

Revenue Collection Approaches

1. Introduction

- 1.1 Both businesses and Governments are responding to the rapid evolution of E-Commerce. Consumers and vendors can now buy and sell to and from global markets literally overnight. New private sector actors, e.g., E-payment service providers, E-Commerce platforms/marketplaces, have been created and joined this 21st Century method of doing business. Traditional actors (e.g., postal operators, express carriers and logistics service providers) have adapted and dramatically altered their business models. Governments have recognized that traditional revenue collection methods must also evolve and change to meet new and emerging challenges.
- 1.2 Several Governments have focused initially on collection of value-added tax (VAT), also known as goods and services tax (GST). Now the collection of Customs duties and taxes has been added to those discussions. Given the exponential growth of low-value cross-border shipments, many administrations are studying how or whether to maintain special procedures on collection of VAT/GST and Customs duties and taxes (hereafter “duties and taxes”) for low-value shipments, while also ensuring that control processes are adequate. In such considerations, Governments should take into account the impact on small businesses. No single solution or one approach has emerged for Governments in order to handle the millions of small packages moving around the world for proper and efficient revenue collection implications.

Note 1: While other fees and charges are not expressly covered by this Annex, it does not preclude authorities from collecting fees and charges. Governments should carefully consider how fees and charges (if any) are collected on cross-border E-Commerce shipments, including issues such as legal liability and the roles and responsibilities of each E-Commerce stakeholder, to complement the collection of duties and taxes within the scope of this Annex.

- 1.3 The E-Commerce boom and consumer expectations have applied pressure on traditional models of revenue collection in some countries. This has led to Customs and Tax administrations considering alternative approaches to the collection of duties and taxes. Various approaches which have the effect of moving the point of revenue assessment/collection away from the physical border are attractive, because they do not unnecessarily impede the flow of E-Commerce shipments through borders.
- 1.4 Based on established financial, Customs, tax and economic policy principles, a good revenue collection approach should:
- induce strong rates of compliance and revenue collection;
 - limit business compliance errors;
 - minimize burdens and disruption for consumers; and,
 - avoid adverse trade policy effects.
- 1.5 In considering alternatives for revenue collection, to replace or supplement current models, there are both opportunities and challenges for Governments and stakeholders which would need to be taken into account. Alternative approaches to revenue collection may impact consumers, vendors/sellers, E-Commerce platforms/marketplaces, logistic service providers, postal operators, express carriers, Governments and foreign suppliers in countries differently. Governments should seek advanced input from relevant stakeholders in a transparent and open process.

- 1.6 Further, Customs and/or Tax administrations should ensure that in any approach it adopts, that approach preserves the rights of all parties to the transaction. Such rights may include the right to appeal a decision of the Customs administration in regard to the transaction, the right to seek a refund, the right to protest the liability of the party at issue, the amount, and the rate of duties and taxes. These rights should be timely, cost-effective, and not create a barrier to trade for the users.
- 1.7 The following approaches of revenue collection are provided as examples only, to assist Customs administrations and other relevant government agencies. Variations within each of these approaches, and hybrid approaches using parts or elements of different approaches, are also possible depending on country-specific circumstances and needs. These approaches are generally distinguished by where, when (at what stage) and on whom in the supply chain the legal obligation to assess, collect and remit duties and taxes is placed. This has implications on the efficiency of administration, compliance costs and other factors, like consumer experience.
- 1.8 The traditional Customs treatment involves the importer paying duties and taxes with each transaction. This document summarizes current types of revenue collection for Customs administrations to consider and evaluate as they move forward in processing cross-border E-Commerce shipments and providing Customs clearance, inter alia assessing, remitting and collecting associated duties and taxes, in a more effective manner that facilitates cross-border E-Commerce and compliance with Customs formalities.

2. Revenue collection approaches

a. *Seller/Vendor based collection:*

- 2.1 In this type of approach, the non-resident seller/vendor would be required to assess, collect and remit duty and taxes on imports to the destination Customs or Tax administrations. This approach typically involves a registration process with either Customs or Tax administrations (or both), preferably electronic, for non-resident sellers/vendors, and alignment with Customs processes to treat consignments that have and have not complied with the collection approach. Engaging with stakeholders is particularly important in this approach, given its potentially cross-jurisdictional nature.
 - A clear legal framework to identify and obligate sellers and vendors to comply. Failing compliance, proportionate punitive actions should be available and implementable against non-compliant sellers/vendors.
 - When considering the implementation of this approach, Customs administrations are encouraged to institute facilitation measures that encourage close cooperation between sellers/vendors and Customs and Tax administrations in order to reduce the compliance costs of sellers/vendors and the administrative costs for government authorities, and increase the accuracy of the transmitted data.
- 2.2 As with traditional border approaches, Governments must balance proper revenue collection with facilitating cross-border E-commerce shipments. A regulatory framework such as domestic law and regulations could ensure adequate and necessary compliance from the seller/vendor or its representative.
- 2.3 In keeping with current best practices, the collection of all duties and taxes could be made through a single payment portal or other convenient payment mechanisms, preferably electronically.

2.4 The seller/vendor based collection approach particularly lends itself to operating as a hybrid approach in conjunction with the other two approaches outlined below.

b. Intermediary based collection:

2.5 In this type of approach, duties and taxes due in the destination country would be collected and remitted on behalf of the buyer/consumer or consignee by different types of intermediaries, including E-Commerce platforms/marketplaces, transporters (e.g., express carriers and postal operators), Customs brokers and freight forwarders. These intermediaries would be required to collect duties and taxes, either self-assessed or assessed on import by destination Customs or Tax administration, and remit them to the destination Customs or Tax administration, preferably periodically on an account basis.

2.6 An efficient intermediary based collection approach can be based on the following principles:

- Intermediary is a party to a transaction which results in a shipment into the taxing jurisdiction.
- Intermediary is designated to cooperate with Customs in the area of Customs declaration, control, clearance and payments on behalf of consumers/buyers.
- The approach allows for identification of the consumer/buyer for Customs-related matters and risk management.

2.7 Under this approach, Customs may also consider the emerging role that financial intermediaries (e.g., banks, credit card companies and other payment providers) might play in revenue collection processes under their unique function which they perform in the E-Commerce environment, while noting that financial intermediaries may not have information that is linked to particular goods, import transactions, and importers.

c. Buyer/Consumer based collection:

2.8 In this type of approach, the resident buyer/consumer/buyer would be required to remit duties and taxes relating to imports of goods to Customs or Tax administrations. The duties and taxes due should be calculated and assessed either through:

- buyer self-assessment of amount owed;
- Customs broker on behalf of the buyer/consumer assessment of amount owed; or
- Customs assessment of amount owed.

d. Variant and hybrid Approaches to collection:

2.9 Different variants of the above approaches and hybrid approaches could also be considered.

2.10 For example, a variation of the seller/vendor approach would include E-Commerce platforms/marketplaces as the seller/vendor. For businesses selling through marketplaces, the marketplace would be deemed the seller/vendor for revenue collection purposes, and would be required to assess, collect and remit duties and taxes. This approach reduces the number of entities required to collect revenue. This hybrid approach places the revenue collection at the point of sale, distinct from the traditional approach of applying duties and taxes at the border.

- 2.11 Another hybrid approach may combine the seller/vendor based collection and intermediary based collection approaches. The seller/vendor collects the amount of duties and taxes due from the buyer/consumer at the point of sale, along with the other costs (like shipping or transportation). The intermediary (e.g., express carriers and postal operators) remits the amount to the destination Customs or Tax administration, charging the seller/vendor through its account with the express carrier/postal operator. This approach reduces Customs clearance time, and the buyer/consumer knows exactly the amount of duties and taxes that have been charged at the point of sale.
- 2.12 When Customs and/or Tax administrations use variants of an approach, or a hybrid approach, businesses may have multiple responsibilities if they operate across the supply chain. Administrations should aim to streamline requirements to reduce the impact on such businesses, where possible.
- 2.13 When using variant or hybrid approaches for collection, a Government should coordinate its Customs and Tax processes to avoid double charging or double liability.

3. Use cases of revenue collection approaches

- 3.1 Use cases are provided to this Annex to outline experiences in implementing a revenue collection approach, with the intent that they may assist Customs administrations in their own deliberations and provide a basis for further bilateral engagement between Customs administrations, as required.
- 3.2 WCO Member Customs administrations' cases on revenue collection approaches can be found at:

http://www.wcoomd.org/-/media/wco/public/global/pdf/topics/facilitation/activities-and-programmes/ecommerce/e-commerce-compendium_1st-edition_en.pdf?db=web
