

Chain Transactions in Dropshipping

Part One.

Dropshipping, the latest addition to e-commerce, simplifies online trading to the utmost, as the retailer does not have to worry about warehousing and delivery.

However, the benefits are offset by the legal and tax background of dropshipping. It is no coincidence that these are weaknesses in the business model.

Dropshipping is basically a three-digit story involving the **buyer**, the **dropshipping webshop** and the **supplier**.

Example:

The German internet trading company D sells goods made in Poland to private end users (consumers) in various EU countries.

Legal Conclusions

UStG Construction

Since there is also a private person in the chain, we can exclude the triangular transaction construction; we must classify this construction as a chain transaction. If wholesalers or

dealers are also served, it is worthwhile to choose the triangular business construction for these cases.

Chain Transaction Concept

We speak of a chain transaction if the same product is the subject of several (at least two) sales in succession, with the product being **delivered directly to the end customer by the first seller**. In a chain transaction, the transport of the product does not follow the route of the individual invoices but leads directly from the first seller to the end buyer.

In the example, we are dealing with a basic chain transaction model in which three parties are involved in the transaction, whereby the **first contractual partner sells the product to the second** and the **second contractual partner sells the same product to the third** contractual partner and the **product is shipped directly from first participant to third**.

In the case of chain transactions, we must first determine the **place of performance**, as this **determines which country's VAT Act is applicable** to a particular transaction.

We know that the goods are handed over from the Polish manufacturer to the courier company who delivers them directly to the consumer.

Of the three transactions, **only one applies the VAT exemption for intra-Community delivery**.

General Regulation of the Place of Performance of a Chain Transaction

A chain transaction is considered an intra-community delivery, so the rules of the place of performance for the delivery of goods must be observed. In the case of deliveries of goods

in which the product is dispatched or transported, **the place of performance is the place where the product is dispatched.** Regardless of how many sales are in a chain transaction in the row, the rule is applicable only to one of the transactions, according to which **the place of fulfillment for the active delivery is set at the beginning of the transport** (also known as shipping). (Section 26, Section 6a of the UStG, Art. 36a of the VAT Directive)

Definition of active delivery

The first step in the VAT analysis of a chain transaction is therefore to determine the sales in the chain that the active delivery, with other words the movement induced transaction, since the **VAT exemption is only granted to this transaction.**

The **place of fulfillment of this delivery of goods is the place of dispatch of the product.** In any case, **that sale is deemed to be the active delivery, the seller or buyer of which orders the transport.** If the Polish supplier has placed the order with the courier service, the first sale (invoicing) is considered to be the active delivery.

Definition of other transactions

As soon as the active delivery has been determined, the place of fulfillment of the inactive deliveries in the chain should be examined. The place of performance for inactive deliveries depends on whether the examined sales precede or follow in the chain the active delivery. **Inactive deliveries that precede the active delivery are also deemed to have been made in the country in which the transport begins.**

Should inactive deliveries follow the active delivery, the place of performance is the country of destination, i.e. the place of performance of the sale between Germany and the end consumer is the consumer's place of residence.

VAT Rate for Transactions in a Chain Transaction

The next step in the VAT analysis of a chain transaction is to determine the tax rate. If the place of execution of the transaction is abroad, the foreign VAT law applies. If the place of execution of the transaction is domestic, the Hungarian VAT law applies.

In a chain transaction, **the transaction is an intra-Community transaction**, ie a tax-free transaction, on the basis of which the **product is delivered to another Member State** in a certified way.

This means that **only one of the three transactions is exempt from VAT**.

When the Polish manufacturer orders delivery, the first transaction (between the Polish manufacturer and D) is 0%, the second transaction is subject to VAT, VAT is paid at the place of performance.

The place of fulfillment is the destination country, ie the country of the consumer.

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