

VAT eLearning module 1

INTRODUCTION

Course takeaways

This is a handy summary of the most relevant course information.

This eLearning course is based on EU VAT Legislation as it stands on 01.01.2020 (valid for the EU VAT Directive (2006/112/EC), the EU VAT Refund Directive (2008/9/EC) and the EU VAT Implementing Regulation (282/2011))

This module is a part of a VAT broader course which is made up of the following units:

- **Introduction**
- Territory
- Taxable person
- Transactions
- Place of taxable transactions
- Digital Services and Mini One-Stop Shop (MOSS)
- Chargeable Event & Taxable Amount
- Rates
- Exemptions
- Right to deduct
- Refund
- Obligations

The Vat Directive offers the liberty of movement of goods and services between Member States. It creates a common framework by bringing most of the legislation in a single act.

The Member States must implement a Directive into the national legislation, whilst a Regulation is immediately enforceable as law in all Member States at the same time.

It is important to use the correct terminology for the basic concepts and there is a relationship between these concepts. This relationship is reflected in the place where each of the concepts can be found in the VAT Directive and the structure of the Directive must be taken as a checklist.

1. Learning objectives

At the end of this Module you will be able to: (see the print screen):

- Identify **the difference** between **multi-staged taxes** and **Value Added Tax (VAT)** and their impact on the supply chain.
- Appreciate the need for a **common framework** if the free flow of goods and services between Member States is not to be impeded by taxes.
- Understand the **history** and the relationship of the other **related legislation** with the VAT Directive.
- Explain the **basic concepts** and identify where they are listed in the VAT Directive
- Use the correct VAT **terminology**.
- List the **transactions** which may be **subject to VAT** along with examples.
- Explain how to find a full definition of each transaction subject to VAT.
- Describe the concepts of **territory, taxable person** and **consideration**.

2. Context

EU VAT - Introduction

Menu Course map Glossary Library Print Help Transcript: On

2. Context

2.10. History of the legislation

Paul has given me this exercise to work out how the legislation links together. You can click the magnifying glasses to find out more about each piece of legislation.

Now look at how the other related legislation links together with the VAT Directive. You can click on the magnifying glasses to find out more about each piece of legislation.

Drag and drop each **piece of legislation** to its correct place on the diagram.

◀ ▶ ⏪ ⏩ SUBMIT

In this section you will learn about the historical development of the VAT Directive and the need for a **common VAT legislation**, as well as:

- Multi-stage taxes and Value Added Tax (VAT).
- Difference between a Directive and a Regulation and its relation to national law.
- Development of other related legislation and its relationship with the VAT Directive.

Before 1967 two types of taxes existed: the cumulative multi-stage tax (**gross tax**) and the Value Added Tax (**net tax**). **In both systems**, tax is calculated and **charged at every single stage** in the supply chain. Where the **gross principle** is applied, the VAT is added from transaction to transaction. This means that even tax is taxed and, as a result, tax accumulates. The more stages you have, the higher the amount of tax paid to the Tax Authority is.

With the **net principle** on the other hand, the supplier can deduct the VAT paid to the prior business in the supply chain. VAT therefore only affects the difference in value between two supplies in the chain.

In 1967 a **common framework** for VAT was created to **minimise the risk distortions of competition**, and to avoid obstacles to the free movement of goods and services between Member States.

Over the years, the Council has adopted numerous directives on VAT aimed at preventing distortions and facilitating the internal market. The current **VAT Directive** has brought most of this legislation together into **one single act**.

But **other legislation detailing specific topics** also exists, which you will need to know, such as: Amendments (2008/8/EC), VAT refund to EU operators (2008/9/EC), Administrative cooperation (904/2010/EC) etc.

3. Legal Framework

In this section you will learn about the **VAT Directive structure**, the **basic definitions** and concepts of the Directive and how they interrelate with each other, as well as the importance of using **correct VAT terminology**.

When analysing a VAT issue, there is a logical sequence of questions that need to be addressed: The definitions and the concepts of the VAT Directive help you to answer these questions It can be used as a sequence checklist of questions to address:

- Our VAT? Scope/ Territorial scope (Title I and II)
- Who? Taxable person/ Person liable for payment (Title III)
- Which type? Transactions (Title IV)
- Where? Place of taxable transactions (Title V)
- When to pay? Chargeable event (Title VI)
- On what? Taxable amount (Title VII)
- How much? Rates (Title VIII)
- What about digital services Digital services and MOSS
- What not and why? Exemptions (Title IX)
- Any Deduction? Right to deduct (Title X)
- Special refund procedures? VAT Refund (Special schemes Title XII)
- What to observe? Obligations (Title XI)

Scope: Confirms that only certain transactions, most of which are carried out by a taxable person, are subject to VAT.
Territorial scope: Provides the geographical boundaries for EU VAT to apply.
Taxable person: Is anyone who carries out the economic activity of supplying goods or services regularly and independently.
Person liable for payment: Is whoever has to account for VAT on a taxable transaction.
Transactions: Include the supply of goods, the intra-Community acquisition of goods, the supply of services and the importation of goods.
Place of transaction: Determines where a certain transaction will be subject to tax.
Chargeable event: Occurs when the goods or services are supplied, or the goods are acquired or imported, which is the moment VAT becomes chargeable.
Taxable amount: Is the amount on which VAT is calculated.
Rate: Is fixed as a percentage of the taxable amount and used to calculate the tax due.
Exemptions: Will result in no VAT being chargeable on the transaction to which an exemption applies.
Deduction: Is the mechanism used to compensate the taxable person for VAT paid on his purchases.
Obligations: Are requirements such as identification, invoicing, accounting, returns and recapitulative statements, which are imposed on taxable persons and on certain non-taxable persons.

4. Scope

This section introduces you to the transactions that fall within the scope of VAT and covers the various conditions these transactions are subject to.

The fundamental conditions for VAT to apply are the concepts of transaction, territory, taxable person and consideration

Transactions:

The VAT Directive lists four categories of transactions that may be subjected to VAT

- **Supply of goods** (the transfer of the right to dispose of tangible property s owner)
- **Intra-Community acquisition of goods** (acquisition of the right to dispose of movable tangible property as an owner dispatched to the person acquiring the goods)
- **Supply of services** (any transaction which does not constitute supply of goods)
- **Importation of goods** (entry into the Union of goods which are not in free circulation within the meaning of Art 24 of the Treaty)

Territory:

All four types of transactions must be carried out within the territory of the EU, to be subjected to VAT. The territorial scope is covered in the Module "Territory"

Taxable person:

In principle, to be taxable, a supply of goods or services has to be carried out by a taxable person acting as such.

A taxable person is anyone carrying out the economic activity of supplying goods and services regularly and independently. The taxable person must act in a business capacity and not in a private capacity.

For intra-Union acquisition to be taxable, it has to be made by a taxable person or no-taxable legal person. The importation of goods into the EU is taxable regardless of who makes it, including private individuals.

A consideration is the price paid for the transaction that is carried out. It is the payment but not necessarily in the form of money. The price may be money, but may also be non-monetary, such as another transaction. Normally, there must always be a consideration for a transaction to be taxable.

Exception exist, for example, in case of importation of goods.

In practical terms for the transactions to fall within the scope of VAT all the answers to the following questions must be YES:

- **Is there a supply of goods or services, or an intra-Community acquisition of goods?**
- **Is the transaction carried out within the VAT territory?**
- **Is the person carrying out the transaction a taxable person or in the case of the Intra-Community acquisition of goods, a non-taxable legal person?**
- **Does this transaction have a consideration?**

If just one answer is No, the transaction will fall outside the scope of VAT.

Importation of goods

The importation of goods by any person is taxed at the border of the EU.

Access to non-restricted eLearning courses is available via EUROPA website: https://ec.europa.eu/taxation_customs/eu-training/general-overview_en.

Remember, this is a quick and handy summary of the most relevant course information. Only the European Union legislation published in the Official Journal of the European Union is deemed authentic. The Commission accepts no responsibility or liability whatsoever with regard to the training.