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lic.rer.pol. Urs Fischer

Fiduciary / VAT Specialist STS
Licensed Auditor RAB

VAT for foreign mail order retailers – are you ready for 2019?

Dear Ladies and Gentlemen,

At the beginning of 2018 a change of law came into effect that led to many foreign companies becoming liable to Value Added Tax in Switzerland (we reported about it [here](#)). However, the foreseen law changes contained therein for foreign mail order companies were postponed by one year and only will come into effect on 1 January 2019, since it was envisaged that an arduous implementation would be required.

We have itemised the most important facts here, to enable you to make an assessment as to whether you will be affected by these new regulations.

Delivery of goods to Switzerland – customs and VAT

First, a common example: if a foreign company delivers goods to Switzerland, then these will be exported from their country of origin and imported into Switzerland. This happens to be the case as the delivery, on its journey, must be declared at customs. As a rule, an export (as long as the required documents as defined according to foreign law are present) means that the delivery does not incur any foreign VAT. Afterwards, Swiss customs will levy VAT (as so-called import sales tax) and, if applicable, customs duties, and will invoice the recipient either via post or via the forwarding agent. As a consequence, this means that the delivery of the goods will arrive at the recipient with taxes paid. The foreign supplier needs to take care of correct freight documents and a correct declaration at customs, but the supplier is not affected by Swiss VAT and does not need to register for it, either.

This fundamental mechanism is currently still applied for all foreign goods deliveries with no upper limit, and even in 2019 will continue to be applied with no upper limit, as long as the goods delivered have actually been declared and customs have levied the import sales tax. This, however, does not always happen.

Special case small shipments

To simplify matters, customs are actually going to waive levying the import sales tax, should this be lower than CHF 5.00. At today's tax rates, this will happen with goods worth CHF 65.00 (at 7.7%) and CHF 200.00 (at 2.5%, for example food items). Instead of a complicated procedure for customs clearance, the package will just receive a green sticker "duty free", and that's the end of the matter.

In the last few years this led to a flourishing business with such small shipments, and there are a number of foreign mail-order companies that deliberately split large orders into several small packages, each one always below the threshold, and as a consequence they can be imported absolutely tax-free. This distortion of competition, which puts Swiss retailers at a disadvantage, will now be regulated against.

The new regulation

As of 1 January 2019, the rule now applies that foreign mail-order retailers who send such small shipments with a total value of more than CHF100'00 per year to Switzerland are now obliged to register with Swiss VAT. Once they have done this, they then can import goods under their own name, pay Swiss import sales tax themselves (for which they can deduct input tax however), and they can add Swiss VAT to the invoice for their end customer.

In the meantime, it was also determined in the relevant regulation at exactly which point liability to tax begins. Anyone who goes beyond the threshold for small shipments in 2018 will immediately be liable to Swiss VAT as of 1 January 2019. Anyone below the threshold in 2018 must regularly check turnover with small shipments and will, once the threshold of CHF 100'000 has been crossed, become liable to VAT the following month. Anyone who has become liable will basically remain so, but once turnover falls below the threshold, it is possible to de-register in writing at the end of the calendar year. Anyone who is liable for VAT with small shipments is then also liable for VAT with any other shipment, and must import under their own name and equally invoice Swiss VAT.

Even if tax liability only comes into effect at the beginning of the following month, it will remain rather challenging to recognise the correct moment. Although not yet liable to tax in Switzerland you will need to determine with every shipment which tax rate would be applicable and whether the resulting tax due would be above CHF 5.00. Once that moment arrives, as a worst-case scenario (e.g. if it happens at the last day of a month) you would have just one day to utterly reorganise yourself and to rearrange both your invoicing and your shipments.

The advantages of a voluntary VAT registration

As this is hardly feasible, an early voluntary VAT registration remains an alternative – at least only once it seems likely that you will cross the threshold the following year. At least this allows you to choose the moment yourself and to prepare yourself in an orderly manner.

A voluntary VAT registration also brings advantages for your clients: if you send goods to Switzerland without having taken your own precautions then often the required proof of export for your country of origin is missing, which means you also have to invoice your foreign turnover tax. Swiss customs, however, regards this tax as part of your remuneration and will levy Swiss VAT even on this; and finally, when Swiss mail delivers the package to the recipient cash on delivery, not only will they collect custom duties and VAT, but also a value-based processing fee of at least CHF 11.50 (this will only be cancelled if the package, due to being a small shipment, is exempt from duty). Thus, the "bargain" shipment from abroad suddenly becomes quite expensive, to the big disappointment of the customer.

On the other hand, if you are already liable to VAT in Switzerland, then you have the whole customs process under control without any frictional losses, and you deliver to your client with customs and taxes already paid and without unpleasant surprises. It no longer makes any difference for your client whether he buys from a Swiss retailer or from you.

In opposition to these advantages are both the one-off and the running costs of VAT registration plus all further required structures. However, as the affluent Swiss market is quite attractive, and as you, thanks to your VAT registration, gain an advantage over your competitors for the benefit of your customers, then it would be really worthwhile taking this step if you seriously consider getting a foothold in Switzerland. That is why many medium-sized and large mail-order companies took this step over the last few years.

What is required for VAT registration?

From anyone liable to tax abroad, Switzerland mandatorily demands to have a tax representative who is domiciled in Switzerland and who serves as single point of contact for the Federal Tax Authority. Additionally, a deposit needs to be paid which is determined on the turnover and on the exact activity; and it has to be either a cash deposit or a bank guarantee by a Swiss bank.

In Switzerland, VAT will be invoiced on a quarterly basis, and in each case it has to be submitted two months after the end of the quarter or paid in, if necessary. As a foreign mail-order company, you generally continue to keep your books and each quarter submit all data required for invoicing to your fiscal representative. Additionally, at the end of the year, a so-called turnover reconciliation must be carried out to ensure that all turnovers from your bookkeeping fully match. This also needs to be done in close cooperation with your fiscal representative.

Further elements of a comprehensive mail-order solution

In addition to your mere VAT registration you need a logistics partner who will deliver your goods to Switzerland and who correctly handles all import customs transactions in your name. Should you also allow your customers to return goods, then you will also need to organise this with your logistics partner as (due to customs reasons, your client will be unable to send goods back abroad; instead the client will forward them to your logistics partner who in turn will handle all reverse customs transactions.

Basically, customs demand payment in cash of all customs duties and import sales tax on all imports. As this is not feasible, an instrument was created called the ZAZ account to enable charging these amounts on a cashless basis and to enable settling it later via invoicing or via direct debit. With your own ZAZ account, not only will you save the costs for provision of capital for your logistics partner, but you also ensure that you will directly receive the complete customs documentation. These in return are a necessary requirement for you to claim input tax deduction you are due, and thus have an intrinsic cash value. In addition to the deposit for tax registration you must also submit a deposit for your ZAZ account.

Since March 2018, import duty receipts are no longer issued in paper form in Switzerland, and without particular provisions, digitally receiving these receipts is quite cumbersome and unsuitable for large volumes (more about this [here](#)).

You are far better off with a fully automated solution for receiving, monitoring and legally watertight archiving of all your customs documentations, as offered by our partner SISA with their "declare.it Dutax" software package.

Finally, you should also consider the most comfortable solution for your clients to make payments. Although payment by credit card is quite widespread in Switzerland, many clients still expect to have the option to pay via invoice. While Switzerland is part of the SEPA system, thus enabling rather cost-effective payments in Euros into a foreign country, this does not apply at all to making payments abroad in Swiss Francs. These still go the traditional route via correspondent banks, which generally means rather high transfer costs, unfavourable exchange rates and more often than not additional costs deducted on the way. If you want to allow your client to make payments "as easily as in Switzerland", then you should open a bank account in Switzerland.

Conclusion

Large mail-order retailers will not be able to avoid VAT registration in Switzerland come 2019. If you have not yet reached the new threshold, constant monitoring of when this could kick in will in the long run not be feasible, and a voluntary registration is probably the only solution. Even for small(-ish) mail-order retailers, Switzerland is an attractive market place in which you will have a competitive edge with a voluntary VAT registration.

artax has many years' experience as a VAT fiscal representative and has the pleasure of serving several of the largest European mail-order companies in this area. Apart from just a VAT representation we can also handle ZAZ accounts for our clients and, in collaboration with our partner SISA, offer a comprehensive solution for the administration of customs documentations. For customs clearance we cooperate with leading logistics partners or a forwarder of your choice.

Should you wish to require our support with VAT registration then we look forward to being at your disposal.

Kind regards

artax Fide Consult AG

Member of Morison International

Gartenstrasse 95, Postfach, 4002 Basel
Tel: +41 61 225 66 66, Fax: +41 61 225 66 67
info@artax.ch, www.artax.ch