



VAT/GST POLICY RESPONSES TO THE DIGITALISATION OF THE ECONOMY

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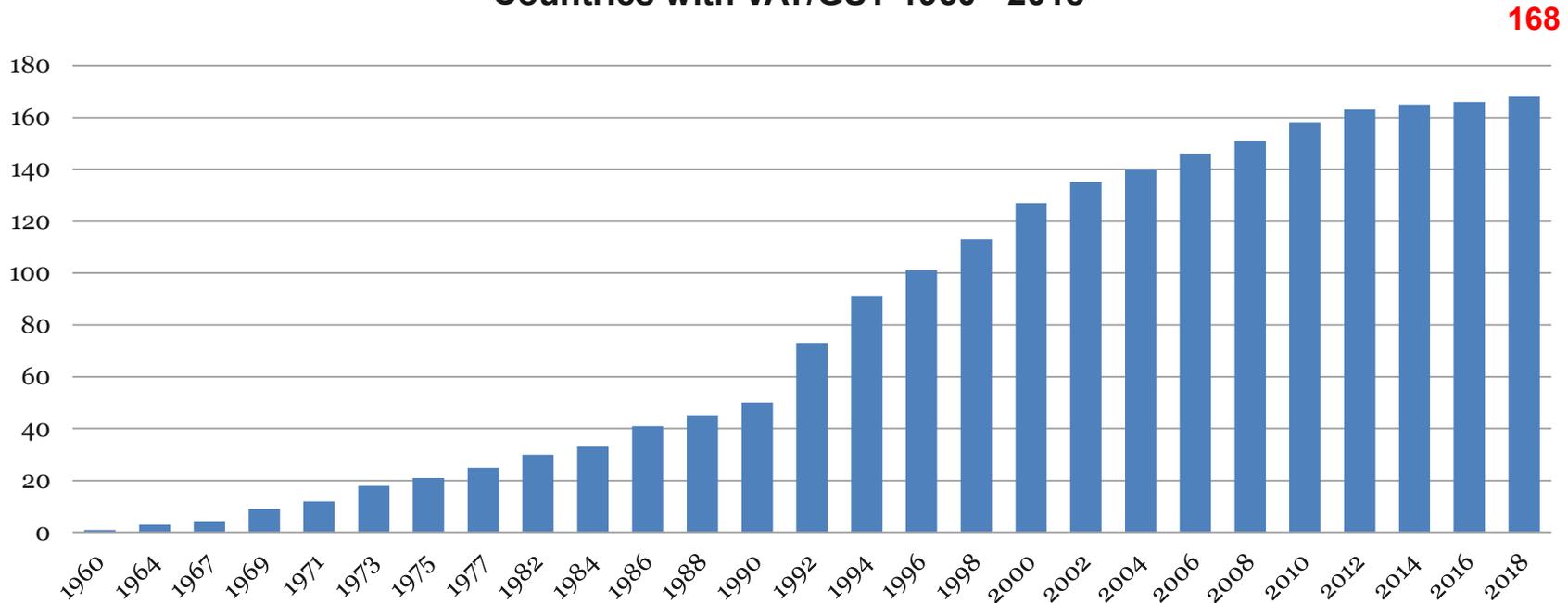
KEY VAT/GST TRENDS



VAT/GST continues to spread globally

168 countries now operate a VAT/GST

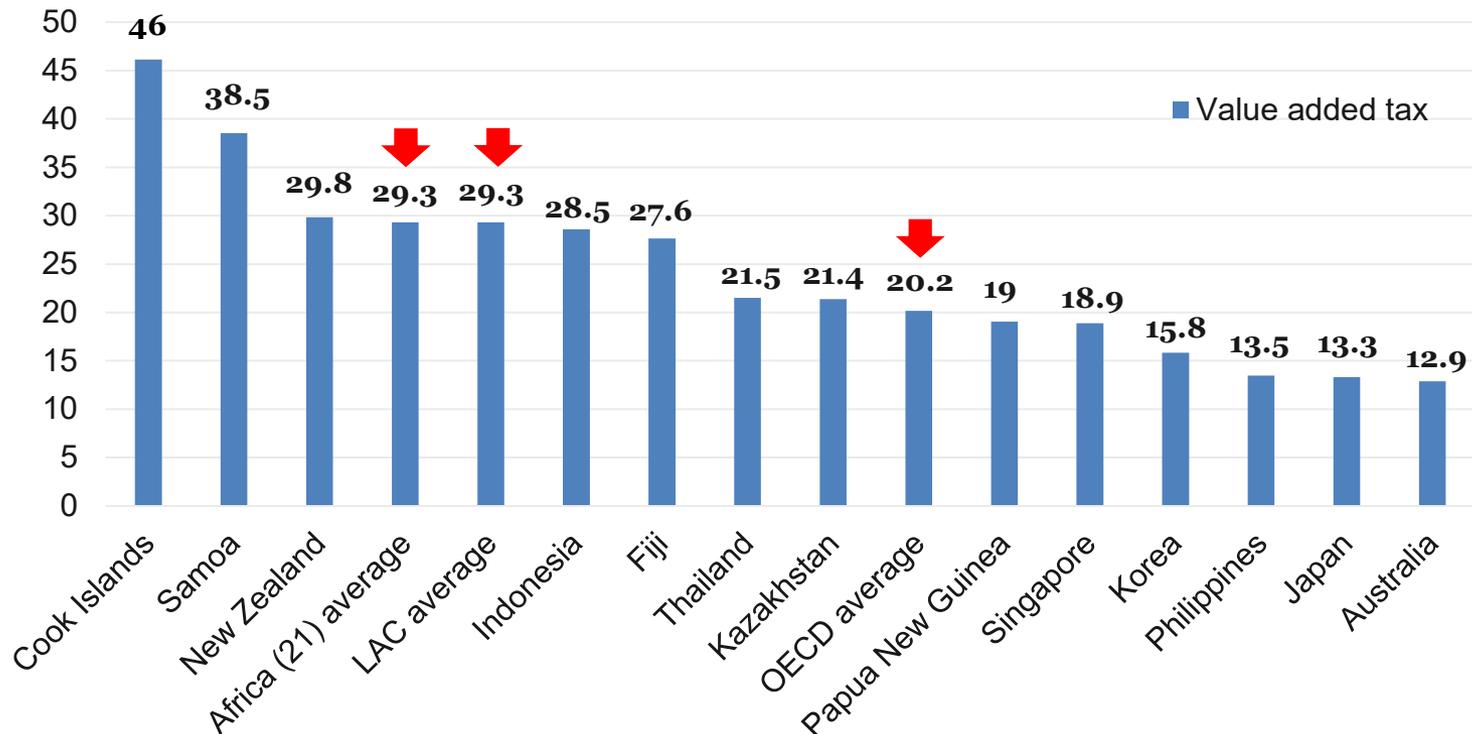
Countries with VAT/GST 1960 - 2018





VAT/GST as an important source of revenue at global level

Revenue from Value Added Tax as a % of total tax revenue



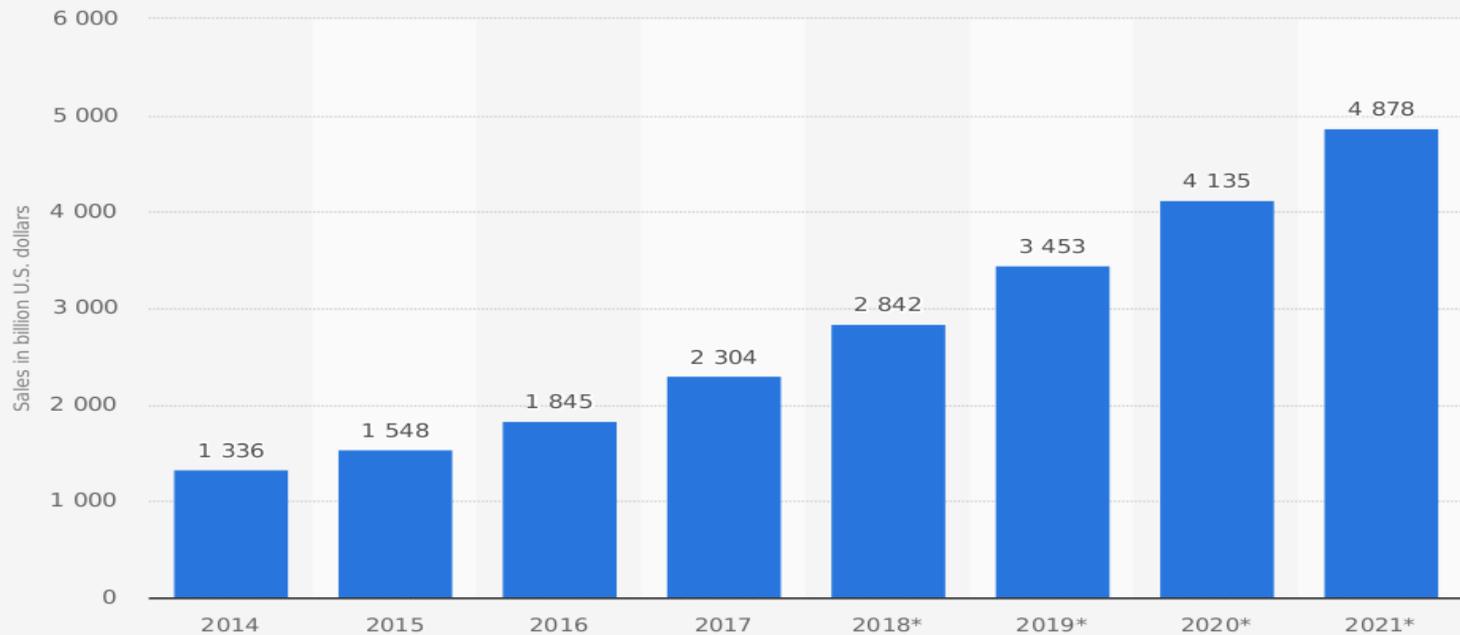
Notes: the figures do not include sub-national tax revenue for the Cook Islands, Fiji, Papua New Guinea. The average for Africa (21 countries), for LAC (25 Latin America and Caribbean countries) and the OECD (36 countries) are unweighted. Australia, Japan, Korea and New Zealand are part of the OECD (36) group. Data from Australia, Korea, New Zealand and the OECD average are taken from OECD (2018), Revenue Statistics 2018.

DIGITALISATION OF THE ECONOMY & VAT/GST CHALLENGES



Worldwide B2C e-commerce sales are booming ...

Retail e-commerce sales worldwide from 2014 to 2021 (in billion U.S. dollars)



Source
eMarketer
© Statista 2018

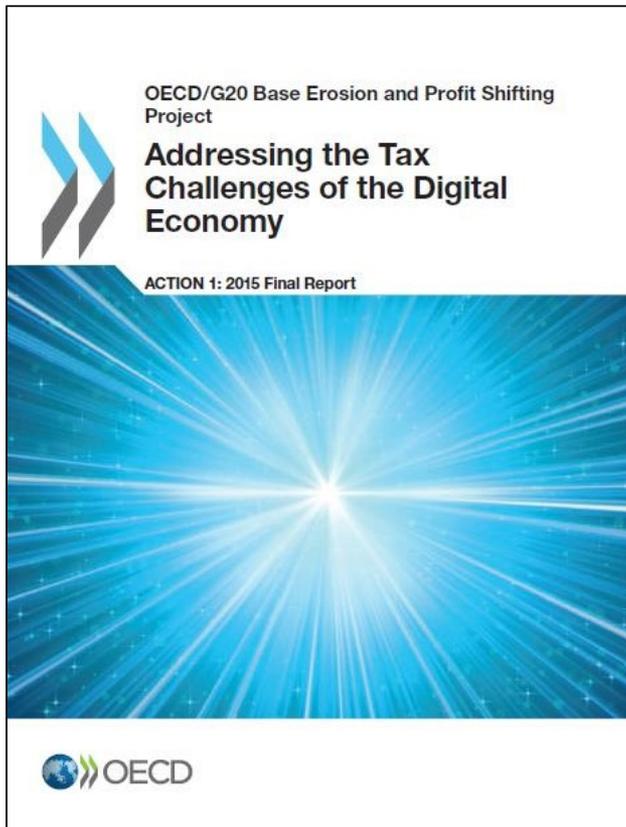
Additional Information:
Worldwide; eMarketer; 2014 to 2017



The 2015 BEPS Action 1 Report

The collection of VAT/GST in **business-to-consumer (B2C) supplies of goods and services from online sales + exemptions on imports of low-value goods** as pressing issues that need to be addressed urgently to:

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





What are the challenges?

Imports
taxed

Exports
“zero-rated”



Local supplies
taxed



These issues have become truly global and increasingly prominent

Digital service providers to pay GST soon

Posted on 18 September 2016
Last updated on 18 September 2016
Rajvinder Singh
newedack@thaeindaily.com
NEW ZEALAND / BUSINESS

GST to be applied to digital purchases from today

11:45 am on 1 October 2016
Share this
GST will be applied to digital services from today, affecting companies from overseas.



E-commerce has become the mega trend for businesses in the UAE, with an estimated value of \$1.2 billion in 2015 (AFP)

GST IMPACT ON E-COMMERCE SECTOR IN INDIA

New VAT legislation on provision of electronic services to Korean consumers by foreign businesses

Online shopping giants fail to keep up with GST

Australia 10% GST Jul 2017

- Australia 10% GST Jul 2017
- Non-resident e-commerce must register and charge GST
- 1 Jul 2017 implementation
- Annual threshold AU\$ 75,000
- Impacts 3,000+ businesses

Click for more info



U TAX LAW ON THE SURFACE OF DIGITAL SERVICE



loophole costs \$620m in missing GST



isNZ – closing the GST loophole



retailers are seriously disadvantaged by a loophole that means that people do not pay GST on low-value purchases (generally goods less than \$400 in value) when they buy them online. This creates a reverse tariff which unfairly discriminates against Kiwi retailers. NZ are working hard alongside Retail NZ to level the playing field for local membership bookstores.

INSPIRATION KNITS

Knitterly thoughts from Louise Zass-Bingham

Home About Patterns Errata Contact

Year for knitters:

What's happen...

Digital services – such as your knitting...

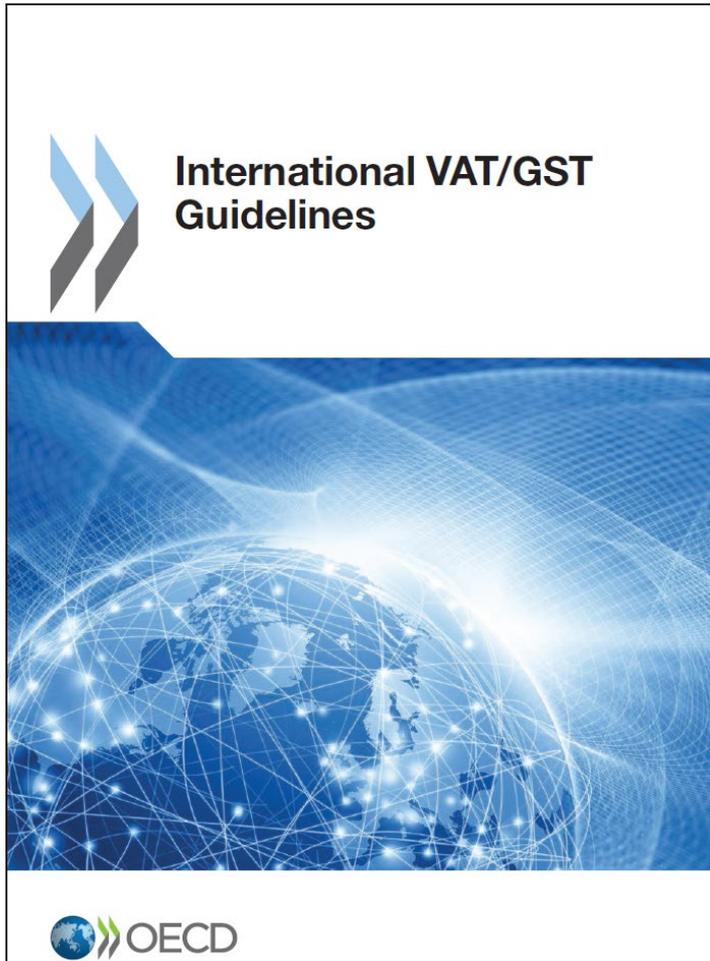
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OECD INTERNATIONAL VAT/GST
GUIDELINES:
RECOMMENDED MEASURES
AND IMPLEMENTATION STATUS



International VAT/GST Guidelines

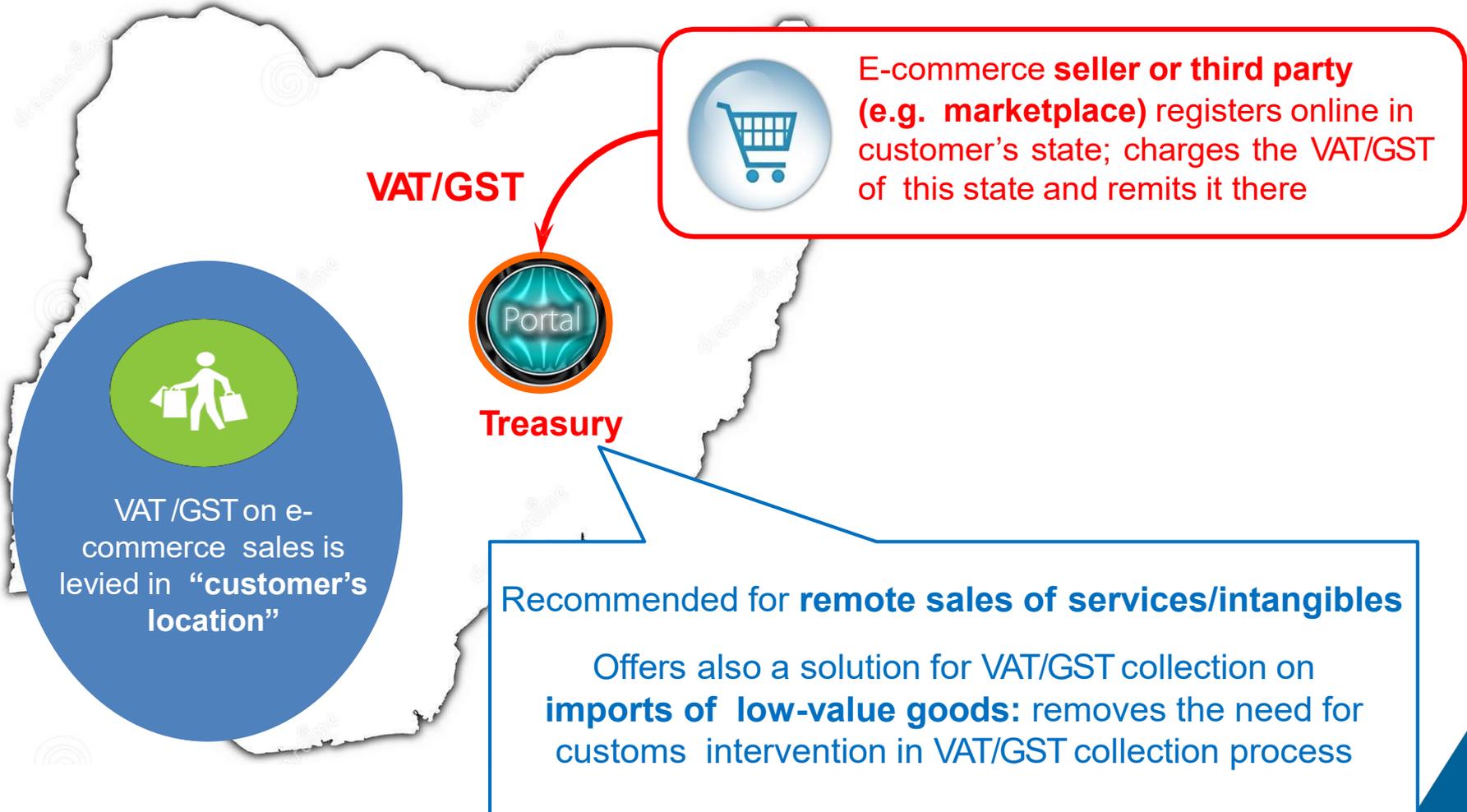
The global standard



- **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 at the 3rd meeting of the OECD Global Forum on VAT (November 2015)
- Builds on **international dialogue Soft law** – Not legally binding
- Promotes consistency – certainty with minimal compliance burden and administrative costs
- Includes also the recommended measures to address the VAT/GST challenges from the digital economy



What are the recommended solutions by the International VAT/GST Guidelines?





Implementation of measures

State of play

VAT/GST measures on B2C online services have sparked a global trend

- These measures have been adopted or are being considered **worldwide**
- **60+ jurisdictions** have implemented/consider reform to implement the recommended rules for allocating taxing rights
 - **40+ of these jurisdictions** have complemented these “place of taxation” rules with remote vendor-collection regime
- **Very positive revenue results** e.g. EUR 3 billion collected at EU level the first year of operation

VAT/GST measures for online “low value goods” – Key initiatives implemented or announced

- **Australia** (July 2018): very positive revenue results – full year revenue target met in Q1
- **European Union** (as of 2021) – estimated EUR 7 billion (new!) revenues annually
- **New Zealand** (as of October 2019)



Implementation of measures

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 makes it easier “to add countries” to compliance processes

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

But ... need to safeguard consistency

- Scope, definitions, reporting requirements and formats... the devil is in the **detail**

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



Implementation guidance Status



- Collecting VAT/GST from **non-resident sellers** (“suppliers”)
- Consideration of key policy and design **challenges**
- Possible design **options**
- Detailed guidance on the design and operation of a **simplified compliance/collection regime**
- Published in October 2017

- Tax authorities increasingly look at “**Digital platforms**” (“online marketplaces”) to assist in the collection of VAT/GST on online sales “going through” these platforms
 - Approx. 60-70% of cross border sales of goods made via platforms
 - 50 - 60% of cross-border e-commerce items are purchased via three biggest platforms
- OECD project on: “**The role of Digital Platforms in the VAT/GST collection on online sales**” to support these reforms with a view to safeguarding **efficiency and proportionality**
- **Focus on two broad categories: (1) liability** role and **(2) data sharing** and/or more comprehensive **support roles**

LOOKING FORWARD...



OECD VAT/GST work in the area of digitalisation remains a high priority

Implementation guidance

- **The role of digital platforms in VAT/GST collection**
 - Delivery at the Global Forum on VAT in Melbourne (20-22 March 2019)
 - Completion/Publication first half of 2019
- **The sharing economy – VAT/GST challenges and opportunities**
 - Focus on the VAT/GST related considerations from a VAT/GST perspective while recognizing that VAT/GST is only one policy element of many others

Administrative co-operation, incl. exchange of information, on VAT/GST

- **Need for strengthened co-operation** highlighted by most tax authorities **but use of existing instruments remains limited**

Monitoring

- Implementation of the recommended solutions, particularly in the context of **services trade** and **low-value imports**



OECD Global Forum on VAT



5th meeting of the OECD Global

Melbourne, Australia

20-22 March 2019

GLOBAL FORUM – KEY THEMES

- Digitalisation: challenges and opportunities for VAT/GST systems
- Tackling non-compliance and fraud



