

INCOTERMS®

VAT IMPLICATIONS FOR CROSS-BORDER BUSINESS

A set of internationally recognised rules issued by the International Chamber of Commerce. They define the responsibilities of buyers and sellers in international transactions.

For companies trading cross border, understanding how VAT relates to Incoterms within contracts is key to avoid unwelcome costs and delivery delays. The 11 Incoterms set out who's responsible for each element of the sale of goods including documentation and customs clearance, shipment and insurance.

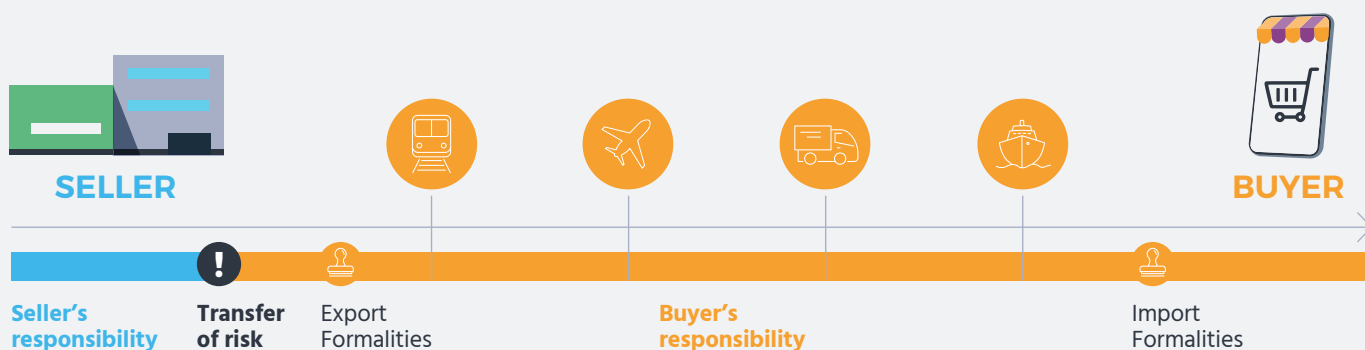
WHICH INCOTERMS AFFECT VAT IN THE EU?

There are two Incoterms that can cause VAT issues:

- ✓ Ex Works
- ✓ DDP

EXW: EX WORKS

(Insert named place of delivery) Incoterms® 2020



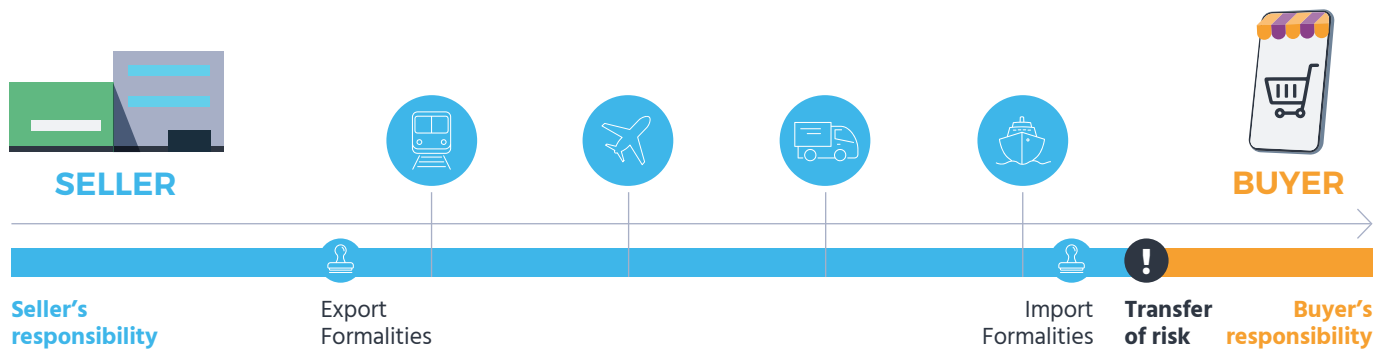
With Ex Works, transport obligations, costs and risks are the responsibility of the buyer. The risk transfers from seller to buyer before the transport journey starts. The buyer agrees a collection point for the goods, which becomes the delivery point.

Example

a French customer buys goods Ex Works from a UK supplier. The customer must declare the export from the UK. This creates obligations in the UK for the French customer who will then import the goods into France.

DDP: DELIVERED DUTY PAID

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With DDP, the transport obligations, costs and risks are the responsibility of the seller. The destination point the seller or carrier will transport goods to is the same as the delivery point.

Example

A French customer buys goods DDP from a UK supplier. The supplier must declare the import into France. This creates obligations in France for the UK supplier. The supplier exports the goods from the UK.

POST-BREXIT

UK companies may have DDP contracts with EU customers with potentially unintended consequences:



! If goods are delivered without the required VAT registration, then penalties and interest for late registration and late payment of VAT may apply.

COMPLIANCE PEACE OF MIND WITH A COMPLETE, GLOBAL VAT MANAGED SERVICE FROM SOVOS

Whatever your VAT implications, Sovos has the expertise to help you navigate Incoterms and the complexities of cross-border tax obligations.

For further information please contact:

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