VAT Digital Toolkit for Africa
Highlights and key recommendations
The importance of VAT in Africa

Value added tax (VAT)\(^1\) is a major revenue source for most jurisdictions in Africa, representing on average over one fourth of total tax revenues for jurisdictions on the continent, ahead of notably corporate income taxes and personal income taxes.\(^2\) VAT constitutes a greater proportion of total tax revenues on average in Africa than in Asia-Pacific and in OECD member countries, while it represents a similar share of total taxes in Africa as in Latin America and the Caribbean. In 2020, VAT revenues amounted to 27.8% of total tax revenues across the 31 African jurisdictions that featured in the OECD’s Revenue Statistics in Africa series in 2022 (Figure 1).

Figure 1. Tax structure in 2020 in Africa (31), Asia-Pacific, LAC and the OECD

Safeguarding these crucially important VAT revenues in economies that are being transformed by digitalisation and globalisation is a priority for many governments in Africa. Action to address the VAT challenges of digital trade is required not only to generate the revenues necessary to finance sustainable development and to strengthen domestic resource mobilisation after the COVID-19 pandemic, but also to minimise competitive distortion between foreign online sellers and local physical stores.

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1 VAT refers to any national tax that embodies the basic features of a value added tax as described in the International VAT/GST Guidelines, by whatever abbreviation it is known (e.g. GST), i.e. a broad-based tax on final consumption collected from, but in principle not borne by, businesses through a staged collection process.

Significance and growth of digital trade in Africa

Africa has experienced rapid e-commerce growth in recent years and the continent holds great potential for further strong expansion of digital trade. The number of African consumers making online purchases increased significantly between 2014 and 2018, at a higher annual average growth rate of 18% compared to the global average of 12%, and this number is expected to almost double between 2020 and 2025, to reach more than 500 million shoppers. 40% of the African population is expected to shop online by 2025 compared to just 13% in 2017 (Figure 2).

The outbreak of the COVID-19 pandemic has been an important driver for continued strong e-commerce growth in Africa. The COVID-19 pandemic has accelerated the adoption of digital technologies by individuals and businesses, leading to a significant increase in digital consumption globally. This has also been the case in Africa. COVID-19 “stay-at-home” restrictions along with an increase in mobile phone ownership and in mobile Internet access, as well as greater access to digital payment solutions for online shoppers, have all been key factors fuelling continued strong e-commerce growth on the continent. Over 70% of consumers reported an increase in their online shopping since the beginning of the COVID-19 pandemic in leading African e-commerce markets such as Nigeria, Kenya, Ghana, Egypt and Tanzania, according to recent research (Figure 3). These shifts in consumer behaviour towards online shopping are likely to stay well beyond the pandemic, as notably suggested by recent consumer surveys which report that a considerable proportion of e-commerce users (ranging from 48% to 70%) in four of the largest economies in Africa planned to reduce their purchases at physical supermarkets post-pandemic.¹

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Digital trade growth creates challenges for VAT systems

The strong growth of digital trade has created significant challenges for VAT systems globally and in Africa, in particular:

- The strong growth in online sales of services and digital products (e.g. applications and “in-app” purchases, streaming of music and on-demand television, gaming, ride-hailing, accommodation rental, etc.) especially by non-resident suppliers to private consumers. Traditional VAT rules often lack effective provisions to impose VAT on supplies that do not require the supplier to be physically present in the jurisdiction of its customers, leading to no or inappropriately low amounts of VAT being levied.

- The strong growth in the volume of imports of low-value goods from online sales, on which VAT is not collected effectively under the existing rules and procedures and which therefore often enter jurisdictions untaxed.

Where no effective VAT reform to address these challenges is implemented, continuous digital trade growth causes increasingly significant VAT revenue losses and unfair competitive pressure on domestic businesses that cannot compete against the continuously rising volumes of online sales by non-resident suppliers on which no or an inappropriately low amount of VAT is levied.

Governments worldwide have recognised that the VAT challenges created by the digitalisation of the global economy require a globally co-ordinated response. Only such a response can maximise compliance levels by non-resident online suppliers at minimal cost, support effective international co-operation in tax administration and enforcement, and minimise the risks of trade distortion.
Addressing the VAT challenges of digital trade – The OECD policy framework

In response, the OECD has delivered a comprehensive internationally agreed policy framework for addressing the VAT challenges of the digital economy, reflecting broad consensus among tax authorities worldwide. It results from an intense and inclusive policy dialogue among tax authorities from OECD member countries and non-member economies and key international and regional organisations over the course of several years. The core standards and principles that lay the foundation for this policy framework are included in the International VAT/GST Guidelines and in Addressing the Tax Challenges of the Digital Economy: Action 1 - 2015 Final Report. These standards have been complemented with detailed technical guidance on the design and implementation of mechanisms for the collection of VAT from non-resident online suppliers; on the role of online marketplaces and other digital platforms in the collection of VAT on online sales; and on the VAT treatment of the sharing and gig economy.

These OECD standards and recommendations have already been implemented in close to 90 jurisdictions worldwide, including Ghana, Kenya, Nigeria, South Africa and Uganda. An increasing number of other jurisdictions in Africa are in the process of implementing this policy framework or are actively considering doing so. Overall, very positive results have been reported in respect of VAT revenue collected, compliance levels and reduction of competitive distortions between bricks-and-mortar businesses and online merchants.

The OECD policy framework for addressing the VAT challenges of digital trade is based on four main pillars

i. Creating the legal basis for jurisdictions to assert the right to impose VAT on international digital trade. In respect of online sales of services and digital products, this is achieved by implementing the internationally agreed standard for determining the “place of taxation” by reference to the location of the customer.

ii. Ensuring the efficient collection of VAT on online sales of goods, services and digital products from non-resident suppliers through simplified VAT registration and collection mechanisms.

iii. Boosting the efficiency of VAT collection by requiring digital platform operators, which dominate global digital trade, to collect and remit the VAT on sales carried out through their platforms.

iv. Enhancing VAT compliance by non-resident online suppliers and digital platforms through effective communication and by implementing a modern risk-based compliance management and enforcement strategy, supported by robust administrative co-operation.
The VAT Digital Toolkit supports reform for the effective collection of VAT on digital trade in Africa

The **VAT Digital Toolkit for Africa** provides comprehensive and detailed guidance for the policy design, implementation and operation of a comprehensive VAT strategy targeted at digital trade in Africa. It is based on the internationally agreed OECD policy framework and draws on the expertise and best practices from jurisdictions that have already successfully implemented these standards:

- Sections 2, 3 and 4 of the Toolkit provide a detailed analysis of the various components of the recommended policy framework for the application of VAT to digital trade and practical guidance for their implementation in light of the specific challenges, opportunities and circumstances in Africa. They focus respectively on internationally traded services and digital products; on importations of low-value goods resulting from online sales; and on the sharing and gig economy.

- Section 5 of the Toolkit presents detailed guidance on the administrative and operational implementation of the recommended policy framework for the collection of VAT on international digital trade. This includes the design of a simplified compliance regime for non-resident online suppliers and digital platforms, the development of an online portal for registration and payment of the VAT by these businesses, and the integration of this simplified compliance regime into a tax authority’s existing administrative and IT framework.

- Section 6 of the Toolkit advises policymakers and administrators on the implementation of an effective communication strategy and of robust compliance risk management strategies. Such strategies aim to ensure compliance by non-resident online suppliers and digital platforms with their obligations under the recommended policy framework for the application of VAT to digital trade.

Sections 2, 3 and 4 of the Toolkit present detailed recommendations for the design of an effective VAT policy framework directed at all types of digital trade

The core recommendations of the policy framework for the application of VAT to digital trade presented in Sections 2, 3 and 4 of the Toolkit include the following in particular:

- Create the legal basis for asserting the right to levy VAT on services and intangibles that non-resident businesses provide to customers in a jurisdiction’s territory, by implementing a rule for determining the place of taxation of such supplies by reference to the customer’s location. This approach allows a jurisdiction to impose VAT on these supplies, including sales of digital services and digital products, irrespective of whether or not the supplier is located in that jurisdiction.

- Define the customer’s location by reference to that customer’s “usual residence” for supplies made to private consumers (business-to-consumer or B2C supplies) and by reference to the customer’s “place of permanent business presence or establishment” where the customer is a business (business-to-business or B2B supplies).

- Identify clear criteria and indicia for determining and evidencing a customer’s location by reference to data that are normally available to online suppliers in the normal course of their business (including bank card or other payment data, billing address, and IP address).

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5 Effective laws for determining place of taxation based on customer location necessitate that a jurisdiction already has clear definitions in its VAT legislation for concepts such as “services”, “intangibles” and “goods”. Such effective laws also presume a jurisdiction’s VAT rules are clear about who is a “taxable person” and what constitutes a “taxable supply”. All of these definitions and rules should be consistent with determining place of taxation based on customer location.
• Impose VAT collection obligations on non-resident suppliers making supplies remotely to private consumers in a jurisdiction’s territory (“vendor collection regime”).

• Consider extending the application of the vendor collection regime to supplies made by non-resident suppliers to all customers, businesses (B2B) as well as private consumers (B2C), where a jurisdiction does not, or is unable to, permit the use of distinct collection mechanisms for B2B and B2C supplies.

• Implement a requirement for digital platform operators to collect and remit the VAT on the respective online sales made through their platforms by non-resident suppliers (“full VAT liability regime”; Figure 4). This can be complemented with reporting requirements, including requirements addressed to sharing and gig economy activities, thus notably creating considerable opportunities for greater visibility of informal economy activity.

• Realise high levels of compliance by implementing a simplified VAT registration and collection regime for non-resident suppliers and digital platforms to fulfil their VAT-collection obligations, supported by online processes and limiting obligations to what is strictly necessary for the effective collection of the VAT.

**Figure 4. Basic operation of the full VAT liability regime for digital platforms**

1. Sale
2. Supply for VAT collection purposes
3. Normal input VAT deduction allowed
4. Purchase price (inclusive of tax)
5. Assess/collection and remit VAT

Note: The sequence of numbers assigned in the diagram is for identification only. It is not intended to indicate the timing of a specific step in chronological order.


• Extend the vendor collection regime with full VAT liability for digital platforms, to online supplies of low-value imported goods, by imposing an obligation upon non-resident suppliers and digital platforms to collect the VAT on these supplies at the point of sale and to remit this VAT to the tax authority in the jurisdiction of importation (Figure 5). Provide access for these non-resident suppliers and digital platforms to the simplified registration and collection regime to facilitate compliance. This allows jurisdictions to ensure that these goods can no longer be imported and/or sold free of VAT by non-resident suppliers (e.g. due to a VAT low-value consignment relief), while significantly enhancing the efficiency of VAT collection. This enhancement of efficiency arises from relieving customs authorities of the burden of collecting VAT at the border and considerably reducing opportunities for fraud from undervaluation of goods at importation.

• Strive for international consistency in designing and administering the measures to impose and collect VAT on online sales by non-resident suppliers as outlined above. Greater consistency will facilitate and hence optimise compliance for foreign businesses and digital platforms with multi-jurisdictional obligations, thus ultimately safeguarding and enhancing revenues for governments.
Section 5 of the Toolkit presents detailed guidance for the administrative and operational implementation of the recommended VAT policy framework directed at digital trade.

These core recommendations include the following in particular:

- Sequence the implementation of VAT reforms directed at digital trade, focusing first on the collection of VAT on services and digital products from non-resident online suppliers and digital platforms and subsequently extending these obligations to the collection of VAT on low-value imported goods. Reform for the collection of VAT on imports of goods from online sales is more complex, particularly due to the connection with customs processes.

- Adopt a project-based approach for the development of the operational and IT infrastructure that is necessary to support the implementation of the reform, with an appropriate governance structure to ensure effective project management and project delivery. Section 5 of the Toolkit includes a detailed roadmap for project organisation and implementation (see Figure 6).

- Implement a simplified VAT registration and collection regime for non-resident online suppliers and digital platforms that limits obligations to what is strictly necessary for the effective collection of the VAT. Core design features of such a regime include:
  - An online portal through which non-resident suppliers and digital platforms carry out their key VAT compliance obligations, particularly registration, return filing and payment of the VAT due. Section 5 provides detailed technical guidance on the design and operation of the key components of such an online portal and on its integration into a tax authority’s existing infrastructure.
  - Limiting focus to the collection of the VAT only, without making input VAT recovery available to non-resident suppliers and digital platforms under this regime (i.e. “pay-only” regime).
Where a simplified VAT registration and collection regime is implemented to cover both B2B and B2C supplies, VAT-registered domestic business customers should have a right to deduct the input VAT paid to non-resident suppliers according to normal rules to safeguard neutrality. The implementation of an appropriate risk management strategy for the associated VAT revenue risks will be required, notably to address the risk of revenue losses from business customers claiming deduction of VAT paid to non-resident suppliers that these suppliers fail to remit to the tax administration.

The use of electronic payment methods as a means to facilitate the payment process without requiring a domestic bank account.

The possible simplification or elimination of invoicing requirements for supplies to private consumers under a simplified VAT compliance regime where this is compatible with the jurisdiction’s legal framework, as these private consumers will normally have no right to input VAT deduction.

The possible application of a revenue-based registration threshold for non-resident suppliers and digital platforms, where this is compatible with the jurisdiction’s VAT regime.

The availability of the option for non-resident suppliers and digital platforms to appoint a third-party service provider (e.g. “fiscal representative” or “tax agent”) to act on their behalf in carrying out certain procedures, such as submitting returns. It is not recommended, however, to require the appointment of a local fiscal representative under a simplified compliance regime.

Ensure the efficient interaction between the VAT vendor collection regime for low-value imported goods and customs processes. This interaction includes measures for the efficient exchange of data and for ascertaining the VAT-settlement status of low-value imported goods at the time of importation, so as to minimise risks of double taxation and unintended non-taxation and to facilitate customs processes at the border. Early involvement of customs authorities in the design and implementation of such a regime is of particular importance, as well as timely consultation with key stakeholders such as e-commerce marketplaces and transport intermediaries (including postal operators and express carriers).

Consult throughout the reform process with the business community, including with the non-resident suppliers and digital platforms that are likely to be within the scope of the reform, with international and regional organisations, and with jurisdictions that already have experience in the implementation of the recommended policy framework for the application of VAT to digital trade.

Provide appropriate lead-time to tax authorities and non-resident businesses to prepare for the entry into force of the reform. A lead-time of 6 to 12 months between the adoption of the reform and its entry into force is considered appropriate for VAT reform directed at online sales of services and digital products. A lead-time of 12 to 18 months is generally considered appropriate for VAT reform targeted at low-value imported goods. Close alignment with the OECD’s recommended framework can considerably shorten these lead-times, as this allows online businesses and tax authorities to leverage solutions and technology that have already been implemented in jurisdictions that have adopted a similar approach. Figure 6 provides an indicative project implementation timeline.
Section 6 of the Toolkit presents strategies to enhance compliance by non-resident suppliers and digital platforms, and to strengthen tax authorities’ enforcement capacity

These recommendations include the following in particular:

- Implement a well-designed, simple and easy-to-use registration and compliance regime for non-resident suppliers and digital platforms, based on internationally agreed principles as discussed in the previous sections of the Toolkit.

- Apply an effective and proactive multi-channel communication strategy targeted at the non-resident suppliers and digital platforms that are likely to be affected by the VAT reform targeted at digital trade, to ensure early awareness of their obligations under the new regime.

- Provide clear guidance on the scope of the VAT regime for non-resident suppliers and digital platforms, including on: the types of services and digital products and/or low-value imported goods in scope; the treatment of B2B and B2C supplies and on the determination of the customer’s status where this is relevant for the operation of the regime; indicia and criteria for determining and evidencing the customer’s location; and applicable VAT rate(s) and exemptions.

- Further maximise compliance levels by providing clear instructions to non-resident suppliers and digital platforms on all aspects of the operation of the simplified compliance regime, in English and/or in the language(s) of the jurisdiction’s main trading partners, such as French or Portuguese, in addition to the jurisdiction’s local language(s). Online trade is dominated by a relatively limited number of large online vendors and digital platforms that have been found to be generally compliant with obligations under VAT regimes for non-resident suppliers and digital platforms based on OECD guidance. Close alignment with OECD guidance facilitates compliance for online vendors and e-commerce marketplaces that typically face obligations in multiple jurisdictions, and thus maximises compliance levels and VAT revenues.

- Develop effective strategies to manage compliance risks by non-resident suppliers and digital platforms. Section 6 of the Toolkit gives detailed guidance on the different components of such strategies, including the identification, assessment and prioritisation of risks, the development of targeted treatment strategies, and how such strategies can be optimised through adjustment to the different stages of implementation of the regime (preparation, implementation and maturity phase).

- Make extensive use of third-party data to support a risk-based compliance management strategy, including for identifying the taxpayer population in scope of the regime for non-resident suppliers and digital platforms, for detecting non-registration and for monitoring overall compliance. This third-party information can include: data from banks and financial intermediaries; from stakeholders in the goods trade (including postal operators and express carriers); from commercial data providers; from “web harvesting” and “web data extraction”; and from tax authorities in other jurisdictions through exchange of information.

- Enhance tax authorities’ enforcement capacity in respect of VAT compliance by non-resident suppliers and digital platforms by making effective use of the available opportunities for international administrative co-operation. In particular, the Multilateral Convention on Mutual Administrative Assistance in Tax Matters is the most comprehensive multilateral instrument available for all forms of administrative co-operation between jurisdictions in the assessment and collection of taxes, including VAT. Such co-operation can encompass the exchange of information, including automatic information exchanges, and assistance in the recovery of foreign tax claims.
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**Figure 6. Indicative project implementation timeline**

- **Government**
  - Policy and law
    - Government announcement
    - Consultation

- **System design**
  - Scoping and planning
  - System design and integration
  - Review/finalize specifications
  - System testing
  - System: registration ready
  - Simplified registration commences
  - System: report and pay ready
  - Simplified report and pay commences

- **Tax administration**
  - Communication strategy
    - Identify suppliers and platforms in scope
    - Consultation:
      - Direct contact with key suppliers/platforms
      - Mail-out: Phase 1 "Aware"
      - Dedicated webpage
      - Dedicated e-mail address
  - Review/finalize specifications
  - System testing
  - System: registration ready
  - Simplified registration commences
  - System: report and pay ready
  - Simplified report and pay commences

- **Compliance and enforcement**
  - Identify third-party data sources and undertake initial modelling
  - Refine modelling from third-party data sources and consultation
  - Commence monitoring of VAT registrations

- **Non-resident businesses**
  - Client readiness and compliance
    - Early awareness of the announced VAT reform
    - Client awareness mail, contact and consultation
    - Design and implement systems and accounting changes
    - Register
    - Register
    - Commence charging VAT on supplies in scope of the new rules
    - Report and remit VAT

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