

Value-Added Tax (VAT) Frequently Asked Questions

In accordance with the sales tax regulations of European Union countries in which our Residents live, we must collect and remit Value Added Tax, or VAT, from Residents. This article will explain the following:

- Who should be charged VAT in general
- How we determine who to charge VAT for
- What items we charge VAT for
- How you can see what items had VAT charged
- How you can register for VAT exemption
- Other items of interest

Basic information

1. In general, who should be charged VAT?

Currently, only Residents who live in the European Union are charged VAT. The EU allows people and companies to register for VAT exemption, which we abide by.

2. How does Linden Lab determine who to charge VAT for?

When you registered your account, you told us what country you live in. If that country is in the EU, then VAT is applied.

3. What are the items for which Linden Lab charges VAT?

Anything that you pay Linden Lab for will have VAT applied. This includes:

- Premium account registration
- Purchases from the Land Store
- Land use fees (tier)
- Private Region fees
- Land auctions
- LindeX transaction fees

4. What are the items for which Linden Lab doesn't charge VAT?

Transactions in L\$ between individual Residents, that do not involve Linden Lab as a direct party, are not subject to VAT.

5. How can I tell what items had VAT charged?

Your [account history page](#) will display:

- Each transaction you've made
- Whether VAT was applied
- The rate at which VAT was applied
- The amount of VAT charged for each transaction

6. I have a VAT registration ID that makes me exempt from VAT. How do I enter it?

If you're registering for a new account, there's a step during the registration process where you can enter your VAT registration ID.

If you have an existing account for which you want to enter your VAT registration ID, [click here to enter it](#).

7. I need an invoice from you that states the items for which VAT was charged.

Your [transaction history](#) should tell you:

- Each transaction you've made
- Whether VAT was applied
- The rate at which VAT was applied
- The amount of VAT charged for each transaction

8. Due to VAT regulations, I need Linden Lab's VAT registration ID.

Our VAT registration ID is EU826011179.

9. Will you provide an invoice anytime you bill me? I'm required to be able to prove that I paid VAT and provide invoices if I am audited.

Yes. We are working on enabling you to download PDFs of all of your transactions and how much VAT you paid from your account page. In the meantime, you can review your transaction history on your account tab and print that.

Linden Lab's approach to VAT

1. Isn't Linden Lab based in the United States? Why are you charging VAT for European Residents?

The best place to get full details about European legislation is at [Europa](#), "the portal site of the European Union". It provides up-to-date coverage of European Union affairs and all legislation currently in force or under discussion.

The relevant section on that site is called "[VAT: Special Arrangements Applicable to Services Supplied Electronically](#)". The Directives were implemented to create a level playing field for European Union (EU) businesses with regard to the indirect taxation of electronic commerce. Essentially, prior to this Directive non-EU-based companies providing electronic services to EU customers had an advantage in that they were not required to charge those customers VAT:

"The objective of this Directive is to introduce new harmonised rules and thus eliminate distortions in competition for radio and television broadcasting services and electronically supplied services within the EU."

The absence of a clear and fair tax regime was a disincentive to investment and put EU business at a competitive disadvantage.”

Second Life classifies as an electronically supplied service in the definition below:

“Electronically supplied services include services such as cultural, artistic, sporting, scientific, educational, entertainment, information and similar services as well as software, video games and computer services generally.”

Under the Directive, Linden Lab is required to register with the tax authority and then to charge non-business customers VAT at the rate prevalent in their EU country:

“Non-EU businesses are able to register with a tax authority in a Member State of their choosing. They are required to charge VAT to non-business customers in the EU according to the standard tax rate in the Member State where the customer lives.”

2. How come you haven’t charged VAT before?

VAT has always been due on consumption by EU customers. Hitherto, Linden Lab simply accrued for and absorbed those taxes, but with the rapid growth in the number of Residents based in the EU, that is no longer sustainable.

3. Will I be charged VAT for transactions completed before Sept 27, 2007?

No. VAT charges will be assessed beginning September 27, 2007. Mainland customers who pay tier fees in arrears will see their first charges between September 27, 2007 and October 27, 2007.

4. Is the Second Life billing office based in an EU country? Is that why you are charging VAT?

No. Linden Lab has registered as a non-resident EU business – meaning that we do not have sales offices in Europe. Non-resident EU business that provide “Electronically Supplied Services” such as hosted applications, downloadable software and downloadable music, must charge each of its customers VAT according to the VAT rate of the country where the customer resides.

5. But doesn’t Linden Lab have offices in Europe?

Yes but all Second Life Residents are customers of the US corporate entity.

6. Can’t I just say that I live outside the EU?

If you say that you come from a different country that doesn't charge VAT, it's very likely that discrepancies between your IP address and your declared country would get caught in our risk detection system and may cause your account to be flagged for review or even suspended.

7. Why should European Residents pay a sizeable amount more for everything in Second Life for no additional benefit?

The EU Commission implemented the VAT rule about Electronically Supplied Services by non-EU resident entities in order to level the playing field for EU-based providers of services. The aim is to enable European providers of competitive services to Second Life to compete equally with non-EU-based providers as regards customer taxation.

8. Why is Linden Lab discriminating against Europeans?

We are not discriminating against Europeans. We are merely trying to abide by the laws that are applicable to all non-EU based providers of Electronically Supplied Services.

9. Doesn't this distort the market within Second Life to an extent?

All taxes distort markets in some way. The aim of this one is to enable EU providers of virtual worlds to compete fairly with Linden Lab. Its impact on EU entrepreneurs within Second Life appears to be a side effect.

10. Did Linden Lab implement VAT to avoid having to make income tax declarations to the IRS for Second Life users?

No. Charging EU Residents VAT and remitting it to the Residents' home European country is required by EU Law. The US government has published its opinion about taxation in virtual worlds here: <http://www.house.gov/jec/news/news2006/pr109-98.pdf>

11. Does Linden Lab charge any US sales tax to people in the EU?

No. There's no double taxation.

12. Do your prices already include VAT, or is VAT added on?

VAT is added on top of the prices that we quote.

13. Does Linden Lab charge additional VAT in L\$ for uploading animations?

No. At present VAT does not apply to any inworld transactions.

14. When I purchase L\$ on the LindeX, is there a VAT applied?

No, because you are purchasing L\$ from another Resident, not from Linden Lab.

Special circumstances

1. I own a business in real life that has a VAT ID but my Second Life account is listed in my personal name. How can I make sure all my bills from Linden Lab will be made out to my Company?

Invoices from Linden Lab will be made out to the information that we have on file. If that address is in the EU, taxes are required. If you need to change the

information that we have on file for you, please visit [your account page](#). Please be aware that if your billing information does not match the address you've provided us, you may have trouble paying and if the country of the IP address with which you regularly log into is different than your billing address our system may hold your account for potential fraud.

2. I lived in the EU at the time I registered my account and now I don't. How do I change the information that you have on file for me?

Invoices from Linden Lab will be made out to the information that we have on file. If that address is in the EU, taxes are required. If you need to change the information that we have on file for you, please visit [your account page](#). Please be aware, if your billing information does not match the address you've provided us, you may have trouble paying and if the country of the IP address with which you regularly log into is different than your billing address our system may hold your account for potential fraud.

3. I have European customers who are renting/buying land from me sometimes with L\$ and sometimes through Paypal., how do I handle tax?

We recommend that you consult a qualified tax advisor.

4. There are some areas of the EU where VAT isn't charged, like the Canary Islands. What if I live there?

We are reviewing our records for these locations and will ensure that we do not charge VAT where it is not required.

5. Am I required to pay VAT on Land Maintenance fees if I pay for it using credits on my account from selling L\$?

Yes. The requirement to charge VAT is determined by the [SKU](#) of the product that is purchased not the source of the funds.

6. How does VAT apply to cases where a group owns land, and some of those members reside in the EU?

We determine VAT by reviewing the billing information and address on the account and we periodically review primary IP address of log on – in addition to other forms of diligence from time to time. If the group's information indicates it is an EU group, then VAT will be applied.