



EU VAT support for EDD

(supports 2015 rules)

This plugin provides features to add EU VAT support to Easy Digital Downloads. Options include:

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- VAT is enabled based on visitor location
- Validate and store any EU VAT number entered for B2B sales
- Exclude VAT with a valid VAT number
- Includes VAT template for PDF Invoices
- Report to produce information for the quarterly VAT Sales List
- Supports EU VAT digital services rules
- Works with any EDD supported payment gateway

What you get: The plug-in and updates for 12 months.

- One-time purchase: the plugin is *not* transaction based
- For EU and non-EU businesses
- Supports business (VAT number verification) and consumer sales
- Optionally prevent sales to EU consumers
- Collects the evidence you need to support the VAT rate used
- For consumer sales the correct VAT rate is applied based on the location of the buyer
- Evidence is stored within the EDD payment record
- Evidence is shown on the view order details payment history page
- Adds reports to display VAT sales by country and the evidence collected
- Includes the evidence in the payment export
- Optionally disable VAT number validation for B2C only sites
- Supports templates and custom styling

What's the problem addressed?

VAT rules are more complex than simple sales tax rules and this plugin adds features to Easy Digital Downloads so companies based in the EU, and which use EDD, can apply VAT correctly.

All companies anywhere in the world which sell digital services to a purchaser in one of the EU member states will be required to register with the tax authority of any one of the EU member states then collect and remit VAT to that tax authority.

New VAT rules from Jan 1st 2015

EU VAT rules are changing from 2015, changes which affect anyone who sells telecommunications and digital services to people within the EU. This section is a non-authoritative review of the change that may affect your site. For an authoritative review visit the web site of one of the EU member state tax authorities. Our tax authority is the Her Majesties Revenue and Customs (HMRC) and information about the change can be found here:

What is a digital service?

Digital services are the kinds of things you buy over the internet or through some equivalent telecommunications media which include video streaming, e-books, mobile apps, software to download and on-line training. So the rule changes do not affect sites that sell things that have to be shipped because they cannot be accessed and used electronically

Business-to-Consumer

The biggest impact of the change is to vendors providing digital services to consumers. Before the rule changes a vendor is able to charge VAT using the shop's domestic VAT rate. This makes it simple for the vendor. After the change it is necessary for the vendor to charge VAT at the rate where the buyer resides.

Business-to-Business

There are few changes affecting Business-to-business sales. Many of the changes affecting B2C sales already apply to B2B sales. VAT is still not charged and is accounted for by the buyer through the re-charge mechanism. The most significant change is that purchasing businesses must always account for VAT at their domestic rate.

Registering with tax authorities

Every entity that sells digital services to EU citizens or businesses needs to register with the one-stop-shop provided by the tax authorities of the country in which they operate. In most cases this will be one registration.

Non-EU businesses

All entities, even non-EU business, that provide digital services to EU citizens are required to register with an EU tax authority. This is because they are required to charge, collect and remit VAT. If you are a business based in the US then if you might sell your digital service to someone in the EU you are required to follow these rules. It's not clear how this requirement can be enforced.

What do you need to do?

So applying the correct VAT rate is one issue. The other is that you must be able to prove that the VAT rate used is correct. To prove you are using the correct VAT rate you need two pieces of non-conflicting evidence to corroborate your decision. The VAT rules specify a list of possible pieces but the obvious ones are the country of the billing address and the country of the IP address. The VAT rate and the information used to decide on the amount of VAT to charge must be kept for 10 years.

How this plugin helps you cope with the new VAT rules

Capturing evidence

The VAT plugin will allow you to collect the billing address, and so the country, of the purchaser and the IP address of the browser and so a second piece of evidence about the country of the purchaser.

Validating evidence

The plugin will compare the country of the billing address and country of the IP address to confirm they are the same. In this way you have the two required pieces of evidence.

If the countries do not match the buyer will be prompted to confirm the country of the billing address is the correct location of supply. The confirmation, known as self-verification, is also recorded and constitutes the alternative second piece of evidence.

Applying the correct VAT rate

The plugin allows a VAT rate to be specified for each EU member state. The verified country of billing address is used to select the rate to be applied to the sale.

Capturing the VAT number

For B2B sales VAT does not need to be charged if the buyers VAT number is collected. The plugin supports capturing and verifying the captured VAT number.

Do I need to collect VAT?

If you are a vendor based in an EU member state, you should consult your tax authority or your accountant. The rule of thumb is that if you are selling to an end-user, then from Jan 1st you will probably need to collect VAT. If you are selling to a company then probably not.

Every vendor based in an EU member state must collect VAT on each sale unless the vendor is registered with a VAT scheme of a member state and is selling to a purchaser who: can show they are not a citizen of an EU member state; and who does not represent a company based in an EU member state.

For example, if a US citizen buys a product from a UK based vendor using a credit card with a US address the UK based vendor would not need to collect VAT. However if the same US citizen buys a product from a UK based company on behalf of a company registered in Germany then the UK company may need to collect VAT. If the buyer is a company registered in the EU and the buyer is able to show they are registered in a VAT scheme of an EU member state by providing the vendor with a valid VAT number then VAT does not have to be collected by the vendor. If the buyer is unable to provide a valid VAT number then VAT must be collected. The buyer will be able to claim the VAT back if they are, in fact, registered for VAT.

Best of both worlds: Sell but only to EU businesses

Some vendors, especially but not only non-EU businesses, will want to restrict sales to EU consumers because these sales require that even non-EU businesses register for VAT with the tax authority of an EU member state. But those same vendors probably want to continue selling to EU businesses because different rules apply and these sales do not require VAT registration.

For these users, such as US vendors that want to sell to EU businesses, the plugin has a settings option to allow just this behavior.



Prevent B2C Sales

Check the box and buyers from the EU (determined by the country of the IP address and the country of the billing addresses) will be able to buy your digital service only if they enter and validate an EU VAT number. When this option is enabled any visitor who attempts to complete a purchase without entering a VAT number will see a details validation message much like they see if their address is missing or the terms and conditions have not been agreed accepted.

The following table summarizes the effect of this option. In/Outside EU is the location of the buyer not the vendor's store. 'VRN' is 'VAT Registered Number' (or VAT Number).

Buyer's IP	In EU	Outside EU		
Buyer's address	In EU	Outside EU	In EU	Outside EU
VRN (B2B)	OK	Not permitted ¹	OK	N/A
No VRN (B2C)	Not permitted	Not permitted	Not permitted	N/A

- 1) Sales to buyers purchasing within the EU on behalf of a company located outside the EU still attracts VAT because it is not possible to distinguish automatically between a non-EU business and a non-EU consumer. As a result the plugin prevents non-EU purchases from within the EU when this option is enabled.

Why is the visitor's IP address important?

Before January 2015 vendors charge VAT at the rate of the countries in which they are incorporated. For most companies, this means one country and therefore one rate. From January it becomes necessary to charge consumers VAT at the rate in their own country.

If you sell a physical thing then you will have a shipping address to which goods will be sent and this address can be used to justify applying VAT at a specific rate. But when selling a digital service, the billing address a user enters could be anything and might not be related to the purchaser's actual location. This could be especially true of buyers from countries with a relatively high VAT rate such as Hungary (27%) who might like to pretend they are from Luxembourg (15%).

For on-line sites, then, it becomes necessary to use some other means to validate the buyer declared billing address. One way to validate the user's location is to use the country associated with the IP address of machine they are using. This address is available to your web server and can be compared to a database of IP addresses to determine the country associated with that IP address.

If available, the plug-in will automatically use the PHP GeoIP extension functions of your web server to determine the country from visitor's IP address. If the PHP GeoIP functions are not available, the plugin will automatically fall back to use information available through this site: <http://www.geoplugin.net/>

Should I register with a VAT scheme?

This is a question for your accountant but broadly the answer is that if you are a business or an individual selling to businesses or individuals in the EU, yes. For UK businesses there is [information on the HMRC web site](#). Tax authorities of other EU member states have similar information available.

Vendors based in the EU must register to join the VAT scheme of the appropriate member state if their revenues in the past 12 month are above an amount specified by their tax authority. At the moment this amount is in the region of €90K though it is revised every year. If a vendor is based in the EU but is not a member of an EU member state VAT scheme then VAT should be collected unless exceptions apply. If a vendor is **not** a member of a VAT scheme then VAT should

not be charged on sales to other EU citizens or to companies registered in an EU member state.

When registered with a VAT scheme there is a statutory obligation to submit a VAT return each quarter so being registered means there is paper work to do. However if you are making many sales then sooner or later you will need to register with a VAT scheme so you may as well register sooner and get a process in place. If you are in start-up mode and not making many sales but are buying goods and services, a reason to register with a VAT scheme is so that you are not charged VAT or, if you are, you can reclaim the VAT.

Note that if you sell above a threshold amount to any other EU member state you may also need to register with the VAT scheme in those countries.

For more information and to buy the plug in, please visit

<http://www.lyquidity.com/wpstore/2013/10/vat-for-edd/> or email wpstore@lyquidity.com

Always seek advice from an authorised tax specialist, this document does not constitute a recommendation.