



# Found Money

Retailers can retrieve taxes paid on international business expenses

By **Connie Robbins Gentry**

Everyone knows taxes are as inevitable as death, but few retailers realize the importance of proactively managing taxes. Focused on the unavoidable aspect of paying taxes, most businesses write the check and walk away—never realizing that in some cases they are leaving money on the table.

One of the easiest opportunities for turning negative tax payments into positive bottom-line results is reclamation of monies spent on international travel. European countries, as well as Canada, Japan and South Korea, impose national value-added taxes (VAT) on goods and services.

Although individuals cannot reclaim the taxes they pay during international travel, businesses can obtain refunds of many taxes paid for international expenses such as hotel accommodations, car rentals, conference fees, meals, telephone calls, photography sessions, express-delivery services, and, in some cases, samples purchased from overseas retailers.

The name and amount of the tax varies between countries. For instance, Japan imposes a 5% Consumption Tax; Canada has a 7% Goods and Services Tax; the United Kingdom's VAT is 17.5% and taxes charged in other European countries may go as high as 25%.

The requirements for reclaiming monies spent on these taxes also vary from country to country and are very complex, which makes the process exceedingly cumbersome for most companies. A number of third-party

service companies manage VAT recovery, including the International VAT Consulting Group (Falls Church, Va.); Euro VAT Refund (Los Angeles); the VAT Recovery Group (Bonn, Germany); and Universal VAT Services (Decatur, Ga.).

Raj Shah, founder of Universal VAT Services, told *Chain Store Age*, "For 2006 and the first six months of 2007, the combined VAT recovery for our four major retail clients was \$207,000."

The four retailers he referenced are J.C. Penney, Neiman Marcus, Nordstrom and Target. Seventy-eight percent of the refund was generated from filings with the United Kingdom.

For billion-dollar businesses, that

managing the tax-refund processes, receiving the reimbursements from the foreign governments and sending the reclaimed monies to the retailer. The fee for this third-party service is deducted from the refund before it goes to the retailer, so the retailer has no invoicing or work to do other than auditing the reports provided by Universal. Even if a billion-dollar retailer only recovered \$50,000 over an 18-month period, that would still be black ink going back to the bottom line from money that would otherwise have been permanently lost.

Shah recently presented a report to one of his retail accounts on the possibility of reclaiming the VAT associated with samples purchased by corporate buyers. In the report, Shah noted that "U.S. retailers often send their buyers to the U.K. where they visit retail stores and buy items of interest off the rack for evaluation by R&D staff." These goods are brought back to the United States packed in the buyers' luggage, which denies the company any possibility of reclaiming the VAT.

"To facilitate a VAT refund, exported goods must be formally cleared by Customs and the Customs documents used to reclaim the tax," explained Shah, who is developing business models that could potentially enable U.S. retailers to reclaim the VAT paid on samples. His business models would entail working through a VAT-registered U.K. company, which would consolidate the purchases and airfreight the samples to the United States on behalf of the buyers. ■

—[cgentry@chainstoreage.com](mailto:cgentry@chainstoreage.com)

## Countries That Allow Retailers To Reclaim Value-Added Taxes

	VAT Rate
Austria	20%
Belgium	21%
Canada	7%
Denmark	25%
Finland	22%
France	19.6%
Germany	19%
Japan	5%
Luxembourg	15%
Netherlands	19%
Ireland	21%
S. Korea	10%
Sweden	25%
Switzerland	7.6%
United Kingdom	17.5%

Source: Universal VAT Services, Decatur, Ga.

may not seem like a huge amount to collect. (Revenues in 2006 exceeded \$19 billion at J.C. Penney, \$4 billion at Neiman Marcus, \$8.5 billion at Nordstrom and \$59.4 billion at Target.)

However, the money was recovered at no additional cost to the retailers. Universal VAT Services acts as an agent on behalf of its retail clients,