



Vibracoustic GmbH

**"VAT compliance requirements supplier consignment stocks"**

Information for suppliers

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## 1. VAT treatment of supplier consignment stocks

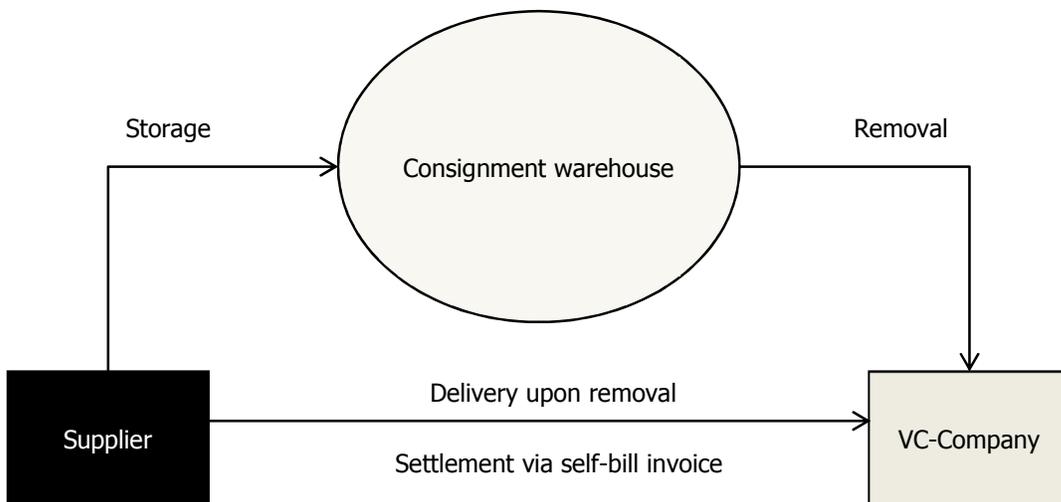
### 1.1. Introduction

VC subsidiaries regularly require certain raw materials, fuels and auxiliary materials or other goods, which are acquired for production from the suppliers at the various production sites. For this purpose, for the most part, supplier agreements are concluded with the supplier which define the establishment of so-called consignment stocks. These **supplier agreements with consignment stocks** are **subject to certain VAT requirements**. If they are not met consistently, then they can lead to negative VAT implications. Moreover, the conditions for consignment stocks within the EU are not uniformly regulated and must be considered separately from country to country.

### 1.2. VAT issues

The inventory in consignment stocks are inventories which are regularly held already in place at VC production companies. The supplier remains initially as owner of the goods. They remain in the supplier's balanced inventory. Only upon their **removal** from the inventory is the authority to dispose of the goods or ownership transferred to the VC subsidiaries.

This regular practice among the participating parties bears pitfalls as relating to VAT and the pertinent subsequent processes (e.g. creation of a delivery plan / settlement by means of credit).



### 1.3 VAT risks

If taxes at home and abroad are not properly paid to domestic and foreign tax authorities or tax amounts are falsely removed from invoices, and invoices are not issued correctly, penalty interests and fees may arise. Furthermore, the taxes will have to be paid subsequently and may even bear interests on arrears or penalties which vary by country and may result in reputational damage.

## 2. Application of the simplification rule in various countries of the European Union

The individual EU Member States have different legal regulations with regard to the VAT treatment of consignment stocks. The location of the consignment stock is always decisive for the correct VAT treatment. **In other words, the VAT regulations of the country in which the consignment stock is located must be observed. By principle, the supplier must register for VAT** in the country where the consignment stock is located (no application of the simplification rule). Deviating from the principle of the VAT registration requirement some EU Member States provide a **simplification rule** for handling deliveries

to consignment stocks. The EU Member States which provide for a simplification rule accept an immediate intra-community supply by the supplier to the customer. The suppliers must therefore accurately know the regulations of the country in which the consignment stock is located in order to ensure accurate VAT.

### **3. Self-billing procedure**

Supplies carried out to a consignment stock located at a VC-company are often linked with the agreement on self-billing procedure. A self-bill invoice in VAT law is an invoice which is issued by the recipient of a service or a supply (or a third party commissioned by the recipient). This means that the VC companies create the invoice for the goods taken from the consignment stock on behalf of the supplier. This type of settlement is often used when the recipient of the supply knows better about the inventory of the goods to be settled, which is naturally the case with consignment stocks. Furthermore, it must be observed that no double billing is made, i.e. when there is self-billing agreement, **the supplier should not create additionally an invoice** (also incoming invoice) for the VC-company!

Thus, indispensable is an agreement regarding the settlement within self-billing procedures. Your contact person at the Vibracoustic-group provides you with the relevant self-billing agreement.