

GUIDELINES REGARDING THE ONWARD SUPPLY RELIEF (OSR) PROCEDURE

What is Onward Supply Relief (OSR)?

OSR is an exemption from VAT on the importation of goods made into Malta from a country outside the European Union (EU) by a taxable person registered for VAT under article 10, which goods are released into free circulation in Malta, and subsequently dispatched or transported to a taxable person into another EU member state as an intra-community supply. This Procedure is provided for under item 3 of Part Four of the Fifth Schedule of the VAT Act 1998.

What are the conditions governing the application of OSR?

The conditions to apply for OSR are the following:

- The person making an importation of the goods in Malta shall be a person who is performing an economic activity in Malta or who operates as a broker or representative and is registered for VAT under article 10 of the VAT Act.
- The person should provide the customs authorities with the necessary importation documents including:
 - an invoice issued by the supplier of the imported goods from outside the territory of the EU, indicating the person as the purchaser of the goods, and;
 - an invoice issued by the Malta VAT registered person as the seller to a taxable person with a valid VAT identification number registered in another member state.
- The person should submit documentary evidence that the goods are being transported or dispatched to another member state outside Malta, not necessarily the same member state where the purchaser's VAT number has been issued.
- The Customs declaration will be processed under a Customs procedure which allows payment of any applicable customs duty in Malta while suspending import VAT. The goods will remain under customs supervision until their despatch from Malta, which should be effected within 30 days from when the goods were put into free circulation. A T2L document will be issued by the Customs Authorities upon request.
- The person shall also complete:
 - An intrastat dispatch form;
 - A VAT return on which he accounts for the exempt importation and subsequent exempt intra-community supply;

- A Recapitulative statement that should include the value of the intra-community supply and the VAT number of the purchaser in the other member state.
- Goods must be dispatched to the other member state as imported, i.e. without undergoing any processes in Malta.

Where will the VAT be paid?

VAT will be accounted for in the other member state where the taxable purchaser is registered, usually under the Reverse Charge mechanism. The intra-community supply made in Malta will be reported in the VAT Information Exchange System by the Maltese VAT Department and thus the tax administration of the other member state will be notified of such transaction.

Can this procedure be applied to sea vessels?

Yes, this procedure may be applied to sea vessels such as Yachts and pleasure crafts. However, extra conditions will apply.

As in most cases, sea vessels travel on their own steam, there will be no transport documents available. Therefore a person who applies for OSR on a sea vessel shall submit to the Customs authorities documentary evidence that the sea vessel will be sailing to another EU Member State, (not necessarily the member state where the person who will be receiving the Yacht is registered for VAT), such as the relevant berthing requests and permits for the next port of call in the member state of destination.

The person will also be required to submit a bank guarantee amounting to 10% of the VAT due at the Maltese rate on the value of the sea vessel (capped to a maximum amount to be decided by the Customs Authorities). The guarantee will be released upon presentation of documentary evidence that VAT had been paid or accounted for in another Member State and that the yacht had proceeded to another Member State, which may not be the Member State of final destination.

Who can apply for OSR?

As one-off transactions may not be considered as constituting an economic activity in terms of the provisions of VAT legislation, OSR may only be used by VAT registered persons in Malta who, in the course of their economic activity, are importers, brokers or representatives appointed to act on behalf of the supplier or consignee who is neither based nor VAT registered in Malta.

19th August 2005