5 STEPS
TO MANAGING
VAT

Avalara
Tax compliance done right

Contents

DISCLAIMER

Tax rates, rules, and regulations change frequently. Although we hope you'll find this information helpful, this report is for informational purposes only and does not provide legal or tax advice.

Introduction

Expanding into new markets is a great way for businesses to grow, but navigating value-added tax (VAT) compliance is key to success.

VAT is a consumption tax levied on goods and services at each stage of production and distribution, differing from U.S. sales tax in its incremental collection across the supply chain.

Understanding and managing your VAT obligations is essential to stay compliant and operate efficiently. This task can be done in five steps:

Step 1.
Know where you have VAT obligations

Step 2.
Register to report VAT

Step 3.
Understand the taxability of your products

Step 4.
Calculate the correct VAT and customs duties

Step 5.
Report VAT to tax authorities

Step 1:
Know where you have VAT obligations

OVERVIEW

If your business sells into Europe, India, or other international markets, you're almost certain to have VAT obligations. If you sell into both EU and non-EU countries – France and Australia, for example – then you'll have varying compliance obligations for each. Your VAT requirements will depend on the nature of your business activities, whether you're selling a tangible good or a digital product or service, whether you're selling on a marketplace, the price of what you're selling, and whether you hold inventory within or outside of the EU.

WHAT TO DO

First, understand which business activities can create VAT obligations in every country, both EU and non-EU. Restricting your understanding of VAT requirements to only the countries you sell to may leave you short when it comes to fulfilling your obligations – onward trade and shipping between different countries can create further obligations for your business to manage.

VAT rates vary across countries, so it's important to stay as up to date as possible on any legislative changes and developments that could affect your VAT obligations and how you manage them.

It's important to remember that not all countries within continental Europe are member nations of the EU. Businesses should determine if the countries they're selling into are EU members or not (though it doesn't happen regularly, member states can leave the EU – and new states can join).

VAT REQUIREMENT CHANGES IN THE U.K. AND EU

European tax authorities are increasingly going digital with tax compliance administration to improve their own efficiency, facilitate international trade, and clamp down on tax evasion and fraud. The digitalization of tax compliance also helps authorities keep up with the huge amount of online transactions happening within an ever-growing digital economy (which legacy VAT systems struggle to keep up with) and enhance their insight capabilities into transactional data.

VAT in the Digital Age (ViDA) is a set of EU reforms designed to bring VAT into the digital age and level the tax playing field for all businesses operating within the EU. ViDA changes have come into effect from the beginning of 2024 that impact various kinds of sellers and businesses, such as the removal of legal hurdles to make it easier for EU member states to mandate e-invoicing. It's therefore more essential than ever for businesses selling into Europe (both EU and non-EU nations) to not only understand e-invoicing but also find the right solution for their business. E-invoicing is a huge part of the future of commerce, and the mandates are simply not going away. Implementing an effective and scalable solution is paramount for businesses selling into Europe – regardless of size or type.

If you're a marketplace or ecommerce seller selling into the EU, your VAT responsibilities will increase from the beginning of 2025. ViDA will make these sellers liable for charging and remitting VAT when they make B2B and B2C sales within the EU, regardless of where the seller is based. Marketplaces and ecommerce sellers will also become deemed importers from 2028. This designation means you'll become responsible for ensuring that VAT and customs duties – which become due when the platform receives the payment for the goods – are paid at the point of sale.

HOW AVALARA CAN HELP

Avalara AvaTax can help you determine your VAT obligations and keep you updated with regulatory changes. The solution supports basic calculation content for all countries where VAT or GST is implemented. Avalara AvaTax uses the latest tax data to help you accurately calculate and determine VAT rates, saving you time on error-prone manual tasks and keeping you compliant with developing VAT legislation.

THANK YOU!

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Step 2:
Register to report VAT

OVERVIEW

Once you know where your business has VAT obligations, you must register with the relevant tax authorities. The registration process may differ from country to country, and it may need to be completed in local languages, presenting a potential challenge. Most of the 27 EU member nations also require non-EU businesses to have a fiscal representative, adding further complexity. Czechia, Germany, Ireland, Latvia, Luxembourg, Malta, Netherlands, Slovakia, and the U.K. do not oblige businesses to have a fiscal representative.

WHAT TO DO

Manually registering for VAT in every country you sell to can be time-consuming and complex. You risk the likelihood of introducing errors when dealing with unfamiliar markets and VAT systems, and having to submit in local languages. For businesses selling in the EU, Import One-Stop Shop (IOSS) was created

to simplify the registration requirements. It allows businesses to register in a single member state in order to operate in all 27. IOSS originally applied to businesses making sales to EU consumers where the consignment value of the goods shipped was below €150. Having assessed that this threshold was a burden to businesses, the EU has since removed it, opening the scheme to more sellers.

Taking advantage of such simplification schemes can help to lighten the load when it comes to your registration requirements. It can save you having to familiarize yourself with the digital tax platforms used by each country, such as Making Tax Digital (MTD) in the U.K. or Sistema di Interscambio (SDI) in Italy. Each system will have differences and nuances of its own and may not cater adequately to non-native speakers. Using schemes like IOSS will lessen the need for sourcing local language experts in disparate nations.
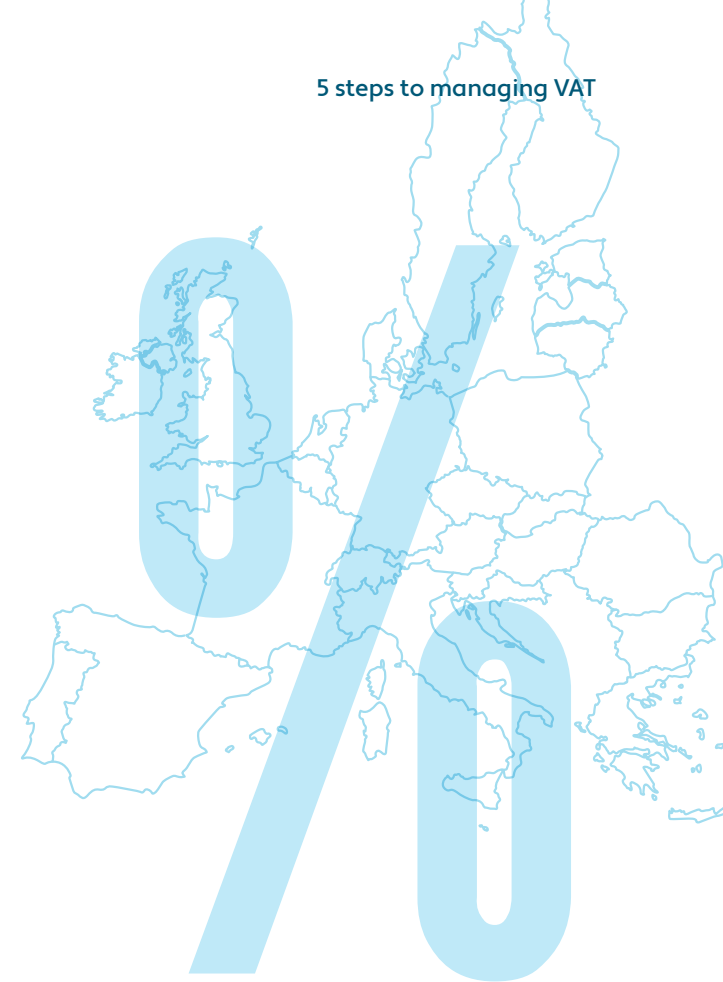
HOW AVALARA CAN HELP

Avalara VAT Registration and Avalara IOSS Registration can help relieve the stress of VAT registration in over 50 countries with an IOSS service (or not) and get you selling and expanding across the world faster.

Avalara can also be your fiscal representative where required so you'll be able to focus on the more exciting and revenue-generating aspect of your business.

Step 3:
Understand the taxability of your products

OVERVIEW

Any country with a VAT system is free to set their own tax rates for goods and services. For example, most countries across Europe have standard- and reduced-rate goods and services or super-reduced and zero-rated goods and services. However, specific products and services may have different rates applied to them in different countries.

WHAT TO DO

You have a few options for determining VAT when you sell products. One is to manually calculate VAT at the time of sale. This option is only sustainable for a very low transaction volume scenario, and even then, it can be a tedious process. Another way is to create tax tables for VAT and customs duties in your ecommerce solution or ERP and use these tax tables to calculate the correct VAT for each transaction.

Rates and rules may change, so make sure you keep these tax tables up to date.

HOW AVALARA CAN HELP

Avalara AvaTax can automate VAT determination to help you apply the correct rates to your products and give your customers more accurate prices at checkout. Avalara AvaTax can also integrate with your existing ERP, POS, ecommerce, billing, or CRM platforms via prebuilt connectors or custom API integrations. The software solution imports and exports data from various sources and formats such as invoices, receipts, and bank statements. It also adapts to the changing needs and preferences of the enterprises in terms of features, functions, and customization.

Step 4:
Calculate the correct VAT and customs duties

OVERVIEW

Harmonized System (HS) codes are six-digit identifiers assigned to every product sold across international borders. They enable customs authorities to apply the correct duties and taxes to every product. The system is used in all global regions.

WHAT TO DO

Determining the correct codes and assigning them to your products is essential for getting your goods to your customers as smoothly as possible. Assigning incorrect codes could mean they're held up unnecessarily in customs, and authorities could apply the maximum taxes and duties. Your customers could also be stuck with surprise costs for releasing their purchases, which won't have them rushing back to buy from you again. If your products are misidentified – as restricted items, for example – they could

even be returned to you without reaching the customer, and you may also have to pay for return shipping.

HOW AVALARA CAN HELP

Avalara Tariff Code Classification can help you quickly and accurately determine and then assign the correct HS codes to your products. With the correct codes, the risk of customs delays are reduced, and you can keep your customers happy with prompt delivery.

Once your HS codes are figured out, Avalara AvaTax can help you make sure you're accurately calculating VAT and GST duties. The solution maintains up-to-date tax data (for both sales and purchase transactions) to ensure your business is in compliance with the current and future VAT/GST legislation in every country.

The solution's current content coverage includes all countries with a VAT/GST system with stronger and more complex use cases and functionality in 45 countries (across Europe, Asia, North America, Oceania, and Africa).

HS CODE

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Step 5:
Report VAT to tax authorities

OVERVIEW

Finally, you'll need to report your business activities to the relevant tax authorities via periodic returns. Filing frequencies and other reporting requirements can vary by country.

WHAT TO DO

Businesses must find a way to track VAT threshold breaches and reporting deadlines in all the countries they operate in. Managing these VAT reporting responsibilities can be a huge challenge for expanding businesses, especially when they're not VAT experts. It can be difficult to track and manage reporting requirements and pin down the correct forms, formats, and deadlines. Local language requirements can add to the difficulty.

HOW AVALARA CAN HELP

Avalara VAT Reporting can help reduce the stress of tracking – and missing – deadlines in multiple locations with cloud-based solutions that can do most of the heavy lifting for you when it comes to your VAT returns and reporting. This solution can save you time and free up resources, while keeping you on top of your growing obligations and lessening the chances of penalties and audits. Avalara can also keep you updated with any changes to local reporting requirements, and it can help you with payments to tax authorities.

If managing your own U.K. VAT returns, Avalara has an HMRC-approved solution for MTD that can help you comply with MTD requirements and simplify the process.

Avalara

Sell with confident compliance

With no shortage of consumers who regularly buy online, expanding into Europe – both EU and non-EU nations – and other nations around the globe can be highly rewarding for businesses. To get and stay VAT compliant, businesses can adopt automated solutions to reduce the burden of time-consuming manual tasks and processes. These solutions not only lessen the risk of errors – and related penalties and disruption – but can also help businesses focus on their growth goals.

The right software solutions help you determine your obligations, calculate rates, get accurate pricing and an excellent buying experience, move your goods smoothly through customs, and flag thresholds and deadlines.

Learn more about how Avalara can help your business manage VAT registrations, calculations, returns, and more or call one of our sales specialists at +44-0-1273 022400.