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## **Welcome to *VAT Victory***

Thank you for buying VAT Victory. I appreciate your trust.

I'm committed to helping all my business clients to improve their sales and profits by using simple strategies that have been proven to work.

Since 2006 I've been selling ebooks and digital products online, with customers in 11 countries.

As of January 1, 2015, there will be significant changes to the European VAT rules on sales of digital goods and services to retail consumers in Europe. These changes increase the VAT compliance burdens on all sellers, wherever those sellers are located.

I haven't registered for VAT in any European jurisdiction – and I have no need to do so. I have a simple solution, which you can apply to every digital product you sell.

The good news is that the ideas and examples that are explained in this short guide are logical, practical and are very easy to apply.

I hope you'll use **VAT Victory** to create a successful and profitable online business.

*Mike Major*

Founder

TheBizAdviser.com

# VAT Victory

## A. THE PROBLEM

There's **Good news and Bad news** for the thousands of online business owners and solopreneurs who sell digital products and services online, direct to consumers worldwide.

As of January 1, 2015 there'll be significant changes to the European VAT (value added tax) rules on sales of digital goods and services to retail consumers in Europe. You might be worried this suddenly means you need to charge a tax if you make a sale to someone in the UK or another European country.

Well there's some **slightly good news** and some **really BAD news**.

So, here's the Good news. . .

Unless you're in Europe, the changes on 1 January 2015 *mostly* apply to what I call the "Amazon Trap." And I'll explain that shortly.

### European-based businesses

These new regulations firstly affect digital sales **by** EU-based businesses **to** EU-based consumers – none of this applies if you're selling to businesses. Digital downloads and services sold to European retail consumers are taxed at VAT (value added tax) rates of up to 27%.

As of now, European suppliers must charge the VAT rate of the country *from which the sale is made*. From January, suppliers must charge the VAT rate of the country *where the purchaser lives*.

So let's say that Rodney, who lives in Manchester, UK sells an ebook to Patrick, who lives in Dublin. In the UK, the VAT rate is 20% so as of now Rodney adds that to the price which Patrick must pay.

But the VAT rate in Ireland is 23% so, from 1 January, Rodney must charge Patrick 23% VAT for his ebook, not 20%.

Worse still for European businesses, especially the little guys, the tax now applies to the very first dollar/euro of sales. The 'Amazon Trap' means that whenever an ebook or pdf is sold to a consumer in the EU the seller is automatically liable for VAT MOSS. (That stands for Mini-One-Stop-Shop, which is the registration mechanism.)

Why do I call this the "Amazon Trap?" Well, Amazon cleverly based their European operation in Luxembourg, where the VAT rate is 15%.

As of now, if Patrick buys a product on Amazon, he'll only pay 15% tax.

Amazon, Google, Apple and the other big guys were only playing by the rules, which you'd think they're entitled to do. But that didn't go down well in Brussels – the "capital" of the European Union.

They looked at the millions of euros in taxes they felt they were entitled to have, without looking at the effect on all of us smaller guys. So the rules of the game have been changed, effectively catching Amazon in a trap.

It means, from 1 January, if Patrick in Dublin buys anything on Amazon then he'll be paying not 15% but 23% VAT.

## **Non-European businesses**

I guess you're feeling better, now you know this only applies to sellers in Europe?

You're still sitting down, right? Because here's the bad news.

No, I mean it's the REALLY BAD news.

Because you'll be surprised to learn **VAT has been due on any and all sales of digital goods and services to retail consumers in Europe, since 2003.**

***THAT'S RIGHT! It's *already* a requirement!*** What's new is, **the level of enforcement will increase.**

You might be a US-based business (or Canadian, Australian, etc) and you're not a 'tax-resident' in the EU. So you're wondering what this has to do with you?

Well, if you make a sale of any "electronically supplied service" – which includes just selling an ebook for download – to a customer in the UK or any European country, then you've just become a "non-resident seller.'

That means you're obliged to collect and pay VAT on all digital goods and services sold in the EU consumer market.

The VAT is due at the VAT rate of the European country in which the consumer is located. (So the 1 January change is just bringing local suppliers into line with us foreigners.)

Actually, you're supposed to register **BEFORE** making any sales to European customers. So **if you've launched a hot ebook about Facebook Advertising and someone from the UK has bought and downloaded it**, then you're already in breach of European law!

## **Registration Process**

According to the bureaucrats in Brussels, anybody selling products or services online is obliged to be properly registered for VAT in **each** of the 28 European countries in which the seller expects to have consumers.

Or else you can make a one-time choice to use a simplified registration and filing procedure to meet your European compliance obligations. It's called MOSS (a Mini-One-Stop-Shop) and there are actually two versions – one for EU based suppliers and one for Non-Resident Sellers.

Either way, you'll still need to calculate and report the appropriate VAT amounts for **each** relevant EU member state in which sales of your digital products have been made.

Say what?!

## **Managing your sales**

As with any business, you're keeping records, right? It's the law, most anywhere. Your payment provider tracks customer names and addresses and, if you're in Europe, you already track VAT numbers.

However, now you need to match every single European sales transaction to the country of the buyer, so you can collect the proper VAT due for each country. No, you're not as big as Amazon or Apple but, unless you track sales manually, you'll need sophisticated and expensive billing systems.

Of course, micro businesses selling digital products rely on automated purchase and delivery, not manual tracking. Without automation, creating and selling low priced information products isn't possible. If 'human intervention' is needed for each purchase, the costs will quickly make the business model unworkable.

## **It's only going to get worse!**

Business owners will need to adapt to the global trend of more taxes, more reporting, and more regulation of online commerce.

Rick Minor, writing in Forbes magazine, says the globalization of regulation is a direct consequence of the globalization of consumer markets which digital supply chains have created.

And he says the European VAT system for taxing the sale of digital goods and services is being celebrated by tax policy institutions like the OECD **as a template for a global VAT system of taxation** on digital

commerce, and is already in the process of being embraced by the OECD and other VAT jurisdictions.

Remember, this relates to **Digital Goods and Services** and the definition includes almost any product or service that can be bought online and downloaded or accessed online. From ebooks and e-courses, to recorded training videos, music and audio downloads.

If you sell any of these to residents of an EU country, then you probably should check you have enough margin to cover an unexpected tax assessment for up to 27% of your sales volume.

### **Selling to businesses**

The VAT rules for non-EU suppliers selling to **business customers** in the European Union remain unchanged. VAT is paid by the importing company, under existing 'reverse charge' arrangements.

That is, the business buying an online product from you will declare the purchase on their VAT return as paid to you at the time of supply. This gives you the responsibility to account for payment of the VAT.

If you sell to any business located in the EU, then you'll need to acquire their VAT number as part of the payment process and make quarterly tax returns.

The catch is that, unless you register for MOSS, then you need to register for VAT in **every** EU state, because there's no minimum threshold – **so the tax is payable from the very first sale!**

*For a small business based in the UK, it gets worse. Because, if their turnover is below the VAT registration threshold (currently £81,000) they won't be able to use the MOSS scheme. They lose their tax free 'cushion' and, instead, they'll have to register for VAT in their customer's country and account for VAT on sales through a local VAT return.*

## **What can you do?**

One of the big accounting firms says every business that is a publisher or 'non-resident seller' (ie YOU) needs to make an Action Plan:

- Identify all sales channels you're using for digital products
- Confirm the contractual relationship for each sales channel
- Identify the European jurisdictions in which you make sales
- Confirm your need for VAT registration on a country-by-country basis or assess whether the MOSS scheme is suitable
- Register for VAT in each jurisdiction – or – register for MOSS and set up a reporting and payment system for each jurisdiction.
- Decide whether you will offer a single VAT- inclusive price and absorb the different VAT rates as a cost, or offer an individual retail price for each jurisdiction.
- If you sell through online retailers such as Amazon or Apple iTunes, be ready for price negotiations because they'll likely want publishers to absorb the increased VAT costs.
- Set up a monitoring system to ensure your VAT obligations are accounted for.

**Or else. . . . you can use VAT Victory**

## B. THE SOLUTION

After reading the first section of this report, you're probably starting to realize there's a world of pain awaiting when you make online sales to customers in Europe.

So. . . if possible, avoid the risk.

### The Concept

The solution is summed up in two words: **contracting out**.

You see, it's *your* product and *your* business and *you* can decide where and with whom you want to do business.

Here's an example: **Amazon**

(Actually, it's a surprisingly good example, because the reason is just the same: tax liability.)

The states of Arkansas, California, Colorado, Illinois, North Carolina, Rhode Island, and Connecticut tried to make Amazon liable for state sales tax on any affiliate sales made online by state residents.

They argued that appointing affiliates created a "nexus" for Amazon in the state – a tangible connection – thus making Amazon liable for collecting the tax.

Amazon simply banned residents in those states from becoming affiliates. Technically, they refused to enter into an affiliate agreement – they "contracted out" of any relationship.

You can do the same.

## The Principle

The key principle is, that YOU don't want to be responsible for VAT payable in the European countries. So you contract out from selling to anybody who could make you liable for VAT.

And how is that done?

Simple. You make it a CONDITION of buying your digital product that:

- (a.) the buyer is not purchasing for business purposes\*, and
- (b.) the buyer is not resident in the European Union, or
- (c.) the buyer agrees to accept responsibility for paying any VAT

\* As mentioned earlier, the VAT rules for non-EU suppliers selling to **business customers** in the European Union remain unchanged and a sale to a business imposes an obligation on YOU to pay the VAT.

# The Method

## 1. Create a Terms and Conditions page

You should already be including Terms and Conditions in your sale. In a litigious society it just makes sense to state your position, which must be accepted by anybody who wants to buy from you.

I generally include terms relating to liability, service continuity, earnings disclaimer and an FTC affiliate link disclosure.

*I've included template Terms and Conditions pages at the end of this ebook: one for products, one for services.*

## 2. Add your contract out clauses

Here are the three clauses I include in my Terms and Conditions:

### APPLICATION

11. We reserve the right to refuse sale to any person or organization without explanation.

12. You affirm that you are not purchasing the product for business purposes and you affirm that you are not usually resident in any country forming part of the European Union; or otherwise you personally accept, and agree to take necessary steps to discharge, liability for any Value Added Tax which may apply to your purchase.

13. You agree that by clicking the 'Buy Now' button you have accepted these Terms and Conditions and aver that they describe our complete agreement excluding any other representations whether in writing or otherwise.

So here's what you've done.

- In clause 11 you've said you don't have to sell to everybody.
- In clause 12 you've made them confirm either (a), (b) or (c) above: it's not for business, they don't live in Europe, or they agree to pay the VAT.
- And in clause 13 they've accepted your terms.

### 3. Now upload your Terms and Conditions page.

If you make it generic, then you can link to it from all your products and won't have to make a new page for every new product.

(But you might need one for each service.)

If you don't know HTML, you can make a quick and effective page using Jason Fladlien's [WP-Enlighten](#).

It's a plug-in for WordPress and yes, that's an affiliate link. But I use it myself and recommend it, so get it here: [3go.co/enlighten](http://3go.co/enlighten)

### 4. Link to your Terms and Conditions

Lastly, put a link under 'Buy' or 'Subscribe' buttons, with an advisory message, such as: "Click the *Buy Now* button to accept our standard terms"

Here's how I do it:



By clicking the *Subscribe Now* button you accept our [Terms and Conditions](#)

**Make sure the link opens in a new window** (`_target="blank"`)  
You don't want to close the sales page!

## The Result

You may be thinking: “Wait! I’ve removed the risk of any VAT liability, but **now I’m going to be losing sales.**”

Interestingly, that doesn’t seem to happen.

Assuming that your product/service is wonderful (*of course!*) and your sale page is powerful (*definitely!*) then people in Europe will be as eager to buy from you as are customers anywhere else.

Testing pages **with** the advisory message against pages **without** the message doesn’t show any decline in conversions.

I think there are three possible explanations:

1. **Customers are blind to the advisory message.** They’ve seen so many and besides they know, like Software Licenses, either you accept or you go without. I’ve never had a click-through ratio of the terms link vs. the sales button above 5%.
2. **Customers don’t properly read the Terms and Conditions.** The contract-out clause is always at the end, so perhaps most of the few who do click-thru to read them start to lose interest in the legal mumbo-jumbo.
3. **Customers ignore the contract-out clause.** If they want it, they’ll buy it. They’re unlikely to need it as a business purchase, or maybe they’re not permanent residents of the country in which they buy your product. Perhaps they’re happy to pay the VAT themselves. Or maybe they’re just lying.

Whatever the explanation: ***it’s none of your business.*** You’ve clearly stated the terms on which you’ll accept their business and by clicking the button, they’ve agreed to your terms.

With sufficient investment in software and systems yes, you could track IP addresses – but you can’t track intentions.

Unless you sell digital products on an industrial scale, it can be argued that it's **unreasonable for you to do more** than you've done to avoid any VAT liability.

You have what the CIA might call "**Plausible Deniability.**"

Once again, thank you for buying VAT Victory and good luck with your online sales.

## Appendix 1: Terms and Conditions template (product)

# **{Product-Name}** **Terms and Conditions of Sale**

### AGREEMENT

1. The Supplier (we, us, our) and the Purchaser (you, your) agree this eBook, Report, or information material, however described, (The Product) will be supplied according to the following Terms and Conditions:

### RELATIONSHIP

2. The relationship between the parties shall be as Supplier and Purchaser. {Corporate-Name} trading as {Trading Name} will supply the product in return for the prescribed payment.

### LIMIT OF LIABILITY / DISCLAIMER OF WARRANTY

3. The authors and publishers of the Product have used their best efforts in preparing this information. They make no representation or warranties with respect to the accuracy, applicability, completeness, or suitability of the content.

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8. As with any business, your results will vary and will be based on your personal abilities, experience, knowledge, capabilities, level of desire, and an infinite number of variables beyond our control, including variables neither we nor you have anticipated. There are no guarantees concerning the level of success you may experience in your business. There are unknown risks in any business and each person's results will vary.

9. The use of our Product should be based on your own due diligence and you agree that we are not liable for your success or failure.

#### LINK PERFORMANCE

10. Additionally, the author and publisher do not warrant the performance, effectiveness or applicability of any websites listed or linked to in this Product. Such links are for information purposes only and are not warranted for content, accuracy or any other implied or explicit purpose. Under FTC regulations you are advised to assume any links presented in this Product are affiliate links and that commissions may be paid to the author and publisher.

#### APPLICATION

11. We reserve the right to refuse sale to any person or organization without explanation.

12. You affirm that you are not purchasing the product for business purposes and you affirm that you are not usually resident in any country forming part of the European Union; or otherwise you personally accept, and agree to take necessary steps to discharge, liability for any Value Added Tax which may apply to your purchase.

13. You agree that by clicking the 'Buy Now' button you have accepted these Terms and Conditions and aver that they describe our complete agreement excluding any other representations whether in writing or otherwise.

## Appendix 2: Terms and Conditions template (service)

# **{Service-Name}** **Terms and Conditions of Supply**

### AGREEMENT

1. The Supplier (we, us, our) and the Hirer (you, your) agree the {Service-Name} service (The Service) will be supplied according to the following Terms and Conditions:

### RELATIONSHIP

2. The relationship between the parties shall be as Supplier and Hirer. {Corporate-Name} trading as {Trading Name} will supply the Service and facilities for your benefit.

3. The Service will source prospects who have visited a related website and will verify the contact address of those who choose to opt-in (a Lead); and you agree to pay a fee to us for each verified Lead notified to you in the manner described at 7 (c) below.

### PAYMENT

4. Payment for the Service is as follows:

- a. A one-time setup charge of \$000
- b. A usual fee of \$00 for each verified Lead, excluding the first four leads, which are considered to be pre-paid by the setup fee.

5. At the time of purchase and otherwise thereafter at our option we may offer you the opportunity to purchase Leads in advance at a discount to the usual fee (a Pre-paid Lead).

6. You agree to pay our invoice by automatic credit card deduction within 24 hours of issue and you agree and acknowledge that should any fees invoice remain unpaid for more than 24 hours then we may suspend the Service and no further Leads will be notified to you until we receive payment.

### ENTITLEMENT

7. For as long as your account is current, you shall be entitled to:

- a. use of our registration service with opt-in form and associated download and thank you pages, which will be mobile-optimized and will be hosted as a part of the service; and

- b. use of our management service to capture the names of prospects who register interest and also to verify their contact details; and
- c. use of our notification service to advise you of verified leads, which notification will be sent to the email address you used to register for our Service unless otherwise advised; and
- d. optionally, when offered and accepted, use of our emailing service for the purpose of sending regular emails to your database subscribers; and
- e. optionally, when offered and accepted, use of an automated sequence of email messages, written and emailed to database subscribers on your behalf.

#### DATABASE OWNERSHIP

8. Although the names and contact details of your prospects are captured in our management service, we hold them for your benefit only.

9. If you cancel the Service, then the database names will be exported from our records and delivered to you as a .csv file.

#### SERVICE STANDARD

10. Although we have selected providers whose uptime exceeds 99.99% we do not guarantee the Service will always be accessible. In the event of a service interruption we and our providers will apply best efforts to restore the Service but shall not be liable for any losses flowing from such service interruption.

11. In no event shall we or any of our providers, suppliers, subsidiaries or affiliates, be liable for any indirect, special, incidental or consequential damages including but not limited to loss of use, loss of data, loss of business or profits. To the extent permitted by applicable laws we do not accept any liability for: errors, mistakes or inaccuracies in materials produced for the service; you acting, or failing to act, on any information we advise in connection with the service; any unauthorized access to or use of our service; any interruption or cessation of transmission to or from any servers or websites associated with the service; or for any other reason. Liability, if any, is limited to an amount equal to the fees paid in the previous month.

#### TERMINATION

12. You may cancel this agreement at any time and for any reason by sending an email to us and the Service will cease immediately. Any unpaid fees invoice will remain due and payable.

13. If you cancel the service and there is an unused balance of Pre-paid Leads then we will refund the unused Leads at our usual fee.

14. We may suspend the Service if any fees invoice remains unpaid for a period exceeding 24 hours. We will reinstate the Service upon receipt of payment.

15. We may cancel the Service if any fees invoice remains unpaid for 7 days. We accept no obligation to reinstate the Service should payment be subsequently received.

#### APPLICATION

16. We reserve the right to refuse service to any person or organization without explanation.

17. You affirm that you are not subscribing for the Service for business purposes and that you are not usually resident in any country forming part of the European Union; or otherwise you personally accept, and agree to take necessary steps to discharge, liability for any Value Added Tax which may apply to your subscription.

18. You agree that by clicking the 'Subscribe Now' button you have accepted these Terms and Conditions and aver that they describe our complete agreement excluding any other representations whether in writing or otherwise.