



Client Information

Czech Republic
October 2019

Changes in VAT in 2020 - Quick Fixes

Some European rules on the supplies of goods between individual EU countries will change as of the beginning of 2020.

Even though the implementation of the new European Directive into the Czech VAT Act is only at the beginning of the legislative process, we are informing you about it as early as now as it will have a significant impact on your business within the EU.



Chain Transactions

Chain transaction refers a situation when goods are transported between two EU countries. Invoicing, however, does not take place directly from the first seller to the final buyer, but through one or more intermediaries who re-sell the goods within the chain.

In such a case, several deliveries (and invoices) are associated with a single physical movement of the goods. This single **shipment must then be assigned to one of the deliveries, which will be exempt from VAT as a delivery to another EU**

country, while the other deliveries will have VAT imposed either in the country of the first seller or in the country of the final buyer.

So far, VAT legislation has not explicitly stipulated the method of assigning the transport to one of the transactions. This has caused significant problems in practice, which even the extensive case law of the European Court of Justice has failed to solve unequivocally.

According to the planned amendment of the VAT Act it will be important to figure out **who in the chain arranges the transport**. That person is called "intermediary".



As a general rule the transport (movement) of the goods will be assigned to the delivery **to the intermediary**, and therefore the intermediary will receive an invoice without VAT.

However, if the intermediary has a VAT number in the first seller's country and communicates it to his supplier for the purposes of this delivery, the VAT exempt delivery within the chain will be the delivery from the intermediary to his customer.

If the first seller in the chain provides for the transport, the movement (transport) of the goods will be assigned to the first delivery within the chain.

Proving of Transport to the EU

Deliveries of goods to another EU country to a taxable entity in another EU country is exempt from Czech VAT. **However, the supplier must be able to prove to the tax authority that the goods have actually been shipped to another EU country.**

Starting next year, the supplier will have to have more than one document proving the shipping. According to the directly applicable EU Regulation, there should be **two documents issued by two independent parties**. These include, for example, a CMR, a shipping invoice, documents proving the payment for shipping or a confirmation of the goods storer in the destination country.

Obtaining sufficient documents should not be a problem for those who use shipping companies for transportation. However, sellers who transport by their own means, or when transport is provided by the buyer will be in a much worse position.

Call-off Stocks

The principle of call-off (consignment) stock is a situation in which the goods are transported by the supplier either directly to the customer or to a nearby warehouse from which the customer draws them as needed. The actual sale does not take place by moving the goods to the warehouse but only by drawing them from it by the customer.

If the supplier and the customer are from different countries, this way of delivering represents some VAT complications, as different rules apply in different EU countries.

The following **common rules** are to be introduced in the EU as of next year: the delivery will only be declared as an **exempt delivery** to the buyer **at the time** of goods **withdrawal from the consignment warehouse**, provided the prescribed conditions are met (especially that both the seller and the buyer correctly declare the transaction in their VAT records).

The Act also newly deals with cases when:

- the goods are not sold to the intended buyer within 12 months; or
- the goods are delivered to another entity who does not meet the prescribed conditions; or
- the goods are returned to the seller; or
- the goods are destroyed, lost or stolen.



The existing and the new rules are best explained in the specific example case below.

Example Description

A supplier from Austria supplies goods to a Czech VAT payer through a consignment warehouse located in the Czech Republic.

Solution 1 - with no consignment stock rules

The Austrian supplier registers for VAT in the Czech Republic. He/she reports the goods relocation in both Austrian and Czech VAT reports at the moment of goods relocation from Austria to the consignment warehouse.

When the customer withdraws the goods from the consignment warehouse, the Austrian supplier issues an invoice from his/her Czech VAT number, charging Czech VAT.

Solution 2 - simplification of consignment warehouses according to current Czech legislation

The Austrian supplier (not registered for VAT in the Czech Republic) issues a VAT invoice from his/her Austrian VAT number excluding VAT to the Czech VAT payer who reports it as an acquisition of goods within the EU **at the time of goods shipment to the consignment warehouse.**

The goods withdrawal from the consignment warehouse, during which the goods are delivered and invoiced, is no longer reported for VAT.

If not all the goods are delivered to the buyer in the end, a corrective tax document (invoice) will be issued for the undelivered goods.

Option 3 - under the new uniform EU rules

Both the seller and the buyer register the relocation of goods to the consignment warehouse only in their special VAT records. Thus, the actual relocation of goods will not be reported as deliveries for VAT purposes.

Only when the goods are withdrawn from the consignment warehouse does the Austrian supplier issue an invoice excluding VAT for an exempted supply to an EU country and the Czech buyer declares it as an acquisition of goods from the EU.

If the buyer fails to collect the goods within 12 months, the seller must report it after this period as the transfer of the goods from Austria to the Czech Republic. He/she would have to register for VAT in the Czech Republic for that purpose (see solution 1). The same procedure would apply if the goods from the warehouse are delivered to another customer - a non-VAT payer.

For the sake of completeness we would like to point out that it will still be possible to proceed without applying the special rules for consignment warehouses even after the amendment, i.e. to follow solution 1.





Recommendation

This article is based on a law that has not yet been passed, the final form of which may vary.

The new VAT rules for trading within the EU will force changes in the settings of your business and invoicing with your EU business counterparts. Prepare for them in time.

Please do not hesitate to contact us should you have any specific questions concerning the trading settings and the impact of the amendment on your company.



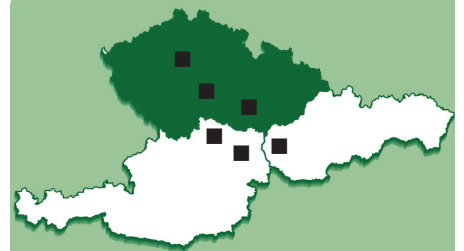
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