The OECD’s work on addressing the VAT challenges of the digital economy

An update

WCO, Brussels – 31 October 2019
The OECD has produced three sets of standards and guidance on the VAT/GST treatment of digital trade flows

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 on 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 design / 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/GST 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/GST and (2) data sharing
• Endorsed by 100+ jurisdictions and international organisations in 2019
OECD standards and guidance were developed in response to strong call from G20 in 2014.

“The collection of VAT in business-to-consumer (B2C) supplies of goods and services form 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 borders**
What is the key VAT/GST challenge for B2C online sales of digital products (services, intangibles)?

- The internet allows remote sellers to sell to private consumers worldwide, **without a taxable presence** in the consumer’s jurisdiction
  - “Scale without mass”
- Often **no or inappropriately low amount of VAT/GST charged / collected** in consumer’s jurisdiction
  - Difficult to collect from remote seller under traditional procedures
  - Collection from private consumers proven to be ineffectual

**Key policy concerns**

- Growing **VAT/GST revenue losses**
- **Competitive distortion**
  - Incentive for domestic retailers to relocate offshore
- Adverse **impact on employment and direct tax revenues**
What is the key VAT/GST challenge for B2C online sales of goods? The “low-value parcels” issue…

- VAT-relief for imports of low value goods under *de minimis* threshold
- Often motivated by *cost/benefit* considerations
- Volume of low value imports has *grown significantly* in recent years due to booming internet shopping

**Key policy concerns**

- Growing risk of **unfair competitive pressures** on domestic retailers
  - Incentive for domestic retailers to relocate offshore
- Growing VAT/GST **revenue losses**, incl. from organised fraud
- Adverse **impact on employment and direct tax revenues**
OECD Recommendations provide effective solutions

1. Create an effective **legal basis for right to tax** inbound international online sales (substantive jurisdiction)
   - Implement a "place of taxation" rule by reference to the usual residence of the consumer

2. Implement an efficient and effective **collection mechanism**
   - Introduce a requirement for non-resident digital suppliers to register and account for the VAT/GST on “remote” digital sales through a simplified collection and compliance mechanism

3. Leverage the power of **digital platforms** to enhance VAT/GST collection
   - Further facilitate and enhance compliance by enlisting market places and other digital platforms in the VAT/GST collection on digital sales

4. Facilitate compliance and strengthen enforcement through modern, **data-driven risk management and administrative cooperation**
   - Complement the operation of the simplified collection and compliance regime with the implementation of a modern risk-based compliance strategy and robust administrative cooperation
VAT/GST on e-commerce sales is levied in “customer’s location”

E-commerce seller OR digital platform must VAT/GST register in the customer’s state – charge this state’s VAT/GST & remit it there via web-portal

- Simple registration and compliance regimes facilitate/encourage compliance by non-resident suppliers
- “Pay only”: operating separately from traditional compliance regime, without same rights (e.g. input tax recovery) and obligations (e.g. full reporting)
- Supported by electronic processes: on-line registration, online filing of returns, online payments,…
- Guidelines and accompanying Report on Collection Mechanisms set out the key features of a simplified registration and compliance regime
  - Registration, Input tax recovery, Returns, Payments, Record keeping, Invoicing, Information requirements, Use of third-party service providers
Vendor/intermediary-collection regime also offers solution for VAT/GST collection on low value imports from online sales.

VAT/GST on e-commerce sales is charged at the customer’s location.

E-commerce seller OR digital platform must VAT/GST register in the customer’s state – charge this state’s VAT/GST & remit it there via web-portal.

Also possible solution for collecting VAT/GST on imports of low-value goods

- Removes the need for customs intervention in VAT collection process
- See: Australia, New Zealand, Norway, EU
- See also: guidance on possible roles for digital platforms in the collection of VAT on online sales.
Implementation of OECD recommendations
State of play

60+ jurisdictions, incl. EU28, have implemented the OECD recommendations for the collection of VAT/GST on digital sales

- Incl. Australia, Bahrain, Belarus, EU28, Colombia (in combination with WHT), Iceland, India, Japan, Korea, New Zealand, Norway, Russian Federation, Singapore (2020), South Africa, Switzerland, Turkey, Uruguay

More jurisdictions are implementing or considering such reform

- Incl. Bangladesh, Barbados, Chile, Egypt, Kazakhstan, Malaysia, Mexico, the Philippines, Thailand, Uganda, Uzbekistan, Vietnam...

- Many others, incl. in Africa, Asia/Pacific and Latin America, which have not yet announced publicly

Jurisdictions report (very) high compliance levels … and revenues

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

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 makes it easier “to add countries” to compliance processes
Contact details

Piet Battiau
Head of Consumption Taxes Unit
Centre for Tax Policy and Administration

2, rue André Pascal - 75775 Paris Cedex 16
Tel: +33 1 45 24 79 58 – Fax: +33 1 44 30 63 51

Piet.Battiau@oecd.org  ||  www.oecd.org/tax