

# Managing Imports & Exports



‘The leading source of information on how best to enhance your global supply chain’

## **Letters of Credit - Part 2**

*(Part 1 had been previously published in our June 2012 Issue)*

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In my last “Managing Imports & Exports” article, I talked about Letters of Credit and how they provide a reasonable assurance for a Seller to collect payment. Although there is no such thing as a “guarantee”, an LC does provide very reasonable assurance. However, LC’s are costly and tediously time-consuming. Carefully reading through an LC to make sure you can comply with all the various provisions, making changes as needed and then generating all the needed documentation perfectly is quite frankly, a pain in the neck.

In this article, I hope to guide you toward the less complex “Documentary Collection” method of payment as opposed to the Letter of Credit when applicable.

There are many methods for effecting payment for the international sale of goods, four of which are considered “primary.” Starting with the method of least risk they are in risk order:

1. Cash in Advance
2. Letter of Credit
3. Documentary Collection – subject of this article
4. Open Account



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**VAT Reclaim & Liabilities When Drop-Shipping Goods Within the European Union**

**By Britta Eriksson,  
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**Drop Shipment of Goods**

A North American company that purchases goods from a European vendor and ships them to customers in Europe is referred to as drop-shipping. Between 15-25% Value Added Tax (VAT) will most likely be charged by the vendor. In order to get the VAT refund, it might be necessary to register for VAT in one or more EU countries and to charge VAT to the customers.

Almost all companies in the European Union are registered for VAT. A company charges VAT on most sales to customers in their own country. If a North American company is planning to purchase goods from a vendor in one country within the EU and deliver them to customers within that same country and perhaps other countries within the EU, then the North American company is generally required to register for VAT.

When the North American company is registered, VAT should be charged on all sales to customers within the country of registration. The customers can in turn deduct the VAT if they are a business unit in most cases, so it will not be a cost to them. No VAT is generally assessed when they invoice to a VAT registered company customer in another country.

The registered North American company can deduct the VAT that they incur on almost all their expenses and a VAT return is filed to the tax authorities on a regular basis, declaring all the VAT charged, and against that, all the VAT paid to the vendors is deducted. At the end of the day, the balance on the VAT account is zero. The VAT is almost never a cost to the company. It is, however, a cost to the private individual that finally purchases the product or service.

**Sample:**

In this sample, a North American company purchases goods from a UK vendor, and sells them to customers in the UK and Germany. The North American company is registered for VAT in the UK.

**Purchase from UK vendor**

Purchase from UK vendor	\$100,000
VAT 20%	20,000
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Total paid UK vendor	\$120,000

**Sales to UK customer**

Sales to VAT registered company in the UK	\$60,000
VAT 20%*	12,000
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Total collected from UK customer	\$72,000

\*VAT has to be charged regardless of whether the customer is registered for VAT or not. The VAT is not a cost to the VAT registered customer. The company customers can reclaim the VAT in most cases, and they do not consider it to be a cost. The private customers cannot reclaim the VAT. For them, the VAT is a cost.

**Sales to VAT registered company customer in Germany—goods delivered to Germany from the UK**

Sales to VAT registered customer in Germany	\$50,000
VAT 0%**	0
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Total collected from German customer	\$50,000

\*\*No VAT should be charged if the goods are delivered to Germany, because the customer is a company that has a VAT number in Germany.

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***VAT continued...***

**Sales to private persons in Germany– goods delivered to Germany from the UK**

Sales to private customers in Germany	\$50,000
20% UK VAT ***	10,000
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Total collected from German customers	\$60,000

\*\*\* The VAT is not refundable to the German private customer.

**VAT declaration**

Declaration to the UK tax authorities:

VAT collected from UK customer	\$12,000
VAT collected from German Company customer	0
VAT collected from German Private customer	10,000
Less VAT paid UK vendor	-\$20,000
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Due the UK Tax Authorities	\$2,000

In general, the North American company that is drop-shipping within the EU is legally required to register for VAT, and it is also not possible to reclaim the incurred Value Added Tax (VAT) otherwise. In addition, the VAT is usually also refundable to the customers that the North American company drop-ships to. It is important to seek advice at the planning stage before any drop-shipping within the EU is taking place, since VAT incurred is hard to reclaim after the fact, and since VAT registration might be required by law.



**Educational Offerings...**

***Bureau of Industry and Security (BIS):***

[www.bis.doc.gov](http://www.bis.doc.gov)

August 29-30	How to Develop an Export Management and Compliance Program	Irving, TX
September 12-13	Complying with U.S. Export Controls	Cincinnati, OH

***American Management Association (AMA):***

[www.amanet.org](http://www.amanet.org)

August 27-29	Import/Export Procedures & Documentation	Arlington, VA
<b>November 7-9</b>	Import/Export Procedures & Documentation	Atlanta, GA