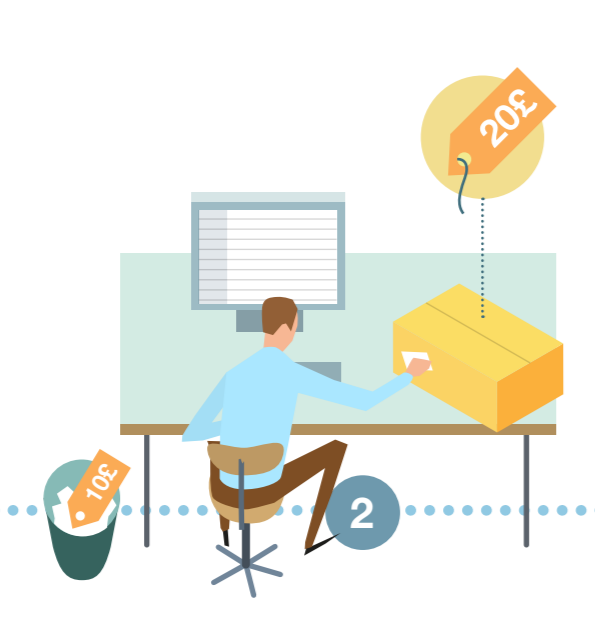


How VAT works in Europe

Note: Steve is importing headphones into the UK from India (a non-EU country) to sell in UK. In order to do this Steve must present the imported products to customs so that he can pay all necessary import taxes, including VAT and duty (if applicable).



Steve wants to import 10 products from India to the UK. Each product has a value of 10 GBP. He is required to pay 20% Import VAT, or 20 GBP (10 products X 2 GBP VAT each = 20 GBP in VAT). He pays this amount to the Tax Authority, and can now import the products into the UK.



Now Steve can start selling. He plans to charge a customer 20 GBP for each set of headphones.



Steve is aware that he has to charge VAT on every sale he makes in the UK. So he includes the VAT of 4 GBP (20% of the price) in the displayed price, which now becomes 24 GBP per unit.



Maria, a buyer in the UK, sees and orders a pair of Steve's headphones.

Invoice	
PRICE	20£
VAT	4£
TOTAL PRICE	24£



When Steve ships the headphones to Maria he also attaches the UK VAT invoice.



SCENARIO 1

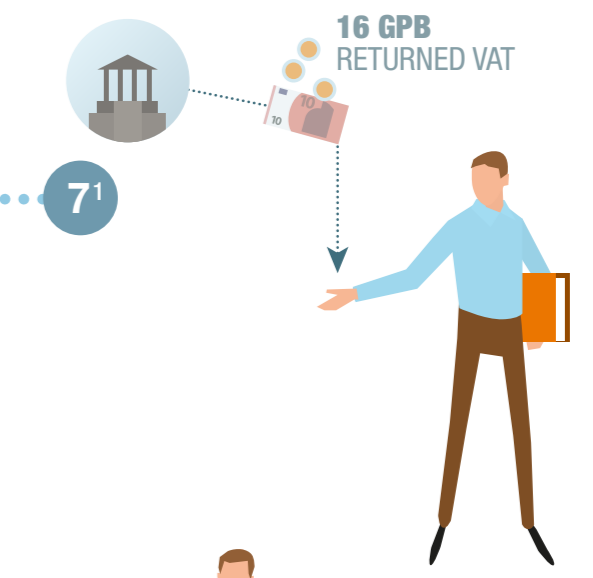
Steve does not sell any other product by the end of the fiscal period. So when he submits his VAT returns to the Tax Authority he declares the VAT amount he paid (20 GBP at Customs) and the VAT amount he collected so far on sales (4 GBP collected when he sold one head-set). Steve can now claim back 16 GBP (the difference between VAT paid and VAT collected) from the UK tax authorities (please note that such a claim can be subject to approval).

SCENARIO 2

Steve sells 4 more products by the end of the fiscal period. He files a VAT returns file with the Tax Authority. He declares the VAT amount he paid (20 GBP at Customs), the VAT amount he collected so far (4 GBP x 5 units = 20).

SCENARIO 3

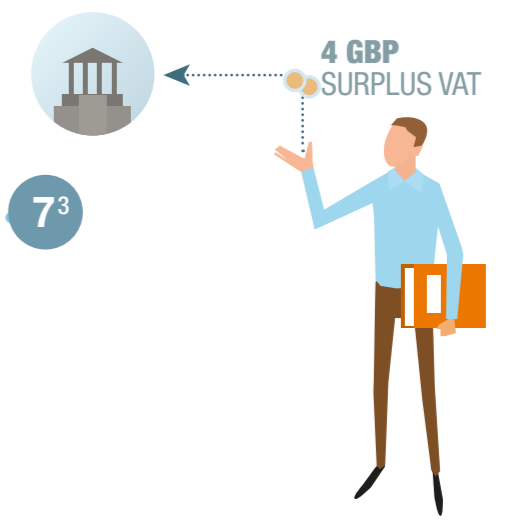
Steve sells 5 more products by the end of the fiscal period. He files a VAT returns file with the Tax Authority. He declares the VAT amount he paid (20 GBP at Customs), the VAT amount he collected so far (4 GBP x 6 units = 24).



The tax authorities are reimbursing Steve for the difference in VAT (this can include a verification process).



VAT collected on sales completely offsets VAT paid at import, so he claims no VAT back.



The difference between VAT collected and VAT paid is 4 GBP. This amount must be paid to the tax authority.

Please note that there are a number of ways to structure your imports and we recommend you consult a tax adviser.