



VAT/GST collection on digital trade

Challenges and OECD Guidance

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IDB/INTAL Virtual course on e-commerce for MERCOSUR Countries
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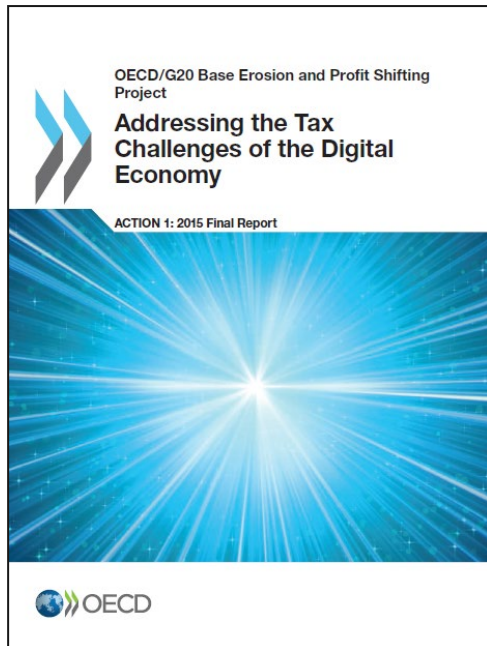


What was highlighted as an emerging issue by the G20 in 2014...



*“The collection of VAT on business-to-consumer (B2C) supplies of goods and services arising from online sales is a **pressing issue that needs to be addressed urgently** to:*

- *protect tax **revenue** and*
- ***level the playing field** between foreign suppliers relative to domestic suppliers.”*



Key challenges identified by G20

1. **Online sales of services / digital products** to private consumers (B2C), particularly sales by offshore online vendors
2. **Booming volume of goods, typically with low (declared) value, sold online and crossing international borders**



Has become a truly global issue...

- **For all international digital trade**
 - Significant economic presence of online sellers and platforms without physical presence.
 - Inconsistent global implementation of VAT regimes for digital trade would create major compliance challenges for businesses.
- **For international supplies of services and intangibles**
 - “Place of taxation” rules in many countries fail to capture VAT on B2C supplies of services where the supplier performs and delivers the service remotely from another jurisdiction.
- **For international supplies of low-value goods**
 - Challenge to VAT neutrality from long-standing VAT reliefs for low-value imported goods.
 - Customs authorities overwhelmed by volumes of low-value imported goods.
- **Sharing and gig economy**
 - Potential challenges in terms of base erosion, compliance and VAT neutrality.

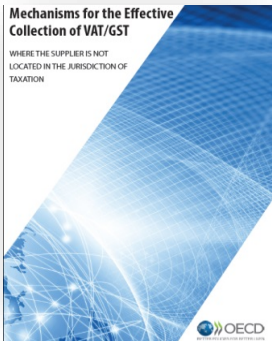


In response, the OECD has delivered internationally agreed standards and guidance to address the VAT challenges of the digital economy



The International VAT/GST Guidelines

- **Global standard** for the application of VAT/GST to international trade in services and intangibles:
 - **Adopted by OECD / G20** countries
 - **Endorsed by 100+ jurisdictions** and international organisations in 2015
- Adopted by the OECD Council as **OECD Council Recommendation C(2016)120** of 27 September 2016



Mechanisms for the Effective Collection of VAT/GST

- Focus on digital sales by **non-resident sellers**
- Key policy and design challenges and solutions
- Detailed guidance on the design and operation of a **simplified, web-based compliance and collection regime**
- Endorsed by 100+ jurisdictions and international organisations in 2017



The Role of Digital Platforms in the Collection of VAT/GST on Online Sales

- Increasing the effectiveness and the efficiency of VAT collection on online sales by **enlisting “online marketplaces” and other digital platforms** in the collection process
- Supplies of services, goods (incl. importation) and digital products from online sales
- Focus on (1) **making platforms liable** for collecting/remitting the VAT and (2) **data sharing**
- Endorsed by 100+ jurisdictions and international organisations in 2019

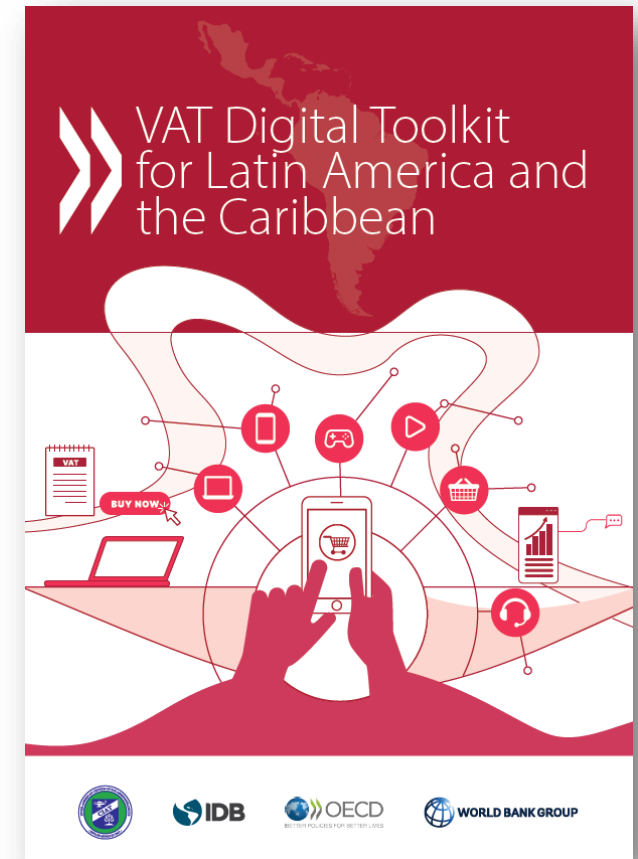


And continues work to address new challenges and to assist the implementation of VAT reform targeted at digital trade worldwide

Regional VAT Digital Toolkits

- Strategic partnership with [World Bank Group](#) and partnership with [regional organisations](#)
- Three regions: [Latin America and the Caribbean](#), [Asia Pacific](#) and [Africa](#).
- Detailed practical guidance tailored to the regional needs and specifics, incl. on:
 - The recommended [policy framework](#) for the application of VAT to online trade in services, digital products, low-value imported goods, sharing/gig economy
 - The [administrative and operational implementation](#), incl. the infrastructure for a simplified, web-based registration and compliance mechanism
 - [Audit and risk management](#) strategies.

The toolkit is available at
<http://oe.cd/vat-digital-toolkit-lac>





The OECD policy framework for addressing the VAT challenges of digital trade based on four pillars

1. Create an effective **legal basis** for the right to levy VAT on inbound international supplies of services and intangibles
 - Introduce a “place of taxation” rule by reference to the **usual residence of the customer**

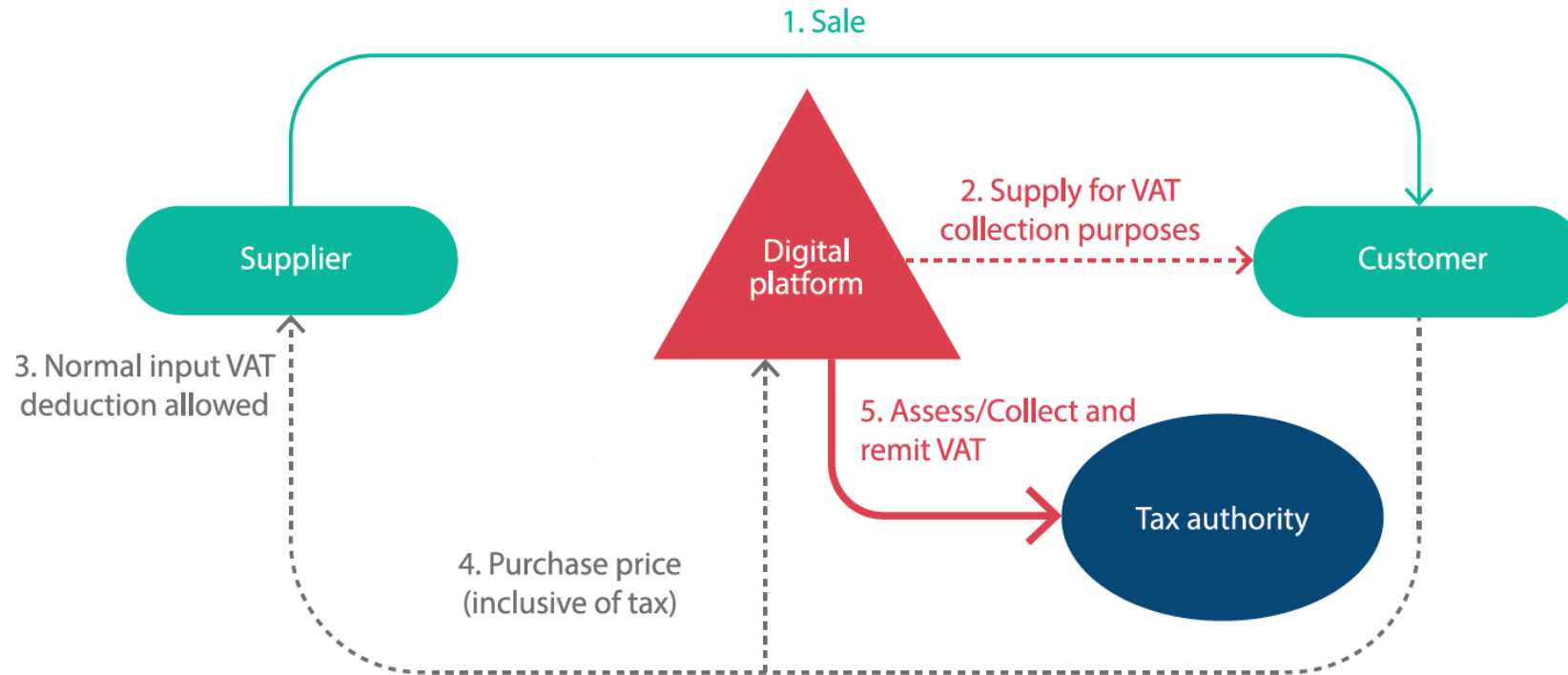
2. Implement an efficient and effective **collection mechanism**
 - Require non-resident online suppliers to register and account for the VAT on “remote” online sales through a **simplified registration and collection mechanism** – ideally through an online portal

3. Leverage the power of **digital platforms** to enhance VAT collection
 - Further facilitate and enhance compliance by enlisting market places and other digital platforms, which dominate global online trade, in VAT collection on digital sales - including online sales of goods

4. Facilitate **compliance** and strengthen **enforcement** through modern, data-driven risk management and administrative cooperation



Tax authorities have typically implemented a “full liability regime” for digital platforms





Reforming the traditional VAT collection framework for international B2C supplies of low-value goods

Rationale for **reform**:

- Traditional collection frameworks
- VAT challenges of low-value consignment reliefs
- Compliance challenges – Widespread fraud and abuse of VAT low-value consignment relief
- High administrative costs of the traditional collection framework



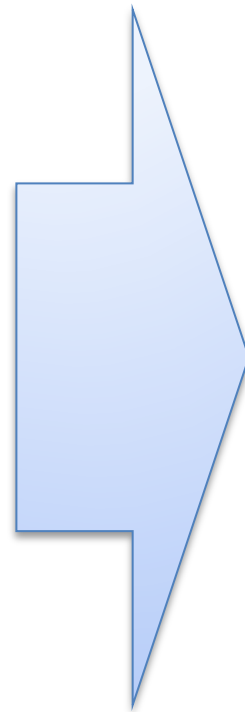
Extending the regime for services to low-value imported goods

Services and Intangibles

VAT collection from non-resident supplier
(**vendor collection**)

Simplified registration and collection regime

Full liability regime for digital platforms



Low-value imported goods

Reassigning the responsibility for VAT collection on imports of low-value goods to non-resident suppliers (**vendor collection**)

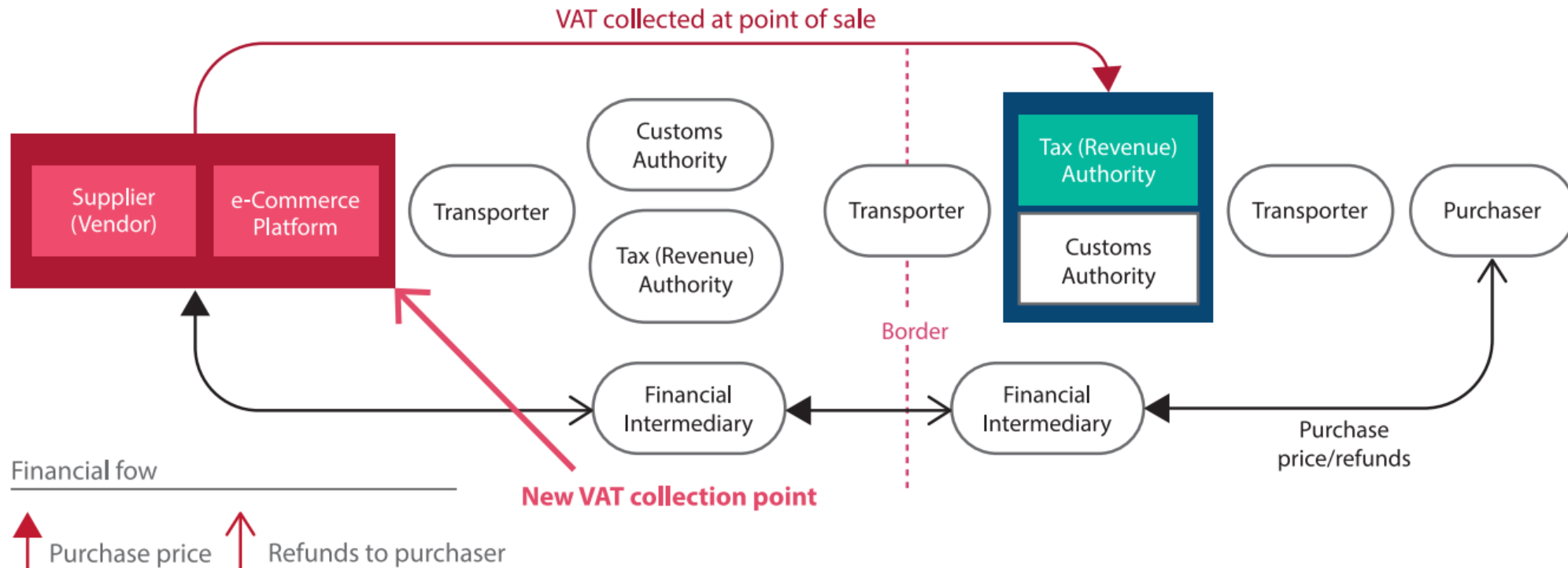
Extension of **simplified** registration and collection regime

Extension of **full liability** regime for digital platforms



Extending the regime for services to low-value imported goods

The vendor collection regime for low value imported goods in a nutshell





Extending the regime for services to low-value imported goods

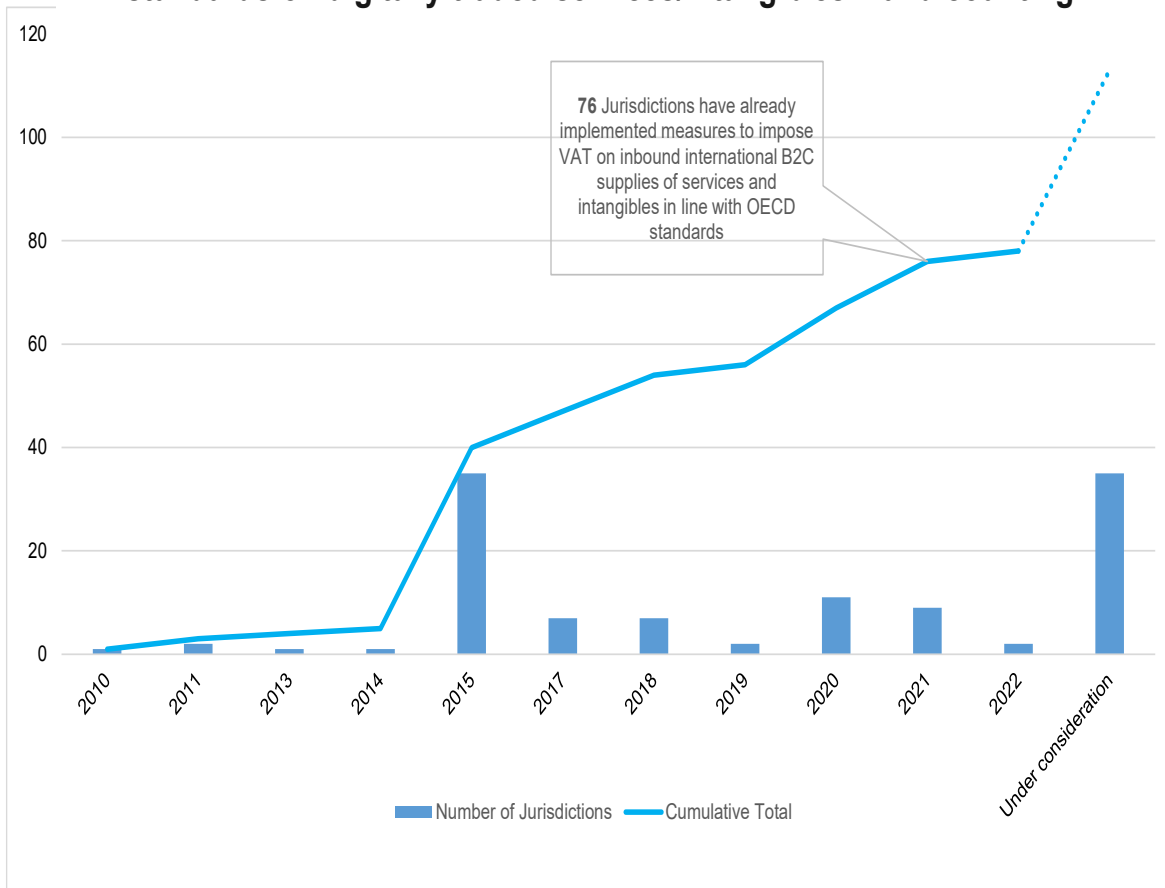
Key policy decisions

- **Approaches** to reforming of VAT low-value consignments reliefs.
- Determining **low-value consignment relief thresholds** for VAT and customs duties.
- **Higher-value** goods and goods subject to **excise duty**.
- **B2B supplies**
- Measures for **minimising risks** of double taxation and unintended non-taxation



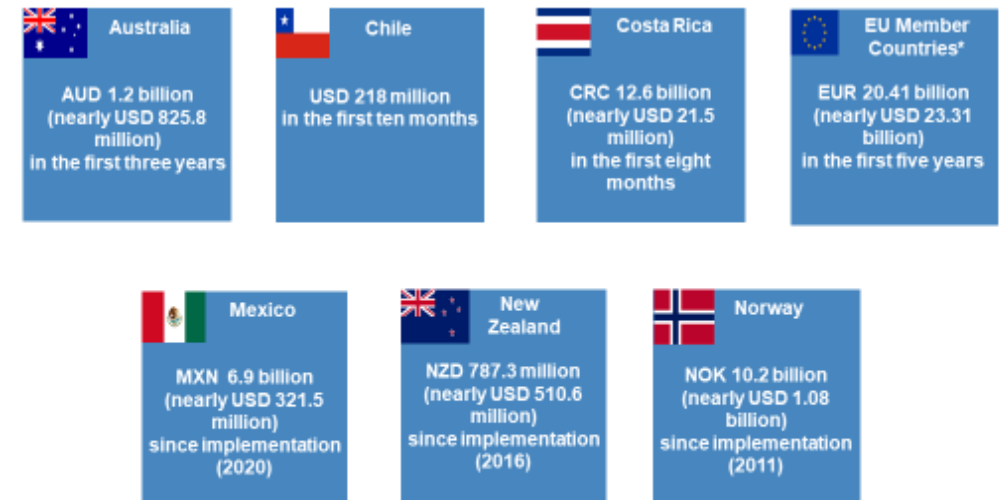
Implementation of VAT reforms has primarily focused on online services/intangibles

Over 70 countries worldwide have already implemented the OECD VAT standards on digitally traded services/intangibles – and counting...



Source: OECD analysis

With (very) high compliance levels reported along with very positive results in terms of (new) VAT revenue collected



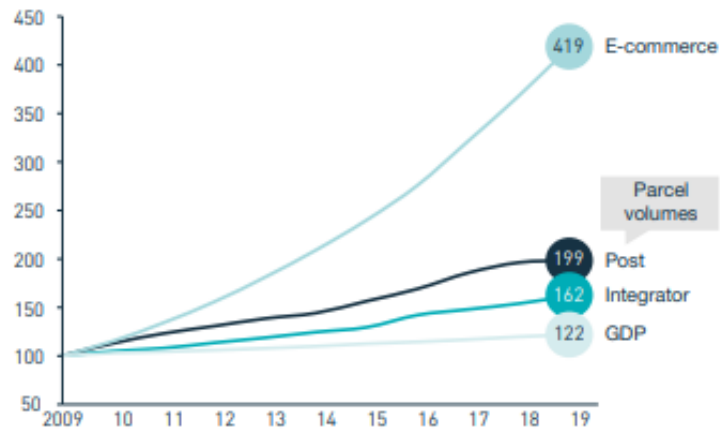
- ✓ VAT revenues have been generally **higher than budgeted** - significantly so in a number of jurisdictions.
- ✓ **Particularly strong growth of VAT collected** on online services/intangibles is being reported since COVID-19 outbreak.
- ✓ **Strong support from the global business community** for tax authorities to implement solutions based on the OECD standards.



But reforms are increasingly focusing on low-value imported goods (too)

14. HISTORICAL VOLUME

Aggregate indices, 2009 = 100



Source IPC Report 2020

E-commerce is fuelling demand

- ✓ Volume of parcels delivered has more than quadrupled since 2009
- ✓ Rising much faster than economic growth
- ✓ Cross-border delivery represents 20% of global e-commerce

(Very) positive results reported or anticipated by first movers

Australia
AUD 742 million
(nearly USD 511 million)
in the first two years

New Zealand
NZD 130.1 million
(nearly USD 84 million)
for the latest fiscal year

Norway
NOK 678 million
(nearly USD 72 million)
in the first 1.5 years

European Union
EUR 7 billion
(nearly USD 8 billion)
annually

United Kingdom
GBP 1.4 billion
(nearly USD 1.8 billion)
in the 2021-22

Note: Revenue figures for the European Union and the United Kingdom are based on their latest estimates.



General findings and conclusions

Business feedback is generally positive

- Adoption of **OECD standard** facilitates compliance for e-businesses, which typically face obligations in multiple jurisdictions
- VAT/GST compliance is **systems-driven** – Consistency facilitates “adding countries” to compliance processes

Jurisdictions report (very) high compliance levels ... and revenues

- Online trade dominated by **large and well-established players who comply**
- **Revenues (significantly) higher than budget targets** in several cases

But ... need to safeguard consistency

- Scope, definitions, reporting requirements and formats...: the devil is in the **detail**
- **Early consultation and communication** with online vendors and digital platforms is critical for a successful implementation

Tax authorities signal considerable need for guidance and assistance

- **Growing numbers of requests received by OECD Secretariat**, for practical guidance, assistance in designing and implementing these regimes from tax authorities worldwide



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