

Taxation of goods to be installed and assembled

The rules of intra-Community supply of goods do not apply to sales where, in accordance with the VAT rules of the place of sale of the goods, the goods are taxed in the country of destination. This also concerns the transfer of goods to be installed or assembled in another Member State. Clause 2 of subsection 3 of § 2 of the VAT Act provides that “goods installed or assembled” are goods which are transferred and installed or assembled by or on behalf of the transferor in another Member State and in the case of which the cost of installation or assembly exceeds 5 per cent of the taxable value of the transaction.

If an Estonian economic operator sells goods to another Member State and the goods are shipped there before they are assembled and installed in another Member State, such supply will not be deemed to have occurred in Estonia and must not be declared in Estonia. On the other hand, in the case of the transfer of goods to be installed or assembled in another Member State, a taxable person must know whether, in that other Member State, there is a general system of taxation imposed under which the seller of the goods is liable to pay the tax, or a reverse charge mechanism is implemented, under which VAT is payable by the purchaser of the goods to be installed or assembled. The supply of goods, which includes assembly and installation, may be taxed in another Member State both as goods and services, depending on the legislation of that Member State. It is also determined according to the law of the country of destination whether the goods to be installed or assembled are to be taxed in the country of destination.

Example 1

An Estonian taxable person established in Estonia sells equipment that is assembled at a Swedish company in Sweden. The Estonian company is responsible for the assembly. In such a case, it is determined according to the Swedish VAT Act whether the supply and assembly of goods in Sweden are declared separately or whether the total supply may be declared either as a supply of goods or services. The taxable person must also know whether the person acquiring the goods will pay VAT on the goods to be installed or assembled or whether the Estonian company will be obliged to register as a VAT payer in Sweden and to tax the supply with Swedish VAT.

In Estonia, the supply is declared only in field 9 (informative) of the VAT return.

The transaction is not included in the report on intra-Community supply of goods.

Pursuant to clause 4 of subsection 3 of § 8 of the VAT Act, the acquisition of goods to be installed or assembled in Estonia from a taxable person of another Member State is not deemed to be an intra-Community acquisition of goods. A taxable person must calculate VAT on the basis of clause 3 of subsection 4 of § 3 of the VAT Act.

Example 2

A Swedish taxable person sells a device to an Estonian taxable person, which he also sets up in Estonia. This is an acquisition of goods to be installed in Estonia, on which VAT is payable in Estonia. The purchase of the device is declared by the Estonian taxable person as follows:

VAT return: enter the taxable value of the device (both the device itself and the installation service) in line 1 (or 2) titled “Acts and transactions subject to tax at a rate of 22% (or 9%)” of the VAT return

according to the tax rate applicable and informative line 7 "Acquisition of other goods and services subject to VAT, incl".; enter VAT in line 4 "Total amount of value-added tax (22% of line 1 + 9% of line 2)", and in the case of goods acquired for taxable supply, input VAT is deducted in field 5 "Total amount of input VAT subject to deduction pursuant to law".

Report on intra-Community supply: buyer does not submit it on the goods acquired.