# Principles of taxation of triangular transactions

A triangular transaction means a transaction for the transfer of goods, which involves taxable persons from three different Member States, all of which are registered as a taxable person in their own country. A triangular transaction is a transaction in which goods are sold in two successive sales and all three parties are located in different Member States. According to the sale transaction, a taxable person established in Member State A (the transferor in the triangular transaction) sells goods to a taxable person established in Member State B (the reseller in the triangular transaction) and from B the goods are transferred to a taxable person established in Member State C (the acquirer in the triangular transaction), and the goods in question are delivered directly from Member State A to Member State C.

Under a special rule, buyer B who does not have a place of residence or place of business in the country of destination (C) does not have to register as a taxable person in the country of destination (C) in the case of a triangular transactions. The simplified arrangement is implemented in such a way that the second buyer (C) has to pay VAT on the sale of the goods by the first buyer (B) if the second buyer (C) is registered as an economic operator and a person liable to VAT in the country where the transport of the goods ends, i.e. in the Member State C. The acquisition of goods in a triangular transaction of the first buyer (B) does not generate supply, provided that the buyer (B) has included a note about the sale of goods in a triangular transaction to the invoice, as well as the VAT numbers of himself and the next buyer (C).

**Example**
A Swedish taxable person C has ordered goods from an Estonian taxable person B. B does not have the required goods and orders the goods from taxable person A in France, asking the goods to be delivered directly to Sweden (C). If A, B and C are registered as taxable persons for VAT purposes in their home countries and the invoices submitted meet the required conditions, it is a triangular transaction in which the special arrangement described for the payment of VAT can be applied.

The transfer of goods is not regarded as a triangular transaction if successive sales of goods and their transport are organised under different conditions.

For example, the general rules of taxation must be followed if:

- ✓ sales within some Member State are also linked to sales. Such sales are to be regarded as domestic sales of goods subject to taxation under a general procedure;

- ✓ one or more of the parties to the transaction are not registered as taxable persons in their Member State. For example, one of the parties is a Russian company that is not registered in any Member State;

- ✓ the goods are sold together with their transportation more than three times. For example, in the

- case of transaction with four parties, goods are sold from the first seller (A) to another Member State (to buyer B) for resale to a third Member State (to buyer C) and onward to a fourth Member State (D), and the goods are transported directly from the first Member State A to the fourth Member State D. In this case, purchasers B and C may be obliged to register for VAT purposes in the Member State to which the goods were delivered (D);

- the country to which the goods were delivered is Estonia (Member State C) and the first buyer B has a permanent establishment in Estonia. There is no need to use the special arrangement, since buyer B is already a taxable person in Estonia. However, in the light of the judgment of the Court of Justice in Case C-580/16, the provisions on triangular transactions can be applied where the reseller is a taxable person for VAT purposes in the Member State from which the goods were dispatched if, in carrying out the transaction, he uses a VAT identification number issued by another Member State (i.e. not the Member State from which the goods were dispatched).

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