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I can *Hammer out* any Problem!

John B. Goldhamer is an Authored Tax Law Expert with Education and Experience in all Business Disciplines, including J.D. Equivalent Legal Education, Finance, Marketing, MBA, Accounting, and Information Systems. As an "Authored Tax Expert," John provides definitions, procedures, and website links for cross reference.

### **VAT (Value Added Tax) Explained with Real-Life Examples**

As you might know, VAT (Value Added Tax) is like an American state retail sales tax, but instead of merchants buying products and services exempt from sales tax and then reselling them to the 'Final Consumer' and charging sales tax, *VAT is collected in pieces along the production chain.* Exports to non-Euro countries is the only exception.

For this explanation, the € Euro the official currency of most of the European Union members will be used.

VAT is an '*Indirect Tax*' based on the value a product or service is increased at each stage of production, including from raw materials to the sale to the '*Final Consumer.*'

VAT is the world's most common '*Consumption Tax*' on goods and services and is charged in many of the advanced nations, except the United States.

VAT is considered the fairest tax because the more you buy the more tax you pay; it is paid on almost all purchases and sales; and VAT is considered easy for governments to administer.

*Natural, Mineral, and Chemical Compounds are direct raw materials, such as sold by Farmers, Miners, and Producers*

*Manufacturers, Wholesalers, and Retailers all pay the tax to their suppliers based on the purchase price, but also charge the tax on the sale of their modified product, so that it 'Increases the Value' of the merchandise and the selling price.*

**In this real-life VAT (Value Added Tax) example, there are six steps of products—created, modified, sold, and used by a Miner, Smelter, Wholesaler, Retailer, and the 'Final Consumer.'**

*Approximately 100 to 200 kilograms (220 to 440 pounds) of copper ore will generate about 1 to 2 kilograms (2 to 4 pounds) of copper.*

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First, when a Miner excavates Raw Copper Ore from the earth's crust and sells it to a Smelter for €2000 'Euros' per Metric Ton, the Miner charges VAT on the copper ore selling price and forwards the money to the government.

Second, the Smelter '*Increases the Value*' of the Raw Copper Ore by melting then using the electrolysis process, to extract Cathode Copper (purified copper), sells it to a Manufacturer for € 5000 'Euros' per Metric Ton, charges VAT on the pure copper selling price, and forwards the money to the government, but is allowed a *government tax credit* for the VAT paid to their supplier, the Miner.

Third, the Manufacturer '*Increases the Value*' of the purified copper by heating it until flexible, then passing it through a series of increasingly smaller dies to create a long, thin wire. Then the wire is processed into two solid insulated conductors and ground of 2.5 sq mm (IEC) gauge of insulated electrical copper wire on 10,000-meter spools. (IEC is an international standard that defines wires based on the square millimeters of the cross section of the wire.) The Manufacturer sells the bulk electrical copper wire for €8000 'Euros' per spool to a Wholesaler Distributor, charges VAT on the electrical copper wire selling price, and forwards the money to the government, but is allowed a *government tax credit* for the VAT paid to their supplier, the Smelter.

Fourth, the Wholesale Distributor '*Increases the Value*' of the 2 solid conductors and ground of 2.5 sq mm (IEC) gauge insulated electrical copper wire by separating it into: '*By-the-roll*' packages with 76 meters in each roll of electrical copper wire, sells them to a Retailer for €9000 'Euros' per 150 rolls in a case, charges VAT on the cases of electrical copper wire selling price, and forwards the money to the government, but is allowed a *government tax credit* for the VAT paid to their supplier, the Manufacturer.

Fifth, the Retailer '*Increases the Value*' of the 150 rolls of the two solid insulated conductors and ground of 2.5 sq mm (IEC) gauge electrical copper wire by adding advertising and a markup, sells one roll of electrical copper wire at retail for €70 'Euros' to the 'Final Consumer' for their residential home, charges VAT on the one roll of electrical copper wire, and forwards the money to the government, but is allowed a *government tax credit* for the VAT paid to their supplier, the Wholesaler Distributor.

Sixth, the 'Final Consumer' buys one roll of two solid insulated conductors and ground 2.5 sq mm (IEC) gauge electrical copper wire from the Retailer, takes it home, to rewire an outlet.

At each step, there was an '*Increase in Value*,' where each seller charged VAT, and forwarded the money to the government, less the VAT that they paid to their suppliers.

Except for the Miner, the original producer of the raw materials, each seller was allowed a *government tax credit* for the VAT paid to their suppliers.

In conclusion, the government received 'Output VAT Payments' from each transaction; Miner, Smelter, Wholesaler Distributor, Retailer, and the 'Final Consumer,' but the government also allowed 'Input VAT Recovery Credits' for the VAT paid to their suppliers. In the end, the government received all the correct VAT without any exemptions, duplications or loopholes.

The United States has many reciprocal 'Tax Treaties' with 81 countries to not charge VAT or sales tax on exports to prevent double taxation.