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# The Bottom Line

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with Marilyn A. Parham, CPA

## **CPA in Your Corner, Episode 003**

### **Unpacking the VAT Tax for 2015**

**Jessica:** Hey guys, this week we're talking about value-added tax, or better known as VAT tax, and what it means for your online business. Here we go!

[Theme plays]

**Jessica:** Welcome to CPA in your Corner. We're your hosts, Certified Public Accountant Marilyn Parham and online business coach Jessica Stafford. Join us each week as we help online entrepreneurs fix their finances and keep more of the money they earn.

Hey guys, what's up? Jessica Stafford, online business coach for The Bottom Line. Sitting in the studio today with Marilyn Parham, CPA and founder of The Bottom Line.

**Marilyn:** Hey guys!

**Jessica:** And we're here to today to talk about the value-added tax and what it means to your online business, because we've got some rules coming up changing the game effective January 1st of 2015. It's all about selling your online products to this European Union. So don't worry folks, we're going to kind of dig into it and kinda break down the details that you may need to know for your online business. Right Marilyn?

**Marilyn:** Yes, try to simplify it.

**Jessica:** Yeah, do the best we can to simplify it. Well, however you simplify tax.

**Marilyn:** I know.

**Jessica:** [laughs] Okay. So, basically you know, our world is just getting smaller and smaller. And technology is allowing us to just be everywhere. And we've kind of talked about that in our online business, even as accountants, that you're no longer stuck with the firm down your street or in your town or even in your state right?



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**Marilyn:** That's right. It's countries worlds away.

**Jessica:** It's just getting smaller and smaller and we've got some issues coming up that we need to deal with as online business owners that we actually sell as US based businesses outside of our country. And we've got to be aware of some tax implications, if you will, and one such tax structure that we're going to talk about today is VAT.

So, Marilyn, what is VAT? V-A-T. What is it?

**Marilyn:** As you said before, it stands for the value-added tax. It's a source of tax revenue for countries in the European Union. That European Union consists of Austria, Germany, Italy, France, Sweden, the UK, Spain, and Ireland. There's also several smaller countries in Europe as well.

**Jessica:** Yeah, so actually the whole European Union consists of 28 countries.

**Marilyn:** That's correct.

**Jessica:** So basically if you're going to be selling to these countries from your website and however that works for you, you're going to have to figure out if you're going to be impacted by VAT and what that looks like.

**Marilyn:** That's correct.

**Jessica:** Can you kind of speak to that a little bit, for people that don't fully understand as US-based online businesses--how that cycle of VAT tax looks, because it's actually very different from any US tax that we have and it's really frankly very substantial, right?

**Marilyn:** It is. And it's good to note that the VAT tax has existed before now, it's just that as of January 1st, 2015, the rules are changing.

**Jessica:** Of course, because as we go into a global economy, all these governments are figuring out that they're not getting their piece of the pie anymore.

**Marilyn:** Everybody wants their cut.

**Jessica:** Right.



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**Marilyn:** So this one applies to US businesses selling digital products to these European unions. And it's a percentage of the sale.

**Jessica:** Kind of go through a scenario, if you will, of how VAT might work.

**Marilyn:** Okay, and I'll simplify it. It can get a little complicated if the product is getting sold several different times to the end user. But I'll be just simplistic about it.

If an online entrepreneur has an eBook that they're selling that's a digital product, they're based in the US and they're selling to Germany. If Germany has a 30% VAT tax--because yes, this VAT tax goes up to 30%, which is very substantial--if you're selling that book for \$20, you have to add to that 30% of the product, which would be \$6.

So, in addition to the \$20, you need to add that \$6 VAT tax to the buyer.

**Jessica:** And that's important to know that you need to add the tax so you're not coming out of pocket for the tax.

**Marilyn:** That's right, if you just have a tax inclusive \$20 and that's it, your profit is probably just gotten cut or done away with.

**Jessica:** Well, 30% is a lot.

**Marilyn:** It's huge! So, you would need to know that you're selling to one of those European Union countries that have the VAT tax applicable, add that surcharge to your product, and then every month you need to compile that information, all the different VAT taxes you've collected, and remit it to the government that you've collected it for.

**Jessica:** Each government.

**Marilyn:** Each government.

**Jessica:** That you've collected for, so they're--

**Marilyn:** There are ways to sort of streamline that process, but technically speaking, unless you sign up under these other things, yes, you would have to file them with each country.



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**Jessica:** And it's important to know that we're coming out with this podcast today here at the end of the year, January 1, to talk about that, but because this is so new and it's going into effect January 1, there are a lot of things that people just don't have answers--they just don't HAVE answers to these questions, so as we're answering the questions, we're still trying to find out stuff, right?

**Marilyn:** Right. And things could change. They could decide to tweak certain areas of the VAT taxes as far as it relates to US businesses.

**Jessica:** And as it relates now, you just need to stay in conversation about if I'm selling to the European Unions, am I being compliant, am I paying the VAT tax, am I collecting the VAT tax, and I think the good thing for people to know--and we've got to do a little bit more on this--is it all starts to shake out in terms of how it's going to look, because again no one knows for sure as a US based business, but I'm pretty certain that if you use a payment process or a payment processor like PayPal, and things like that, that they're going to be able to recognize where that person is coming from and they're going to actually have in their systems to collect that tax.

And so that's a lot of the stuff that we're trying to figure out as well, how is this going to work with the payment processors, because some of us use those payment processors, a lot of us like PayPal and then others of us use shopping carts where we have a merchant and we're responsible to make sure that our products and our processes are all set up for the purchase, so there's a lot you're going to have to figure out in terms of your business, in terms of if you sell to those countries. And sometimes you may not even know.

**Marilyn:** No. And that's one of the processes you need to get geared up for, is now you HAVE to know. It's your responsibility as a seller to know where you're selling.

**Jessica:** and so it's just a lot of moving parts here, and we've learned that there are people that are actually helping. There's an agency, I guess, that you can tap into for that particular union or that country if you will, and they'll kind of handle everything for you.

**Marilyn:** There's organizations that have sort of come out of this VAT tax, that they'll be your portal, per se. So you can sign up with this organization and basically what you're doing is you're transferring ownership of those products to this organization.

**Jessica:** And you know, that's why government just spurs business, isn't it?



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**Marilyn:** Yes it is. It complicates things.

**Jessica:** It really does, and so from one tiny regulation it would seem, spurs a whole new business of taking care of your VAT tax for you.

What else can we talk about in terms of online entrepreneurs? How is VAT tax going to affect them? I mean, what rules, what applies in terms of the VAT tax? What do they need to charge VAT tax on?

**Marilyn:** Digital products.

**Jessica:** Okay, which are what?

**Marilyn:** eBooks, music, videos. Any of those things that are digitally created.

**Jessica:** OK. And like we taught before, traditionally it came from the country, from the person who sold the product and now it's from the person who buys the product.

**Marilyn:** Well, now there's different layers to it, so it does transfer some liabilities all the way down the line, which is why it can get pretty complicated

**Jessica:** Yeah, absolutely. So businesses selling physical goods from the US to the European Union?

**Marilyn:** They're not effected. The physical goods are not in this particular law.

**Jessica:** So let's just say that you have a program that produces this big binder that's printed and you actually mail it to people...

**Marilyn:** That doesn't apply. It's a physical product.

**Jessica:** And what about if it's a digital product that has a print bundle attached to it?

**Marilyn:** THAT doesn't apply. It's just the digital.

**Jessica:** As we know right now.

**Marilyn:** As we know right now.



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**Jessica:** As we know right now. So, talk a little bit about--because I think there's some things inside here as we kind of unpacked what we've been able to learn so far about this situation...what are you going to need to record in order to make sure that you're doing everything you can to report the VAT?

**Marilyn:** Well, the first, the most important thing is the address to the customers that you're selling to. That is what the government entities will be looking for in order to collect those taxes. They're going to want to see that information.

**Jessica:** And in addition, the seller also has to be registered in every country where the product's sold, right?

**Marilyn:** Yes, unless there is a caveat where you can register with ONE of the countries and do all your compliance with that country. That, you know, those things change and those things move, but that's one caveat that you can choose to do.

**Jessica:** Because it's kind of worded like you might have to register in all 28 countries!

**Marilyn:** Well, unless you register right and you cross all the Ts, dot all the Is, you would have to register in each and every country.

**Jessica:** And one thing is, as this unfolds, we're going to stay up to date on it on our blog and give blanks for things like that and just staying in step with an accountant is the first step that you should do, obviously.

**Marilyn:** Right. And as I mentioned before, another thing to do is actually register with some of these portal companies.

But in that same breath, you will be having to give them a percentage in order to handle that administration task for you.

**Jessica:** Right. Another thing that I noticed as I was reading through our notes is there's no minimum transaction, so it's everything, even if it's a 99 cent...

**Marilyn:** Oh, it's everything. It's every dollar.

**Jessica:** Every dime, every dollar. And this was really surprising to me because in the world of accounting it's like "how long should you keep your financial records?" Because



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you keep this for a year, you keep this for two, you keep this for three, five and seven, traditional, as US based businesses and I was just like "whoa!" when I saw what you're getting ready to tell me. Which is how long to keep the sales data for.

**Marilyn:** You have to keep sales data for 10 years!

**Jessica:** TEN YEARS. That's crazy insane!

**Marilyn:** And that's waaay above what we as US companies have to keep our records for the IRS, so...

**Jessica:** So I'm kind of thinking through this and just enforcing this policy globally just boggles my mind.

**Marilyn:** Yes, it's hard to comprehend how they're actually going to enforce this.

**Jessica:** And so, like, the IRS comes in and does a 3-year audit for us, so now we're going to have the European Union staking our online business playground?

**Marilyn:** Yeah, I don't really...

**Jessica:** And so they're going to hop on that concord jet and fly over here in the middle of the night and just hinge an audit on us, you think?

**Marilyn:** I don't know! It's hard to comprehend!

**Jessica:** Yeah, but ten years! Sales data for ten years!

**Marilyn:** That's a long time.

**Jessica:** So that is important, because we don't have to keep it that long here in the US.

**Marilyn:** No, we don't.

**Jessica:** So, what are some other things that we could say that are kind of good about this VAT tax if you will, that is going to be good for non-European Union sellers.



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**Marilyn:** Non European sellers can opt for a simplified VAT registration and return filing. This allows the seller for the VAT in the member country of its choice. So that's what I was saying before.

**Jessica:** OK. So that's what you were talking about before, so they do a simplified VAT registration and return.

**Marilyn:** Right. So that's what us in the United States can do. That's a simplified VAT registration.

**Jessica:** OK. And there's one country in particular that already has the largest cluster of US-based digital operations that could probably handle this right?

**Marilyn:** Yes, Ireland has shown to be the country of choice, really, for that simple registration.

**Jessica:** OK, so that might be an area for them to look at. Just kind of hone in on Ireland.

**Marilyn:** Yes, and see what their requirements are.

**Jessica:** I've always wanted to go to Ireland!

**Marilyn:** I'd love to go to Ireland!

**Jessica:** I think we should put that in the plan for next year!

**Marilyn:** It's a little bit of R&D!

**Jessica:** Research and Development! I'm all down for it. And we can turn it into an online course!

**Marilyn:** That's right!

**Jessica:** [laughs] I bet somebody already has an online course.

**Marilyn:** And we have to pay VAT tax on it.

**Jessica:** That's right! But we're already giving it away for free folks, so stay right here!





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Okay, so, let's talk about a little bit about...is there any way to avoid the VAT tax in your online business?

**Marilyn:** In our research there IS a way to avoid the VAT tax requirement, and that is if, in conjunction with your selling digital products, you are also...you have an interaction with your customer. A social interaction.

**Jessica:** So like, a lot of times when we have courses or products that might say "we're going to give you access to a private Facebook group community!"

**Marilyn:** That's exactly what needs to be done to avoid this VAT tax.

**Jessica:** Really?

**Marilyn:** Yes.

**Jessica:** So if I have an eBook, I could put in there "Join our private Facebook group community!"

**Marilyn:** Yes.

**Jessica:** At the end of it.

**Marilyn:** The European Union countries want to see that in connection to that digital product you are personally having interaction with those customers.

**Jessica:** Interesting.

**Marilyn:** Yes.

**Jessica:** Now, I bet that will change over time.

**Marilyn:** they may close that loophole some way in the future.

**Jessica:** And so if you have a forum on your membership site or you have that private Facebook group community and you're physically as the owner interacting and engaging with the customer after the sale of that digital product, that could be very much one way to avoid the VAT tax inside these countries.



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**Marilyn:** Yes. Also, you're--online entrepreneurs that have these courses, the products that you're selling as part of these courses would not be subject to the VAT tax.

**Jessica:** Okay.

**Marilyn:** Because you're already having this conversation with them. You're personally connecting with them in your course, and you're selling these things as part of the course, so they don't apply.

**Jessica:** So it's just kind of largely those once and done sales.

**Marilyn:** That's correct.

**Jessica:** Okay. And that's easy to pick up on.

**Marilyn:** Yes. Mmhm.

**Jessica:** If I sell it and, you know, it's my Swiss dollar sales-wise, sleep soundly, and I have nothing to do and it's pretty passive?

**Marilyn:** It's very passive.

**Jessica:** Then you owe the VAT tax.

**Marilyn:** That is correct.

**Jessica:** Okay, well that's good to know and it's good to know that there's--but there are other things that you can choose to do too besides, you know, you could just choose not to sell to those countries!

**Marilyn:** Oh yes. You may just, you know, depending on where their address is...I've seen it online myself, is just "we don't sell to that country." You can choose to do that.

**Jessica:** This is where it's kind of important to really hone in on what's best for you, what's best for your business, what you can manage, what you're willing to do, what you're willing to not do, and every business is different right?

**Marilyn:** That's correct.



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**Jessica:** So wrapping up, it's important to know that US based companies will need to get used to the global environment they're doing business in these days and that financial reporting and regulations are going to extend beyond the borders of the United States. And it can be complicated and the rules change very quickly. And to just stay on top of that with your accountant, right?

**Marilyn:** That's correct.

**Jessica:** So that's all about the value-added tax, the VAT tax.

VAT tax. I wonder if you said that, like, 3 times, what would it sound like? Who knows, right?

**Marilyn:** [laughs] yes.

**Jessica:** Alright. So we just don't like the word tax period.

**Marilyn:** No, we really don't.

## **Conversations and Celebrations!**

**Jessica:** Okay. So moving on, let's get over this VAT tax talk. We're getting into what I consider the really, highlight of my day when it comes to recording our podcast, and it's the Conversations and Celebrations section!

**Marilyn:** Yay!

**Jessica:** Don't you love this part of our podcast?

**Marilyn:** I do. It's very upbeat.

**Jessica:** It is very upbeat! And it kinda puts us on a good note and it's where we kind of share a true story about a client or a situation that's just worthy of celebration, that has some good little nuggets of wisdom or lessons learned in it or just, you know, feel good stuff.

**Marilyn:** That's right.



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**Jessica:** Let's just hug.

**Marilyn:** [laughs]

**Jessica:** You want a hug? Okay. Nah. We do hug often!

**Marilyn:** Yes, we like hugs.

**Jessica:** We like hugs. We're huggers.

So, what we're talking about today for our Conversations and Celebrations is, we're talking about an accounting tool, or financial tool if you will, that's new on the scene that's really kind of changing up how we interact with our clients, and I'll say that it can replace a VA in terms of a general VA doing some tasks and things like that. And we include this particular tool with every Anchor 3 package and above here at The Bottom Line because we think it's just that awesome.

And that tool is called...

**Marilyn:** [Hub Doc!](#)

**Jessica:** Hub Doc! H-U-B D-O-C.

And we're really excited about this because in a nutshell what it does is it actually goes out and it pulls and retrieves all the data in all those PDF bills and all those bank statements and those PayPal files and those CSV files--it pulls everything automatically once you set up all the accounts and it dumps it into this document management system, so there's no more "Go to that login and pull down that file and upload it into this document." There's no more of that, it just shows up...automagically

**Marilyn:** Automatically!

**Jessica:** I say automagically.

**Marilyn:** Automagically.

**Jessica:** That's right, Marilyn.

**Marilyn:** That's right.



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**Jessica:** Automagically. Peace.

**Marilyn:** Big time saver!

**Jessica:** Big, big, big time saver, and what's really good is it keeps us from asking our clients to do things, and it gives our clients access to things that they don't have to spend time going and going.

**Marilyn:** Right. Time is money folks.

**Jessica:** And we have one client in particular this week, who didn't even really get started with Hub Doc and was just like, singing from the mountain tops about it as soon as he learned about it and he said "You know I've been looking for something like this FOREVER. It's everything--I've tried everything and it didn't quite do the job. I'm so excited about this. [Hub Doc](#) does everything I've always wanted and I can't wait to doc in."

So if you're that excited before you've even gotten to use it, can you imagine what it looks like when you start using it?

**Marilyn:** Yes, absolutely.

**Jessica:** And it was really a good thing for us when we started using it, too, and that's when we just decided "Hey, this is one of those tools that you have to have" because we say [Xero](#), [Receipt Bank](#) and [Hub Doc](#) is financial bliss at The Bottom Line.

**Marilyn:** That's right. Its' all you need.

**Jessica:** It's all you need!

**Marilyn:** You may want more, but it's all you need.

**Jessica:** Right. For your financial tools and systems. So we just love that and we love solving a problem for a client. He's a new client, he's been trying to solve this problem for forever.



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**Marilyn:** And there it is! And frankly we were having the same problems with our business. Trying to keep up with all the statements that come from all the different vendors and banks. It's just, it's kind of overwhelming to make sure you get it all.

**Jessica:** It is!

**Marilyn:** And once you get it set up one time, it's there. You don't even have to look for it.

**Jessica:** Right. And the team over there at [Hub Doc](#) is great. I've personally had a conversation with co-founder Jamie McDonald. Their support is off the charts and they're always willing to make the product more flexible and user-friendly for their clients. So it's a really good tool. We endorse it and use it for all of our clients here at the bottom line, and like I said we solved a problem that a client had that we didn't even know. And that's just icing on the cake, right?

## Power Play

So that's Conversation and Celebration! The next section that we get into is...

**Marilyn:** The Power Play!

**Jessica:** The Power Play! We've got our handy dandy podcast man, Marcus with us right now, and I just give a great shout-out to Marcus. Say hi, Marcus!

**Marcus:** Hello!

**Jessica:** Hello, he says. And so Marcus, I want you to put a big Power Play music thing in here for the people, so they can get excited for the Power Play. Okay?

**Marcus:** Okay.

[BIG POWER PLAY MUSIC THING]

**Jessica:** [laughs] And now what are we going to talk about in our Power Play today?

**Marilyn:** Making a plan for the VAT tax.



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**Jessica:** So the one thing that we want you guys to walk away with today, out of all these little nuggets that we've given you is...

**Marilyn:** Assessing your business, deciding if the VAT tax is applicable for you, and figuring out your processes to make sure you're in compliance.

**Jessica:** Exactly. So, and for you it could be "Am I going to sell to him or not?"

**Marilyn:** Right.

**Jessica:** Am I going to go to Ireland and take a visit and sign up for my VAT tax registration or not? [laughs] Or am I going to handle this and how am I going to do this?

**Marilyn:** Right, or how can I get around it by using personal interaction with my customers?

**Jessica:** Right. And if you sell to these European unions, you've got to get a plan in place QUICKLY.

**Marilyn:** January 1 is RIGHT around the corner!

**Jessica:** So this may be the holiday week, but not for you to sell to the EU. Right?

**Marilyn:** That's right.

**Jessica:** Okay. So that's about it, that's all we've got time for today on CPA in Your Corner. We've unpacked the VAT tax, folks.

**Marilyn:** I like it!

**Jessica:** Yeah! So we'll keep unpacking it on the blog, so feel free to check us out there, and we've got a lot of good stuff going on, so don't hesitate to drop by any time.

And if you want to start a conversation to see if The Bottom Line might be the right accountant for you in your online business, schedule a [free 20 minute discovery call](#) today! Thanks.



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————— *with* Marilyn A. Parham, CPA —————

**Marilyn:** Thanks guys!

[outro music]