



TAX:WATCH

Purchases made abroad by VAT-exempt businesses

VAT-exempt businesses purchasing goods and services abroad will often be required to register for VAT, because they are covered by the same rules as businesses subject to VAT.

By Pernille Rise Thomsen, prt@bdo.dk

All businesses - regardless of whether they are subject to VAT or not - are covered by the same rules for settlement of VAT in Denmark when purchasing goods and services abroad.

Among others, VAT-exempt businesses include such diverse businesses as dentists, doctors, physiotherapists, banks, insurance companies, cultural institutions (museums, exhibitions, theatres etc.), rental companies, private schools, course providers, undertakers and taxi hauliers. Public authorities and holding companies are also exempt from VAT. All these businesses should be aware of the VAT rules elaborated below.

Purchase of goods from other EU countries

A special DKK 80,000-rule applies. This means that, as a main rule, VAT registration is only required if the total value of purchased goods in the current or previous year has exceeded DKK 80,000. However, voluntary registration may be selected, even if the limit is not reached. This may be beneficial, if the VAT in the other country is higher than in Denmark.

There is an important exception to the DKK 80,000-rule. If the purchased goods are subject to harmonised excise duties - which applies to mineral oil products, as well as to tobacco, beer, wine and spirits - the business will be subject to registration in Denmark for both VAT and duties, regardless of the value of the goods.

Purchase of goods from outside the EU

When importing goods from countries outside the EU, import VAT must be settled according to the customs rules. This implies that otherwise VAT-exempt businesses must register as importers. Both customs, VAT and any applicable duties must be settled in connection with the customs clearance.

Purchase of services from abroad

In the case of purchase of services, no limit applies, and it makes no difference whether the services are purchased from other EU countries or from countries outside the EU. This means that the purchasing business normally always will be subject to VAT registration with such purchases, and Danish VAT must be paid at the time of purchase.

There are exceptions, however. For example, if the service purchased abroad consists of hotel accommodation and/or access to a conference, no obligation will arise, as no Danish VAT will be due for such services.

TAX:WATCH NO. 8
25-08-2017

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Tax deduction, but no VAT deduction

Failure to register for VAT results in a risk of post payment claims - and at worst a fine - from the Danish tax authorities.

VAT-exempt businesses are not entitled to VAT deduction concerning the VAT etc., which they have to pay for purchase of goods and/or services abroad, because their sales are exempt from VAT. In the case of taxable businesses, the VAT paid can be deducted when calculating taxable income.

Where do you pay municipal tax in 2018?

Your address registered by the Danish authorities on 5 September 2017 determines, in which municipality you will pay municipal tax in 2018.

By Anders Kiærskou, aek@bdo.dk

The first weekend of September is a good time to move if you are about to move from e.g. Langeland - or another municipality in Denmark with a high tax rate - to the municipality of Rudersdal, which currently holds the country's lowest municipal tax rate.

If, on the other hand, the situation is the opposite, and you are about to move from an inexpensive municipality to an expensive municipality - in terms of municipal tax - then you might consider postponing the move to the second weekend in September. In fact, the tax savings obtained by doing so may cover the moving expenses.

It is your registered address on 5 September 2017, which determines the municipality where you will pay municipal tax in 2018. If you are relocating to Denmark from abroad in 2017 after this date or in 2018, the municipality, where you first register your address in Denmark, will determine where you will pay municipal tax in 2017 and 2018. Hence, if you are initially going to live in a temporary home when relocating to Denmark, you could benefit from choosing a municipality with a low tax rate.

According to the Ministry of Taxation's overview of municipal tax rates in 2017, the rates fluctuate between 22.5 pct. (Rudersdal) and 27.8 pct. (Langeland) - a difference of 5.3 pct.

Municipal tax is calculated from net taxable income. With the current tax rates, a married couple with a total net income of DKK 600,000, moving from Herlev to Ringsted municipality, can expect an annual increase in municipal tax of DKK 18,000 - equivalent to DKK 1,500 a month - due to the 3-pct. difference in the municipal tax rates between the two municipalities.

In households, where top bracket tax is paid, in many cases, the tax rate ceiling will reduce the significance of differences in municipal tax rates.

If the sum of the state tax rates (bottom bracket tax, health contribution and top bracket tax) and the municipal tax rate (applicable church tax not included) exceeds 51.95 pct. (2017), the rate for calculating the top bracket tax is reduced by the difference. There is also a special tax rate ceiling for positive net capital income.

It should be noted that a saving in municipal tax is, in some cases, offset by rising costs for property tax, day care payments, etc. Additionally, housing costs have an impact on the overall situation. However, it does not change the fact that savings can be obtained by planning a move, if this is possible. Naturally, the registered moving date must be in accordance with the actual circumstances.

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