



vat's important
Do I know my supply chains?

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Globalisation is on everyone's lips. The fact that globalisation can also have great impact in the area of indirect taxation in connection with the entry of goods is not always on the radars of internationally active companies, however, this can lead to enormous costs. Our experience tells us that only few companies are really aware that one of the many effects of globalisation can even be a reduction in costs, as the August edition of vat's important reports.

International trade policy has definitely seen better times. On both sides of the "pond", threats of limitations on international trade continue to grow; trade wars already rage between other parts of the globe. Talk is of new borders to be built, not only political but also of an economic nature. New customs duties between the economic regions, which had long been considered dead and gone, have been dug out again from the mothballs of history. Without wanting to be too pessimistic, it smells much like the 1930s.

But few are truly aware that more issues than just custom duties are involved. VAT implications – from future costs to new registrations for VAT purposes – could lead to enormous additional administrative outlay. But while, here and there, this extra outlay can't be avoided altogether, it can at least be reduced.

What does this mean for my company?

The more or less unrestricted international movement of goods has become a normality for us all. Companies no longer scrutinize their own transactions at all; sometimes a company is not even aware what countries are involved in its purchases and sales. This poses risks. When we consider that the average VAT rate within the European Union (EU) is around 22%, it is clear just how much money may be involved in the incorrect handling of a transaction.

Goods are rarely shifted between only two parties: In most cases at least one other party is involved but, empirically, it is usually many more. This means that the first party mostly delivers to the last one. This sort of chain transaction enables efficient business structures and contributes to globalization. Within the EU, however, this leads to VAT implications for all parties involved, in either the sending or the recipient country. The result is detrimental for non-EU companies in particular: such non-EU companies (i.e. those outside the European Union) suddenly find themselves faced with VAT registrations and additional costs that they hadn't been expecting.

What do I have to think about?

First of all, the company tax officers should always be aware that every single transaction carries VAT implications with it. A tax exemption, too, must be declared as such in terms of VAT. In our opinion it is also essential in this context to know what transactions the company is carrying out at all. Do I know all my business transactions and supply chains? In the case of larger firms, those in the company responsible for dealing with tax are rarely informed about which sales the sales department may continue to make. This can lead to enormous risks from a VAT point of view. For this reason, the documenting and tracking of all company transactions (transaction mapping) is extremely important because it is only then that the company tax officers can truly take hold of the reins.

Based on complete transaction mapping, the VAT risks can be evaluated, risks reduced and opportunities determined. Only then can the following questions really be answered:

- Do we use certain already existing VAT registrations?
- Do we need any further VAT registrations?
- Do we really take advantage of all opportunities offered by a country to companies from an indirect tax perspective?
- Where could customs duties be avoided?
- Are we declaring the goods correctly according to customs?



At the moment there is a lot of movement in the global VAT and customs worlds. New considerations / decisions by a rather spontaneous US president as well as reactions by the international community are experienced on an almost daily basis. But even putting the US president to one side, there is a lot of upheaval also in the European union with Brexit and the considerations on a new VAT legislation in the coming years. We will report on this in a later edition of our vat's important.

Until then, we hope you enjoy the rest of the summer.

With best regards from your VAT team

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