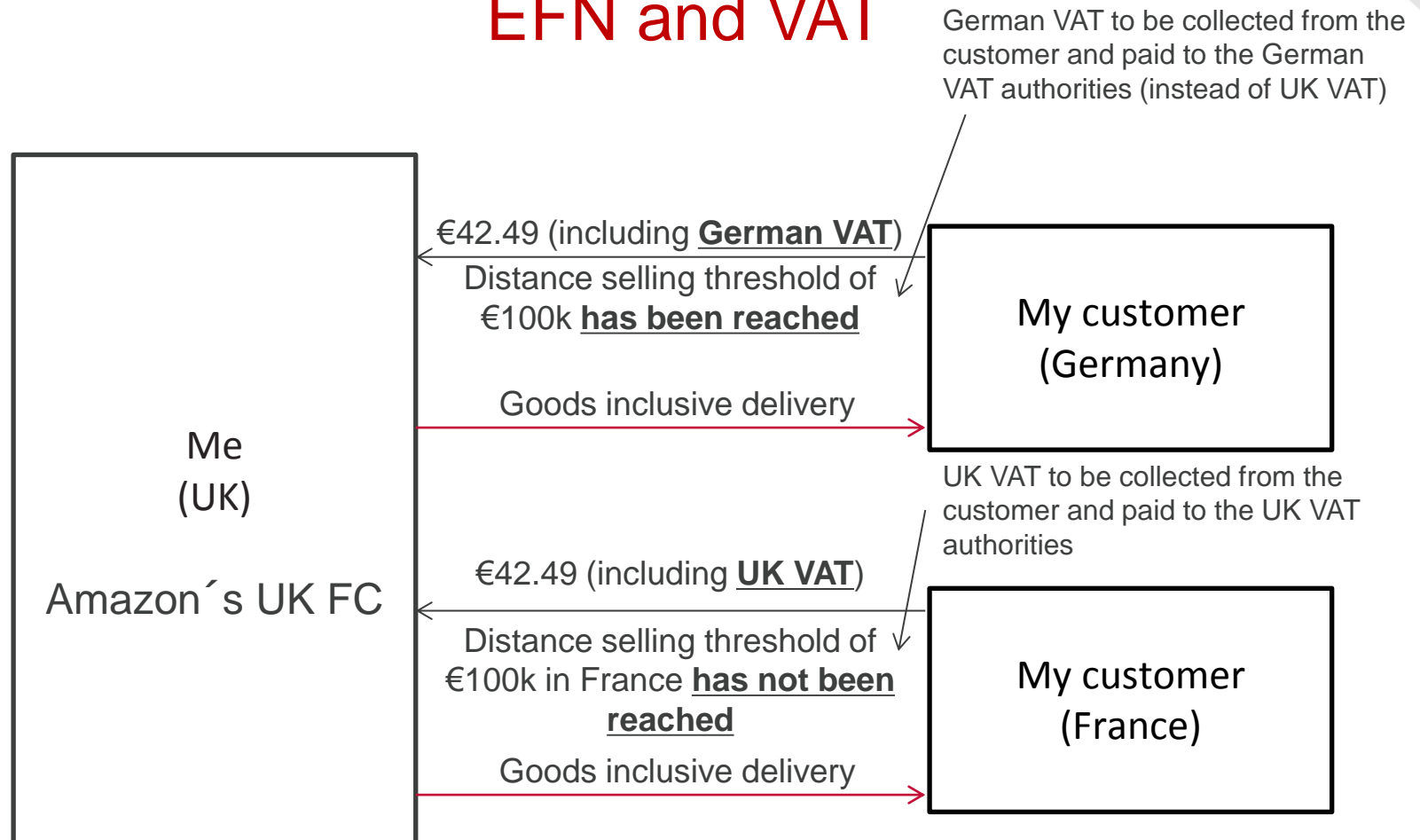|	**EFN**	**MCI**
Threshold	✓ distance selling threshold in ship to country needs to be observed based on my sales from each EFN FC (ship from countries) individually ✓ until such threshold is reached, no VAT registration obligation in ship to country	✓ no thresholds when moving inventory cross border → VAT registration obligation in ship to country based on the very first inventory shipment
Supplies	✓ 1 supply UK FC → German customer	✓ 2 supplies UK → GE FC GE FC → German customer
VAT reporting	✓ if my sales are <u>below</u> distance selling threshold → I am charging UK VAT ✓ if my sales are <u>above</u> distance selling threshold → I have to VAT register in ship to country and have to charge ship to country´s VAT	✓ when moving inventory to ship to country, immediate VAT registration liability and obligation to self account for ship to country´s VAT → (nil effect – no VAT payable, however, still VAT compliance obligation)

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So what is the same between MCI and EFN?

	EFN	**MCI**
Charging ship to country's VAT	✓ once my sales are <u>above</u> the ship to country´s distance selling threshold, I have to VAT register in ship to country and <u>charge ship to country´s VAT</u>	✓ obligation to VAT register and <u>charge ship to country´s VAT</u> (immediately without considernig any thresholds as long as the inventory is shipped from the ship to country's FC)
Intrastat reporting	✓ once my sales (and movements) from my EFN FC (UK) exceed Intrastat dispatch threshold, UK Intrastat reporting obligation arise ✓ upon reaching the Intrastat arrival threshold in the ship to country (regardless where the inventory is shipped from), ship to country's Intrastat reporting obligation arise ✓ Intrastat thresholds are calculated based on your company's overall shipments from and into the respective country	
Invoicing	✓ under both supply chain arrangements, based on the EU and national VAT legislations, VAT invoices to my customers have to be issued	

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EFN and VAT

German VAT to be collected from the customer and paid to the German VAT authorities (instead of UK VAT)

Me
(UK)

Amazon´s UK FC

€42.49 (including **German VAT**)

Distance selling threshold of €100k **has been reached**

Goods inclusive delivery

My customer
(Germany)

UK VAT to be collected from the customer and paid to the UK VAT authorities

€42.49 (including **UK VAT**)

Distance selling threshold of €100k in France **has not been reached**

Goods inclusive delivery

My customer
(France)

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MCI and VAT
(sale to customer in Germany)

€ 42.49 (including German VAT)

| Me
(UK) | | Me (UK)
Amazon´s
German FC | | My customer
(Germany) |

Inventory movement (UK to Germany)

Delivery (within Germany)

VAT registration obligation in Germany
Self accounting for German acquisition VAT

German VAT to be collected from the
customer and paid to the German
VAT authorities (instead of UK VAT)

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Some common questions

- How will the different VAT rates affect my pricing? Do I need to charge different prices to customers in different countries?

- What rate of VAT do I charge on the shipping fees?

- Do I need to issue invoices?

- Can I do all of this myself or will I need help?

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