

# REGIONAL CONSULTATIONS ON INTERNATIONAL TAX MATTERS

NOVEMBER 2022



# SESSION 4

## VAT ON INTERNATIONAL DIGITAL TRADE



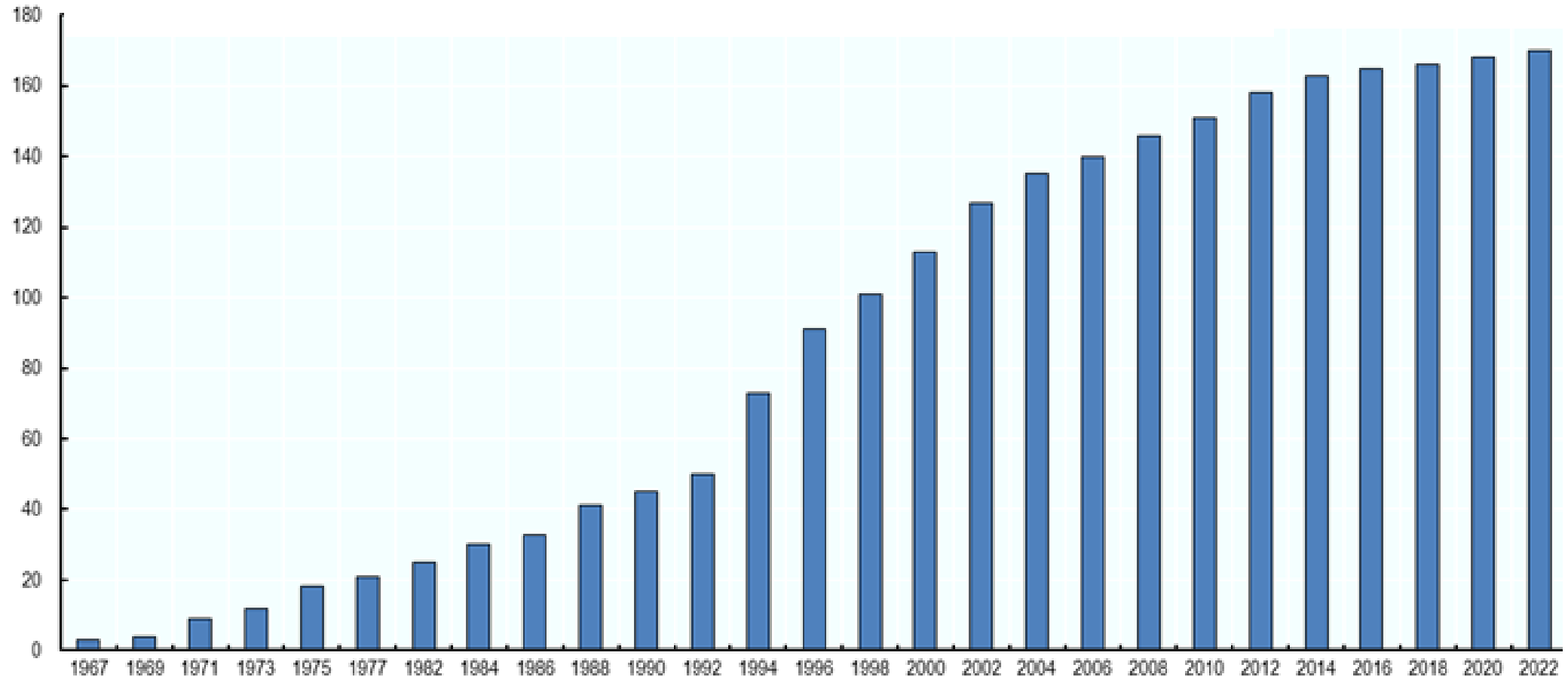
# The importance of VAT worldwide



# The global VAT expansion

## Number of jurisdictions that operate a VAT (1967-2022)

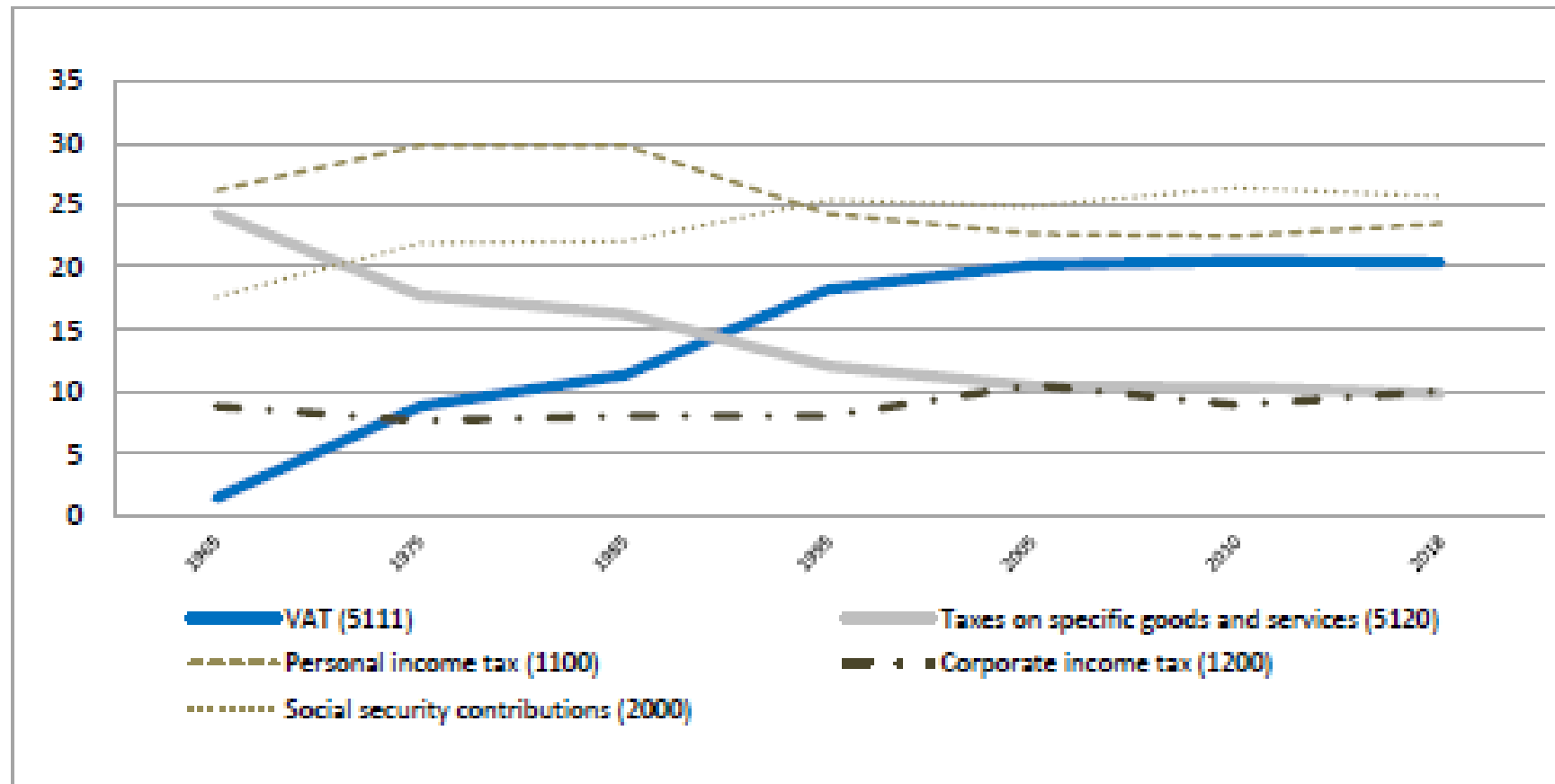
2022 = 171





# Evolution of VAT as a source of revenue in the OECD

Evolution of the tax mix as a percentage of total tax revenue (OECD average)



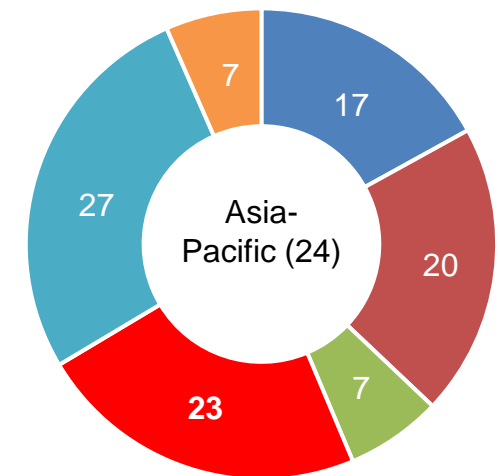
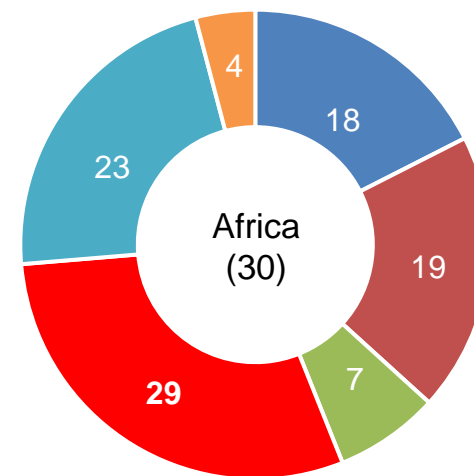
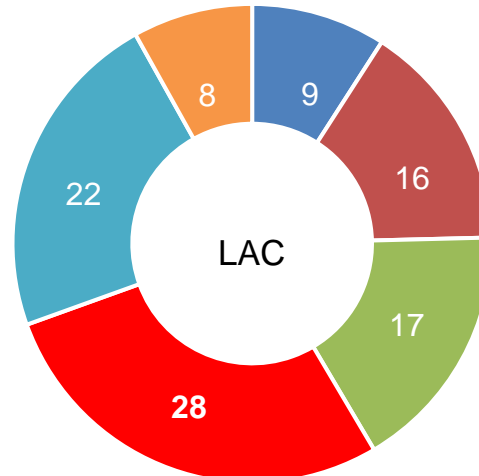
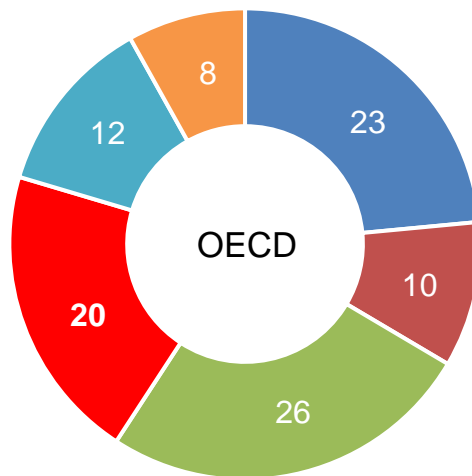
Source: OECD, *Consumption Tax Trends 2020*



# VAT is a key source of revenue worldwide

## Tax structures in different regions of the world, as a percentage of total tax revenue

- Personal Income Tax
- Corporate Income Tax
- Social Security Contributions
- Value-Added Tax
- Other Taxes on Goods and Services
- Other Taxes



Source: OECD (2021), Global Revenue Statistics Database



Rapid growth of digital trade globally



# E-commerce has increased rapidly worldwide

## Growth of global B2C e-commerce sales (2014-2026)



Note: \*Forecast. For this graph, e-commerce sales include services and products ordered using the Internet via any device, regardless of the method of payment or fulfilment. Travel and event tickets are excluded.

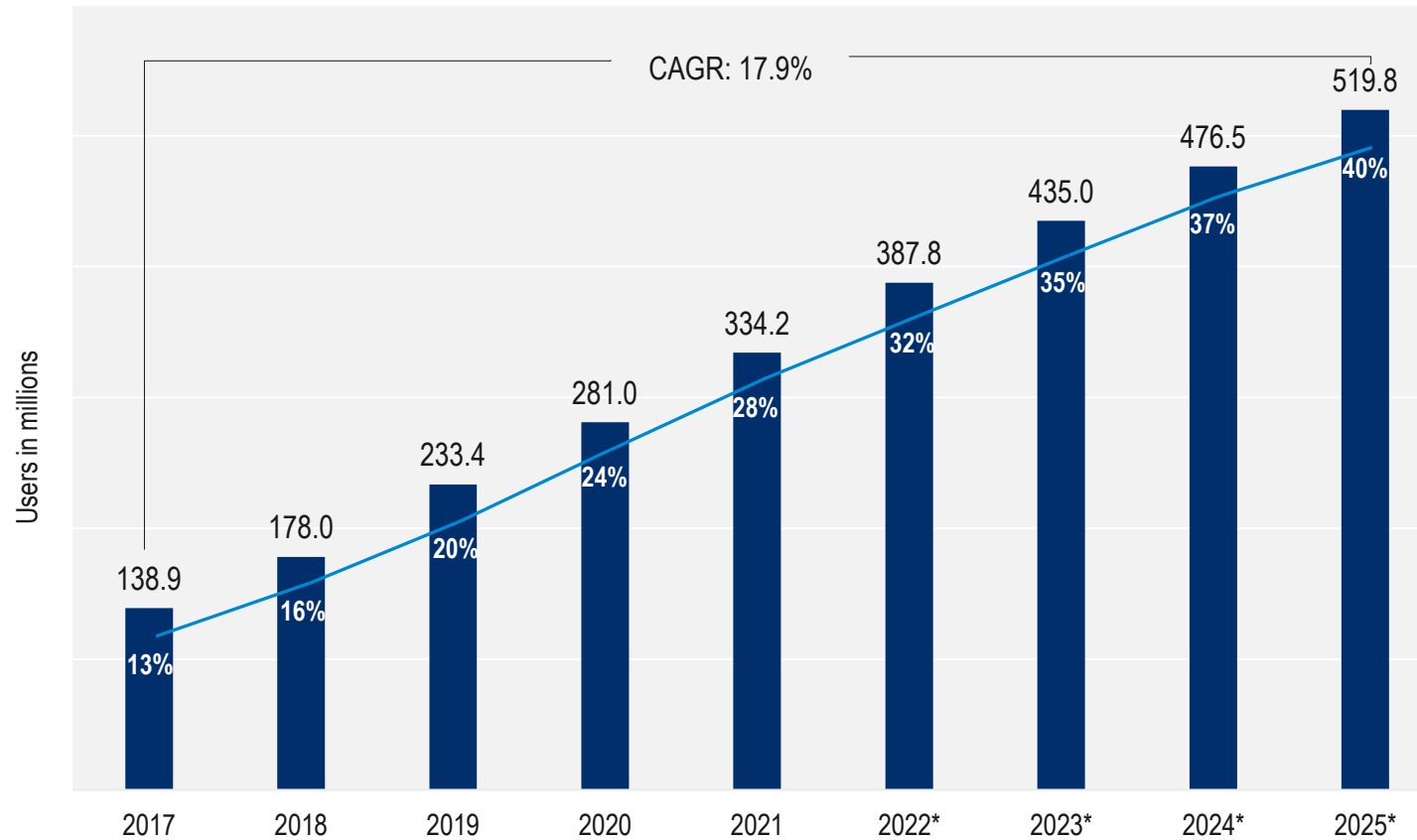
Source: Statista (2022), *Retail e-commerce sales worldwide from 2014 to 2026 (in billion U.S. dollars)*





# E-commerce has experienced similar rapid growth in Africa

Growing number of e-commerce users in Africa



Note: \*Forecast.

Source: International Trade Administration (2021), *The Rise of eCommerce in Africa*.



# VAT challenges arising from the digitalisation of the economy



# OECD / G20 BEPS Project



*'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**, particularly sales by offshore online vendors
2. Booming volume of **goods**, typically with low (declared) value, **sold online and crossing international borders**



# Key VAT challenges of the digital economy

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## All international digital trade

- Significant economic presence of sellers and platforms without physical presence
- Inconsistent global implementation of VAT regimes for digital trade – Major challenge for businesses

## International supplies of services and intangibles

- “Place of taxation” laws in many jurisdictions fail to capture VAT on supplies of services / digital products that a supplier can deliver remotely from outside the customer’s jurisdiction

## Low-value imported goods

- Customs authorities overwhelmed by volumes of low-value imported goods
- Fraud and abuse risks
- Challenge to neutrality from VAT reliefs for low-value imported goods



# Associated VAT policy consequences

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- Growing VAT revenue losses
- Distortion of competition – Incentive to buy from abroad
- Adverse impact on employment and other tax revenues



# Creating an effective VAT policy framework for taxation of international digital trade



# The OECD leads the international work on standards and guidance to address 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:
  - Internationally agreed framework for determining the jurisdiction of taxation for supplies of services and intangibles, especially important for digital services and products. Also recommend effective VAT collection mechanisms for sales by non-resident businesses
  - 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*

- Implementation guidance for governments:
  - Focus on digital sales by **non-resident businesses**
  - Key policy and design challenges and solutions
  - Design and operation of a **web-based simplified registration and collection regime**
  - Jurisdictions can extend such regimes to cover low-value imported goods [c.f. slide 21]
- Endorsed by 100+ jurisdictions and international organisations in 2017



# OECD standards and guidance to address VAT challenges of the digital economy [Continued]



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

- Implementation guidance for governments:
  - Increase the effectiveness and the efficiency of VAT/GST collection on online sales by enlisting “online marketplaces” and other digital platforms in the collection process
  - Encompasses supplies of services, digital products, and goods (including importation) from online sales through platforms
  - Focus on (1) making platforms liable for collecting/remitting the VAT and (2) data sharing by platforms
- Endorsed by 100+ jurisdictions and international organisations in 2019



## *The Impact of the Growth of the Sharing and Gig Economy on VAT/GST Policy and Administration*

- Key challenges and opportunities from sharing/gig economy growth for VAT policy and administration
- Potential policy responses for tax authorities to consider:
  - Focus on role of digital platforms, plus other possible options for policy and administration
  - Accommodation and transportation sectors used as pilot cases





# Overview of the core OECD recommendations

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## 1. Create an effective legal basis for right to tax inbound international supplies

- ✓ In particular, implement a **“place of taxation” rule for supplies of services and intangibles** by reference to the location of the customer (e.g. usual residence of the consumer for B2C)

## 2. Implement an efficient and effective collection mechanism

- ✓ Introduce a requirement for non-resident suppliers to register and account for the VAT on remote international sales, including low-value imported goods, through a **simplified registration and collection mechanism**



# Overview of the core OECD recommendations

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## 3. Leverage the power of digital platforms to enhance VAT collection

- ✓ Further facilitate and enhance compliance by **enlisting online marketplaces and other digital platforms** in VAT collection on inbound international supplies

## 4. Facilitate compliance and strengthen enforcement through modern, data-driven risk management and administrative co-operation

- ✓ Complement the simplified compliance regime with the implementation of a modern risk-based compliance strategy and robust administrative co-operation



# Worldwide implementation of OECD standards and guidance



## International supplies of services and intangibles

+75 Jurisdictions, including EU27, have implemented the OECD Recommendations for the collection of VAT on digital sales of services and intangibles

- Including: Armenia, Australia, Bahamas, Bahrain, Barbados, Belarus, EU27, Chile, Colombia\*, Costa Rica\*, Ecuador\*, **Ghana**, Iceland, India, Indonesia, Japan, Kazakhstan, **Kenya**, Korea, Malaysia\*\*, Mexico, Moldova, New Zealand, **Nigeria**, Norway, Saudi Arabia, Singapore, **South Africa**, Switzerland, Thailand, Turkey, **Uganda**, United Arab Emirates, United Kingdom, Uruguay, Uzbekistan, Viet Nam\*.

[\*In combination with a withholding obligation for financial intermediaries in certain circumstances. \*\*Operates Sales and Service Tax (SST).]

More jurisdictions are implementing or considering such reform

- Including: **Angola**, **Cameroon**, **Côte d'Ivoire**, **Egypt**, Fiji, **Gabon**, **Malawi**, **Mauritius**, Panama, Peru, the Philippines, **Tanzania**, Ukraine, **Zambia**, **Zimbabwe**...
- Many others, including in Africa, Latin America and the Caribbean, and Asia Pacific, which have not yet announced publicly.

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

- Online trade dominated by **large firms and platforms with a strong track record of compliance**.
- Revenues (significantly) higher than budget targets in several cases.

Business feedback is generally positive

- Adoption of **OECD standards facilitates compliance** for digital businesses making sales in multiple jurisdictions.
- VAT compliance is **systems-driven** – Consistency makes it easier for firms to ‘add countries’ to compliance processes.



## International supplies of services and intangibles

Approximately +75 jurisdictions have implemented the OECD recommendations for international B2C supplies of services and intangibles.  
Jurisdictions that have acted report (very) high compliance levels... and revenues

### VAT revenues from implementation of OECD policy framework for international B2C supplies of services and intangibles

#### Australia

AUD 1.75 billion  
[USD 1.3 billion]  
First four years

#### European Union

EUR 26.97 billion  
[USD 32 billion]  
First six years

#### New Zealand

NZD 934 million  
[USD 661 million]  
Since implementation  
(2016-2021)

#### Norway

NOK 13.7 billion  
[USD 1.6 billion]  
Since implementation  
(2011 – Q3 2022)

#### Chile

USD 481 million  
Since implementation  
(2020 -Q1 2022)

#### South Africa

ZAR 15.3 billion  
[Nearly USD 1 billion]  
Since implementation  
(2014-2021)



# State of play

## Low-value imported goods

### Move away from traditional customs-led process for VAT collection

- **Offshore supplier registration**: Online sellers and/or digital platforms (marketplaces) to collect and remit VAT on imports.
- **Simplified** registration and collection through online portal.
- Charging and collecting VAT **at point of sale** can facilitate expedited release of goods at customs.

### Key initiatives implemented or announced

- **Australia** (From July 2018): **AUD 1.2 billion** [USD 905 million] in the first three years.
- **European Union** (From July 2021): **EUR 3.8 billion** [USD 4.5 billion] in the first year.
- **New Zealand** (From December 2019): **NZD 231 million** [USD 163 million].
- **Norway** (From April 2020): **NOK 1.5 billion** [USD 172 million] since implementation (2020 – Q3 2022).
- **United Kingdom** (From January 2021): **GBP 1.4 billion** [USD 1.9 billion] in the first fiscal year.

#### *Upcoming implementation:*

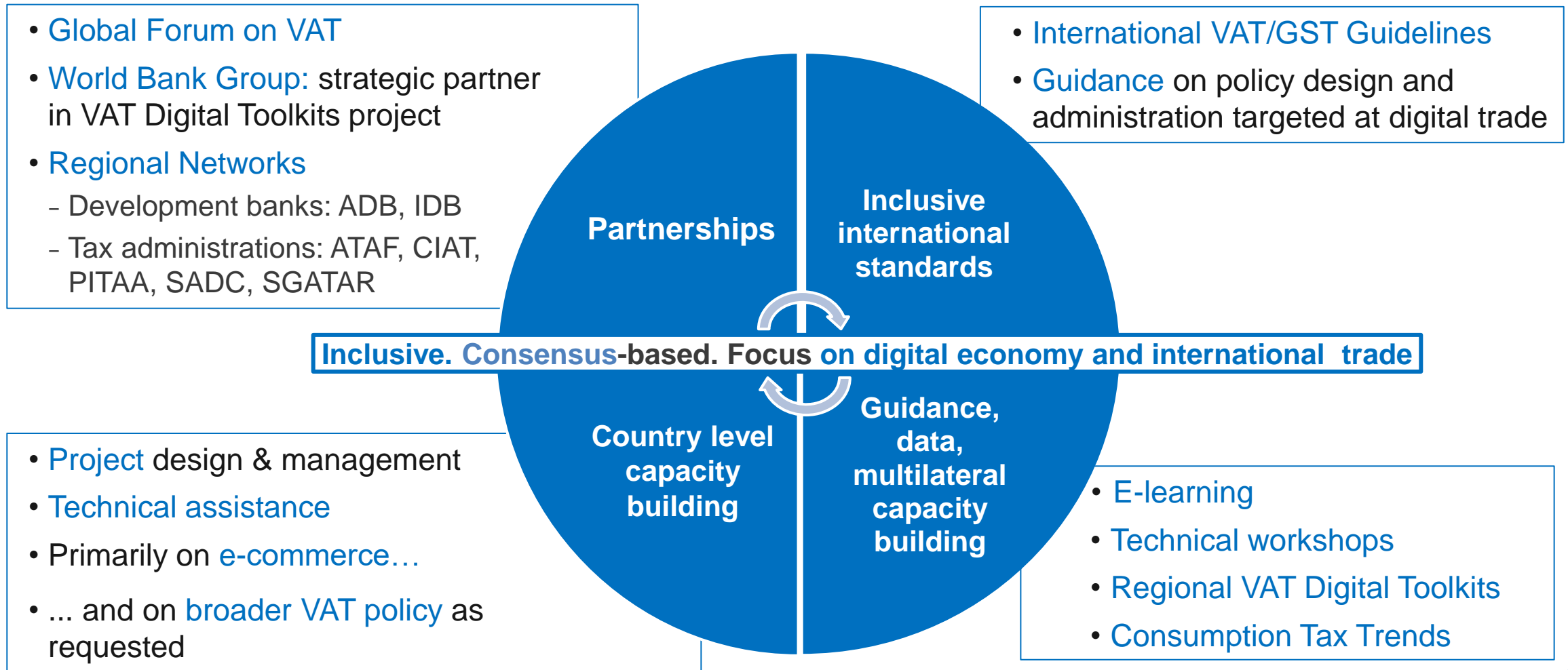
- **Singapore** From January 2023.
- **Nigeria** From January 2024.



# Ongoing OECD work on VAT



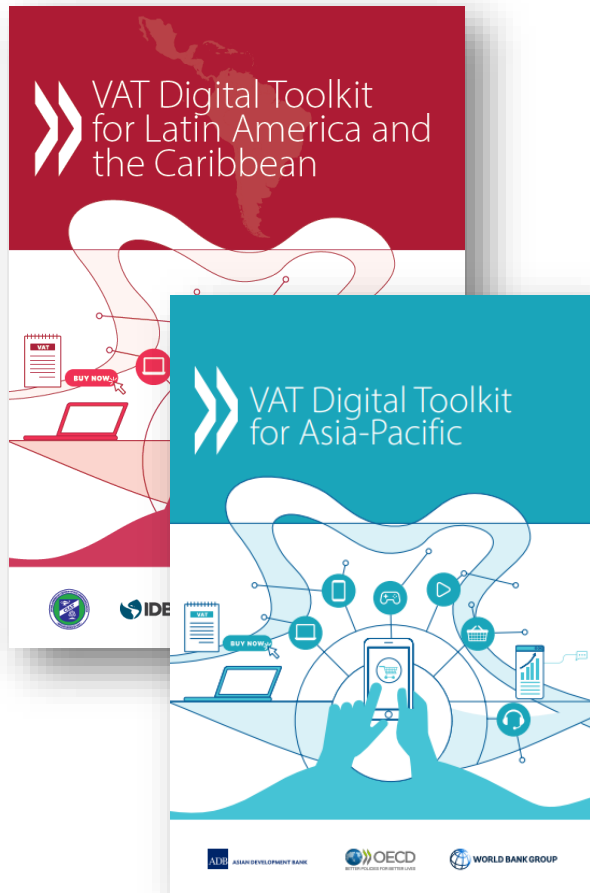
# Capacity building and inclusiveness are integral to the OECD's work on VAT







# The VAT Digital Toolkits: Toolkit for Africa forthcoming



<https://www.oecd.org/tax/consumption/vat-digital-toolkit-for-asia-pacific.htm>

- Detailed manual covering all aspects of a successful VAT strategy targeted at digital trade:
  - Policy framework and legislative design
  - Administrative and operational implementation
  - Risk management, compliance and enforcement strategies
  - Checklists to assist implementation
- Targeted at trade in:
  - Services and intangibles
  - Low-value imported goods
  - Sharing and gig economy
- Based on OECD standards, guidance and international best practices
- Toolkit for Africa forthcoming – Early 2023



# Contact details

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# Useful links

- *The International VAT/GST Guidelines*, [www.oecd.org/tax/consumption/international-vat-gst-guidelines.pdf](http://www.oecd.org/tax/consumption/international-vat-gst-guidelines.pdf)
- *The 2015 BEPS Action 1 Report on Addressing the Tax Challenges of the Digital Economy*, [www.oecd.org/tax/addressing-the-tax-challenges-of-the-digital-economy-action-1-2015-final-report-9789264241046-en.htm](http://www.oecd.org/tax/addressing-the-tax-challenges-of-the-digital-economy-action-1-2015-final-report-9789264241046-en.htm)
- *Mechanisms for the Effective Collection of VAT/GST Where the Supplier is Not Located in the Jurisdiction of Taxation*, <http://www.oecd.org/tax/tax-policy/mechanisms-for-the-effective-collection-of-VAT-GST.pdf>
- *The Role of Digital Platforms in the Collection of VAT/GST on Online Sales*, [https://www.oecd-ilibrary.org/taxation/the-role-of-digital-platforms-in-the-collection-of-vat-gst-on-online-sales\\_e0e2dd2d-en](https://www.oecd-ilibrary.org/taxation/the-role-of-digital-platforms-in-the-collection-of-vat-gst-on-online-sales_e0e2dd2d-en)
- *The Impact of the Growth of the Sharing and Gig Economy on VAT/GST Policy and Administration*, <https://doi.org/10.1787/51825505-en>
- *VAT Digital Toolkit for Latin America and the Caribbean*, <https://www.oecd.org/tax/consumption/vat-digital-toolkit-for-latin-america-and-the-caribbean.htm>
- *VAT Digital Toolkit for Asia-Pacific*, <https://www.oecd.org/tax/consumption/vat-digital-toolkit-for-asia-pacific.htm>

# THANK YOU

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