Taxation of goods

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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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Principles for the declaration of triangular transactions

The first seller A must declare a transaction as follows:

- the sale to B must be declared as intra-Community supply of goods in a VAT return,

- the value of the sale must be declared in the report on intra-Community supply as regular supply (not triangular).

The second seller B must declare the transaction as follows:

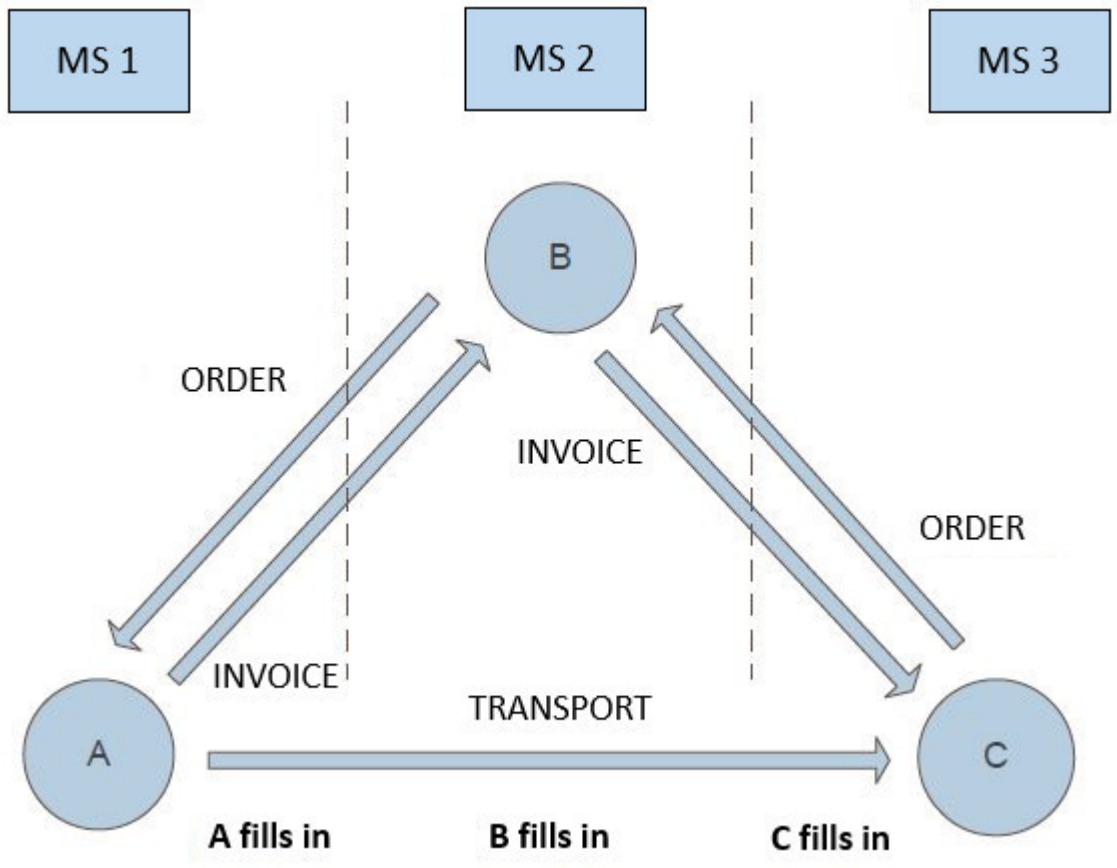
- seller B must declare the goods sold to C in the field “Triangular transaction” in a report on intra-Community supply;

- if B also has other intra-Community sales of goods to C, these sales must be declared separately from that of the triangular transactions in the report on intra-Community supply..

However, B does not declare the goods acquired from A as intra-Community acquisitions or sales to C as intra-Community sales of goods in a VAT return.
The second buyer C must declare the transaction as follows:

- ✓ the acquisition from B must be declared either in line 1 or 2 of the VAT return (according to the tax rate);
- ✓ VAT on the acquisition must be calculated in line 4 of the VAT return and,
- ✓ if goods on which the right to deduct input VAT have been acquired, the amount of VAT calculated must also be shown as deductible input VAT in line 5 of the VAT return, and
- ✓ in addition, the acquisition must be indicated in the informative line 7 of the VAT return.

In triangular transactions, the first seller of goods (A) and the first buyer and the second seller (B), as well as the second buyer (C), are taxable persons in different Member States. Below is a list of what a taxable person registered in Estonia must declare in the role of A (the transferor in a triangular transaction), B (the reseller in a triangular transaction) or C (the acquirer in a triangular transaction).



A fills in	B fills in	C fills in
VAT return: • taxable value of goods sold to B in the fields on intra-Community supply of goods (form KMD lines 3, 3.1 and 3.1.1)	The acquisition and intra-Community supply are not indicated in **the VAT return**.	**VAT return**: C must show the acquisition of goods in a triangular transaction among the supply taxable in Estonia and declare: • the taxable value of goods acquired in a triangular transaction from B (form KMD line 1 or 2 and 7) • VAT calculated on the acquisition of goods (form KMD line 4) • the same amount as input VAT if there is a right to deduct VAT (form KMD line 5)
Report on intra-Community supply: • taxable value of goods sold to B (form VD column 3) • the VAT number of B (form VD columns 1 and 2)	**Report on intra-Community supply:** • taxable value of goods sold to C (form VD column 4) • the VAT number of C (form VD columns 1 and 2)	**The report on intra-Community supply** must not include the transaction.
Invoice: the VAT numbers of A and B	**Invoice**: the VAT numbers of B and C	

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Other chain transactions

Chain transaction as a general term means that the same goods are transferred several times in a row and are delivered from the first transferor located in one Member State of the European Union to the last acquirer in another Member State of the European Union.

As of 1 January 2020, the amendments to the VAT Act provide for a transaction which, in such a chain of

transactions, is treated as intra-Community supply of goods subject to 0 % VAT. As a general rule, it is the supply of goods from the first transferor to the first reseller who generates an intra-Community acquisition in the Member State of the last acquirer. All subsequent sales are taxed as domestic supply in the Member State of the last acquirer.

However, if the first reseller informs the first transferor of his VAT identification number in the Member State of dispatch of the goods, the intra-Community supply at a rate of 0% is generated by that reseller in the Member State of dispatch and the person acquiring the goods from such a reseller will generate intra-Community acquisition in the Member State of the last acquirer (if he is not the last acquirer, all subsequent sales must be taxed as domestic supply in the Member State of the last acquirer). The first transferor generates regular domestic supply in its own Member State.

These amendments do not concern triangular transactions. Both the concept of triangular transactions and the VAT treatment in the case of a triangular transaction remain as they were before 1 January 2020.

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