

## **Chain Transactions in Dropshipping**

### **Part Two.**

The VAT Directive only presents the goal to be achieved. It is up to the Member States to implement these objectives in their national legal system. It must therefore always be checked which special regulations are to be applied in the Member State of the customer. In this newsletter we examined **Hungarian and German law**. As an intermediary, D must apply for an **EU VAT tax number in each member state in which the consumer is domiciled** and declare the VAT in the consumer's member state.

#### **When the consumer orders the goods in Hungary.**

Special provisions of the Hungarian VAT Act apply here, which differ from the German UStG.

§§ 29.-30. ung. VAT Act apply if the destination of the goods is in Hungary.

Since the shipment is made by the Polish manufacturer to a private person Hungarian consumers, **the VAT must be paid as a rule (§ 29 and UStG) according to the destination of the transport**, i.e. Hungarian VAT. In this case, D of course has to apply for the Hungarian VAT number and fulfill his VAT return and payment obligations in Hungary. However, if certain criteria are met, the tax remains in the Member State where the product is shipped or from which the transport begins, that is, in Poland.

And that criterion is as follows: When the total net value of D's sales in the Member State of destination reaches a certain **threshold** set by the Member State, e.g. **EUR 35,000** in the case of Hungary, **the Polish VAT must be paid up to this threshold and the Hungarian VAT on sales beyond that.** Of course, D can also choose Hungarian VAT for all sales, but then he cannot deviate from this choice until the end of the next calendar year.

### **Formalities**

Art. 45a. Implementing regulation of the VAT Directive (Regulation (EU) No. 282/2011) stipulates that the Polish seller must have the document so that the first transaction between him and D can be considered a VAT-free intracommunity sale:

In this case, the **order document issued to the courier company** by the Polish manufacturer or his representative must be kept and presented during a tax audit.

In the event that D places the order with the Polish courier service, the VAT must usually be declared and paid in the departure Member State, i.e. in Poland. Here, however, you must always observe the VAT rules of the country of destination. If Hungary is the country of destination, the annual VAT of 35,000 euros must be paid to the Polish Fiscus, and the Hungarian VAT of 27% must be paid on the excess turnover. In this case, the application of 23% Polish VAT is a price reducing factor. The first transaction (between the Polish manufacturer and D) is 23% Polish VAT, which D can refund in Poland.

**19% German VAT** can only be applied to goods that were sold in Germany.

Budapest, 12<sup>th</sup> April 2021

