



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





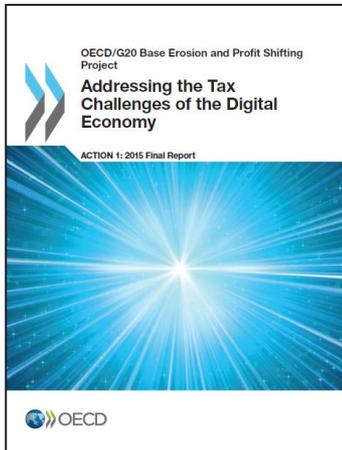
OECD standards and guidance were developed in response to strong call from G20 in 2014



“The collection of VAT in business-to-consumer (B2C) supplies of goods and services 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 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



The OECD Recommendations in a nutshell





Vendor/intermediary-collection regime also offers solution for VAT/GST collection on low value imports from 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



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