VAT Digital Toolkit for Africa

AFRICAN TAX ADMINISTRATION FORUM
FORUM SUR L'ADMINISTRATION FISCALE AFRICAINE

OECD
BETTER POLICIES FOR BETTER LIVES

WORLD BANK GROUP

VAT Digital Toolkit for Africa

Please cite this publication as:

OECD/WBG/ATAF (2023), *VAT Digital Toolkit for Africa*, OECD, Paris, https://www.oecd.org/tax/consumption/vat-digital-toolkit-for-africa.htm

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Foreword

This VAT Digital Toolkit for Africa provides detailed guidance to assist African tax authorities in the design and implementation of robust policies for the application of Value Added Taxes (VAT) to digital trade. This Toolkit covers the core components of a comprehensive VAT strategy directed at the main types of digital trade and e-commerce, particularly online sales of services, intangibles, and goods to private consumers by foreign businesses and digital platforms that often have no physical presence in their consumers' respective jurisdictions. It provides policy advice to support tax authorities' decision-making as well as detailed practical guidance and manuals for the legislative design, the administrative implementation, and the enforcement of VAT digital policies in light of jurisdictions' specific needs and circumstances.

This Toolkit builds on the internationally agreed standards and guidance delivered by the Organisation for Economic Co-operation and Development (OECD), resulting from intense inclusive global policy dialogue with OECD member countries and non-member economies worldwide, and with international organisations and other relevant stakeholders, including the global business community and academia. It incorporates the experience and best practices from tax authorities in jurisdictions that have already successfully implemented these standards. This Toolkit was developed through an inclusive and collaborative process with the active involvement of African tax authorities and regional organisations, to ensure that it takes due account of the specific circumstances, needs and capacities of tax authorities in Africa and to ensure that the identified solutions are properly tailored and capable of being implemented.

The development of this VAT Digital Toolkit for Africa was led by the OECD in close partnership with the World Bank Group (WBG) and the African Tax Administration Forum (ATAF). This co-operation is part of a comprehensive strategic partnership between the OECD and WBG in the area of VAT, which also includes the development of VAT Digital Toolkits for Latin America and the Caribbean and for Asia-Pacific. The OECD and WBG have a long history of working together in delivering capacity building programmes in the area of taxation and decided to expand this partnership to VAT design and administration, in particular to assist developing economies in addressing the VAT challenges of the digital economy. The partnership with ATAF has been crucial in ensuring the active involvement of tax administrations in Africa in the development of this work and in ensuring that proper account is taken of the specific needs and circumstances of jurisdictions on the continent.

The purpose of this Toolkit is to provide practical guidance for addressing the VAT challenges of digital trade that can be implemented efficiently and effectively at national level by tax authorities within Africa. It is not prescriptive, but rather provides advice and guidance on the possible approaches, based on the internationally agreed standards and best practices. The Toolkit will be updated as appropriate to reflect the continuously changing digital trade landscape and the evolution of available VAT policy and administration tools and strategies. The opinions expressed and arguments employed in this Toolkit do not necessarily reflect the official views of the OECD, WBG, ATAF and their respective membership. This Toolkit utilises the denominations for jurisdictions and economies as used by the OECD. These denominations do not necessarily reflect the official views of the WBG and the ATAF, or of the Project Partners' membership.

This Toolkit is aimed at assisting tax authorities and at supporting capacity building on VAT design and administration, supplementing other initiatives in this field. It is not an end in itself. The OECD, WBG, and ATAF secretariats are available to complement the guidance presented in this Toolkit with tailored technical assistance to interested jurisdictions.

Acknowledgements

The development of this VAT Digital Toolkit for Africa was led by the Organisation for Economic Co-operation and Development (OECD) Centre for Tax Policy and Administration, in close strategic partnership with the World Bank Group (WBG). This close co-operation is part of a comprehensive partnership between the OECD and WBG in the area of VAT, which also includes the delivery of VAT Digital Toolkits for Latin America and the Caribbean and for Asia-Pacific. The WBG's significant contributions to this work include in particular the recruitment of subject-matter experts to provide high-quality expertise across the core aspects of these Toolkits as well as sharing its unique expertise from its long-term experience in delivering capacity-building programmes in the area of taxation. The African Tax Administration Forum (ATAF) has contributed considerably as a key regional partner in the development of this VAT Digital Toolkit for Africa, in particular in ensuring the active involvement of tax authorities in Africa and in ensuring that proper account is taken of the specific regional needs and circumstances.

The staff from these partner organisations with responsibility for producing the publication were: Hanif Alam, Eduardo Jiménez and Hanna Lee of the OECD Centre for Tax Policy and Administration, under the supervision of the Director, Grace Perez-Navarro, the Deputy Directors, David Bradbury and Achim Pross, the Head of the Tax Policy and Tax Statistics Division (Acting), Kurt Van Dender, and the Head of the Consumption Taxes Unit, Piet Battiau; Daniel Álvarez Estrada, Sr. Public Sector Specialist of the Fiscal Policy and Sustainable Growth Unit of the WBG; as well as Emeka Nwankwo, Manager of the Domestic Taxes Unit of ATAF and Mary Baine, Deputy Executive Secretary of ATAF.

The development of this Toolkit would not have been possible without the invaluable contributions of Professor Michael Walpole of the UNSW Business School, John Mpoha and the team at the Centre for Studies in African Taxation (CSAT)/IBFD, and Fabiola Annacondia of IBFD.

The OECD and its partners would also like to thank colleagues across many tax administrations throughout Africa for their contributions in providing constructive review and technical inputs throughout the development process for this Toolkit. In particular, we are grateful to the following members of the ATAF VAT Technical Committee (VTC): Steve Kyande (formerly of the Kenya Revenue Authority and previous Chair of the ATAF VTC), Itumeleng Kgosietsile (Botswana Unified Revenue Services and current Chair of the ATAF VTC), Raja Boodoo (Mauritius Revenue Authority), Valentine Inamahoro (Office Burundais des Recettes), Bentry Khonje (Malawi Revenue Authority), Rani Miller (South African Revenue Service), Thokozani Mthombeni (South African Revenue Service), Nathan Nathey (Ghana Revenue Authority), George Obell (Kenya Revenue Authority), Mathew Osanekwu (Federal Inland Revenue Service of Nigeria), Duane Shipp (South African Revenue Service) and Stephanus Van Zyl (University of Pretoria).

The OECD and its partners finally wish to pay tribute to the significant contributions by the experts that were previously involved in the development of the VAT Digital Toolkit for Latin America and the Caribbean and the Toolkit for Asia-Pacific, Marcos Álvarez and José Borja of the Spanish Tax Agency (AEAT), Gary Artuso and Ian Ayrton of the Australian Taxation Office (ATO), Arthur Kerrigan (independent consultant), Shanae Sherriff of the New Zealand Inland Revenue Department (NZ IRD) and Professor Walter Hellerstein.

The authors would like to thank Carrie Tyler, Karena Garnier, Hazel Healy and Natalie Lagorce in the Communications team of the OECD Centre for Tax Policy and Administration for their support in the editorial, production, and dissemination process for the publication and *Big Blue* for designing the cover and associated brochure.

The WBG's contribution to this work was funded through the Global Tax Program (GTP), which provides an umbrella framework for tax support on strengthening tax institutions, mobilising revenues and designing tax systems that engender sustainable, inclusive and equitable growth. The GTP Program is generously supported by the Governments of Australia, Denmark, France, Japan, Luxembourg, the Netherlands, Norway, Switzerland, and the United Kingdom. The WBG would also like to thank Chiara Bronchi, Practice Manager, Fiscal Policy and Sustainable Growth Unit for her support, and Chadi Bou Habib, Lead Economist for his comments.

The OECD and its partners wish to extend their gratitude to the CTPA's Global Relations and Development Division, in particular the Global Relations Programme, for its efforts in promoting this project. They would like to particularly thank the donors from Ireland, Japan, Luxembourg, the Netherlands, Norway, Spain, Sweden, Switzerland and the United Kingdom for the financial support for this project.

ATAF would like to thank the Deutsche Gesellschaft für Internationale Zusammenarbeit's (GIZ) *Good Financial Governance in Africa* programme for its support for extensive consultation exercises with African tax administrations; in particular, the following individuals: Maurice Ocheng, Aleksandar Dragojlovic, Tatu Ilunga and Nirasha Dhuloo. ATAF also recognises the contributions of the Strategic Partnerships and International Cooperation (SPIC) division and Corporate Services division of ATAF in efforts to deliver this project.

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Abbreviations and acronyms

AI	Artificial intelligence
AfCFTA	African Continental Free Trade Area
AMATM	African Agreement on Mutual Assistance in Tax Matters
API	Application programming interface
ATAF	African Tax Administration Forum
AU	African Union
BASIC	Behaviours, Analysis, Strategies, Interventions and Change
B2B	Business-to-business
B2C	Business-to-consumer
BEPS	Base erosion and profit shifting
BIAC	Business and Industry Advisory Committee to the OECD
	N.B. BIAC renamed itself as "Business at OECD" and the Toolkit will primarily use the organisation's current name except where quoting or citing historical material.
C2C	Consumer-to-consumer
CFA	The OECD's Committee on Fiscal Affairs
CIAT	Inter-American Center of Tax Administrations
CoE	Council of Europe
COTS	Commercial off-the-shelf
EAC	East African Community
EAD	Electronic advance data [Many jurisdictions and transporter businesses utilise EAD in customs reporting processes]
EOI	Exchange of information
ERP	Enterprise resource planning
GST	Goods and Services Tax
HTML	Hypertext Markup Language
HTTP	Hypertext Transfer Protocol
ICC	International Chamber of Commerce
ICT	Information and communications technology
	N.B. The Toolkit will use this term interchangeably with "IT" (Information Technology) for short
IMF	International Monetary Fund
IOSS	EU Import One-Stop-Shop

IP	Internet Protocol, e.g. an IP address for a computer or mobile device
ISO	International Organization for Standardization
ITMATT	Item-level attributes [in the context of data exchange about consignments under EAD systems]
LAC	Latin America and the Caribbean
MAAC	Multilateral Convention on Mutual Administrative Assistance in Tax Matters
MAP	Multilateral agreement procedure
MLE	Multiple location entity
N.D. or **n.d.**	Not dated. The Toolkit will primarily use this abbreviation when citing a publication, which has no identifiable date of publication.
NORAD	Norwegian Agency for Development Co-operation
OECD	Organisation for Economic Co-operation and Development
OSS	Open-source software
PE	Permanent establishment
PSP	Payment service provider
QR code	Quick response code
RKC	Revised Kyoto Convention
SIM	Subscriber identity module
SLE	Single location entity
SMEs	Small- and medium-sized enterprises
SSL/TLS	Secure sockets layer/Transport layer security
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TAG	Technical Advisory Group (specifically the TAG to the OECD CFA's WP9)
TIEA	Tax Information Exchange Agreements
UNCTAD	United Nations Conference on Trade and Development
UPU	Universal Postal Union
URL	Uniform Resource Locator
VAT	Value Added Tax
VIES	VAT Information Exchange System
VOEC	VAT on E-Commerce – Norwegian simplified registration and collection regime
WBG	The World Bank Group
WCO	World Customs Organization
WP9	OECD CFA's Working Party No. 9 on Consumption Taxes
WTO	World Trade Organization
XML	Extensible Markup Language

Currencies

Abbreviations for the currencies used in this Toolkit are based on the international standard for currency codes ISO 4217:2015 issued by the International Organization for Standardization.

The exchange rates used to convert national currencies into US Dollars (USD) in this publication are average market rates for 2022 taken from the OECD monetary and financial statistics (https://data.oecd.org/conversion/exchange-rates.htm). Algerian Dinar (DZD), Australian Dollar (AUD), Kenyan Shilling (KES), Moroccan Dirham (MAD), Mauritian Rupee (MUR), Seychelles Rupee (SCR) and Thai Baht (THB) have been converted using the average market rate for 2022, taken from the IMF's Macroeconomic & Financial Data (https://data.imf.org), while 2020 data (latest available) have been used for Nigerian Naira (NGN).

OECD Publications

The Toolkit will use short-form names for the main OECD publications that provide standards and guidance for the collection of VAT on international trade. This is primarily to aid brevity of expression when referring to these publications throughout the text. Therefore, reference to:

- "**BEPS Action 1 Report**" means OECD/G20 Base Erosion and Profit Shifting Project: *Addressing the Tax Challenges of the Digital Economy, Action 1 - 2015 Final Report* (OECD, 2015[1]).
- "**The Guidelines**" means the OECD's *International VAT/GST Guidelines* (OECD, 2017[2]).
- "**The Collection Mechanisms Report**" means the report on *Mechanisms for the Effective Collection of VAT/GST Where the Supplier Is Not Located in the Jurisdiction of Taxation* (OECD, 2017[3]).
- "**BEPS Interim Report**" means OECD/G20 Base Erosion and Profit Shifting Project: *Tax Challenges Arising from Digitalisation – Interim Report 2018* (OECD, 2018[4]).
- "**The Platforms Report**" means the report on *The Role of Digital Platforms in the Collection of VAT/GST on Online Sales* (OECD, 2019[5]).
- "**The Sharing and Gig Economy Report**" means the report on *The Impact of the Growth of the Sharing and Gig Economy on VAT/GST Policy and Administration* (OECD, 2021[6]).

Executive Summary

Value added tax (VAT) is a major revenue source for most jurisdictions in Africa, representing on average over one quarter of total tax revenues for jurisdictions on the continent, ahead of notably corporate income taxes and personal income taxes. In 2020, VAT revenues as a share of total tax revenues in different African jurisdictions ranged within the continent-wide average of 27.8% from 10.1% to 45.5%.

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.

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 online shoppers. 40% of the African population is expected to shop online by 2025 compared to just 13% in 2017.

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 use of 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. 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.

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.) particularly 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.

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 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 stores 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.

This Toolkit 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.

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

- Create the legal basis for asserting the right to levy VAT on services and digital products 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).
- 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"). 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.

- 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. 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 by 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 non-resident businesses and digital platforms with multi-jurisdictional obligations, thus ultimately safeguarding and enhancing revenues for governments.

Section 5 of this Toolkit presents detailed guidance for the administrative and operational implementation of the recommended VAT policy framework directed at digital trade. The 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 includes a detailed roadmap for project organisation and implementation.
- 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 its integration into a tax authority’s existing infrastructure.
    - Limiting focus on 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 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.

Section 6 of this Toolkit presents strategies to enhance compliance by non-resident suppliers and digital platforms, and to strengthen tax authorities' enforcement capacity. The 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; on 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; on indicia and criteria for determining and evidencing the customer's location; and on 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 they 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.

1 Collection of VAT on international digital trade – Challenges, OECD guidance, and the Toolkit to assist reform

Section 1 of the VAT Digital Toolkit for Africa highlights the challenges created by the digital economy for the imposition and collection of VAT on international trade in services and intangibles and in low-value goods. It summarises the OECD's existing guidance addressed to these questions and demonstrates how the Toolkit can assist reform.

1.1. Introduction

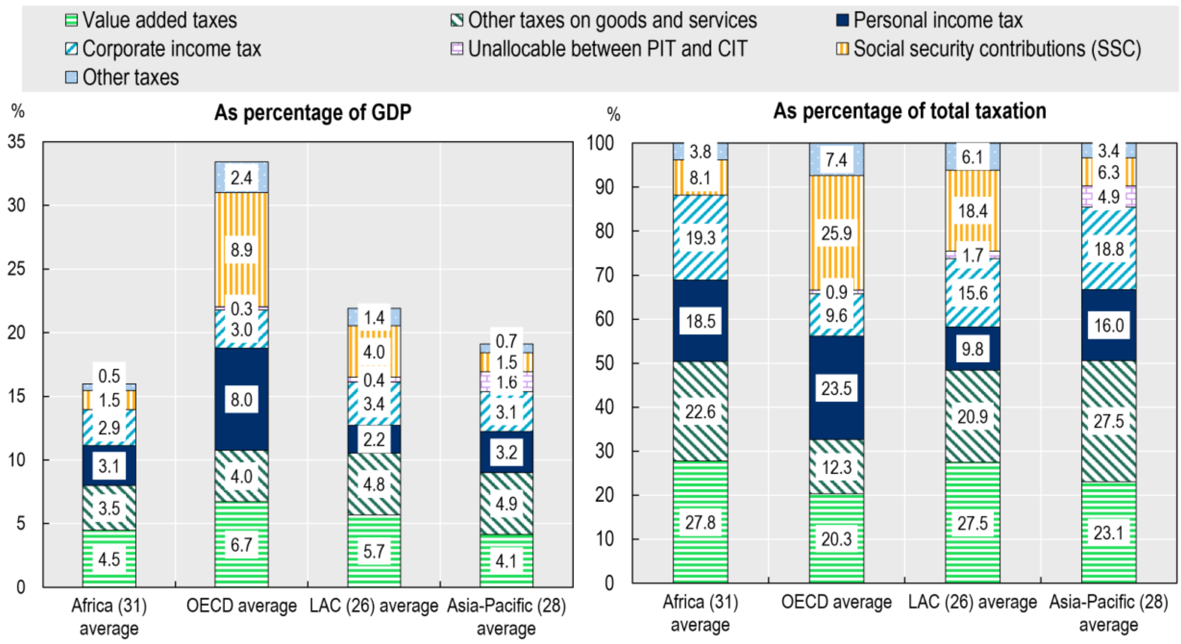
Value added taxes (VAT)[1] are a major revenue source for most jurisdictions in Africa, representing 27.8% of total tax revenues on average, ahead of notably corporate income taxes and personal income taxes. Figure 1.1 provides an illustration of tax structures in Africa in comparison to other regions and multilateral groupings worldwide, showing that VAT constitutes a greater proportion of total tax revenues on average in Africa than in Asia-Pacific, Latin America and the Caribbean, and OECD member countries. In 2020, VAT revenues as a share of total tax revenues in different African jurisdictions ranged within the continent-wide average of 27.8% from 10.1% to 45.5% (see Figure 1.2 that provides specific data for a number of individual jurisdictions).

Safeguarding these crucially important VAT revenues in an economy that is being transformed by digitalisation and globalisation is a priority for many governments in Africa. Simultaneously, governments strive to minimise risks of competitive distortion between online sellers and local physical stores. To achieve these goals in the most efficient and effective way, this Toolkit provides comprehensive and detailed guidance for the policy design, implementation, operation and enforcement of a comprehensive VAT strategy targeted at digital trade in Africa.

Section 1 of this Toolkit first discusses the growth of digital trade globally and in Africa, thus evidencing the increasing importance for jurisdictions to adapt their VAT systems in light of this phenomenon. It then elaborates on the specific VAT challenges connected to global digital trade and presents the internationally agreed OECD guidance developed in response to these challenges. This guidance reflects broad consensus on effective and efficient solutions among tax authorities worldwide and serves as a basis for the recommended policy framework presented in this Toolkit, the main elements of which are also outlined in this Section. Finally, Section 1 provides an overview of the scope, structure and content of the Toolkit and illustrates how it can assist reform.

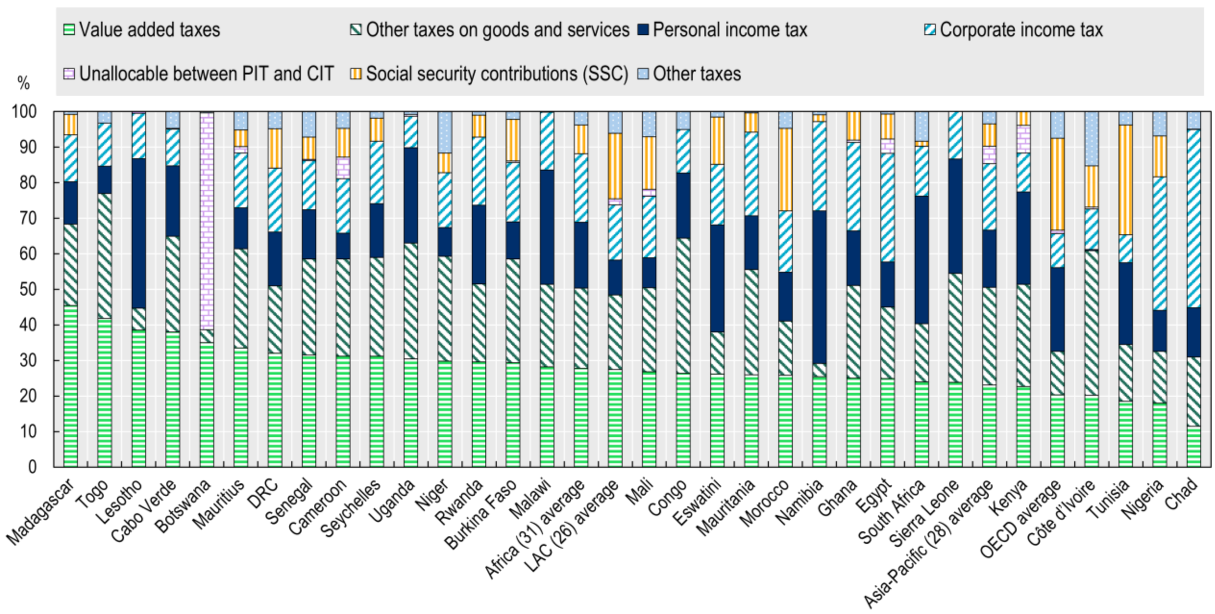
[1] VAT in this Toolkit refers to any national tax that embodies the basic features of a value added tax as described in Chapter 1 of the *International VAT/GST Guidelines*, by whatever abbreviation it is known (e.g. GST), i.e. a broad-based tax on final consumption collected from, but in principle not borne by, businesses through a staged collection process, whatever method is used for determining the tax liability (e.g. invoice-credit method or subtraction method).

Figure 1.1. Tax structure in 2020 in Africa (31), Asia-Pacific, LAC and the OECD



Note: The Africa (31) average, the averages for Asia-Pacific (28 economies), LAC (26 countries) and the OECD (38 countries) are unweighted. The Africa (31) average should be interpreted with caution as data for social security contributions are not available or are partial in a few countries. The data for the OECD are for 2019.
Africa (31) in the context of this graph refers to Botswana, Burkina Faso, Cabo Verde, Cameroon, Chad, the Republic of the Congo, the Democratic Republic of the Congo, Côte d'Ivoire, Equatorial Guinea, Egypt, Kingdom of Eswatini (formerly Swaziland), Ghana, Kenya, Lesotho, Madagascar, Malawi, Mali, Mauritania, Mauritius, Morocco, Namibia, Niger, Nigeria, Rwanda, Senegal, the Seychelles, Sierra Leone, South Africa, Togo, Tunisia and Uganda.
Asia-Pacific (28) in the context of this graph refers to Australia, Bangladesh, Bhutan, Cambodia, People's Republic of China, the Cook Islands, Fiji, Indonesia, Japan, Kazakhstan, Kyrgyzstan, the Republic of Korea, Lao People's Democratic Republic, Malaysia, the Maldives, Mongolia, Nauru, New Zealand, Pakistan, Papua New Guinea, the Philippines, Samoa, Singapore, the Solomon Islands, Thailand, Tokelau, Vanuatu and Viet Nam.
LAC in the context of this graph refers to Antigua and Barbuda, Argentina, the Bahamas, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, the Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Saint Lucia, Trinidad and Tobago and Uruguay.
Source: OECD/ATAF/AUC (2022), *Revenue statistics in Africa 2022* (OECD/ATAF/AUC, 2022[7]).

Figure 1.2. Tax structures in African jurisdictions in 2020 (as a percentage of total taxation)



Note: Figures include sub-national government tax revenues for Eswatini, Mauritania, Mauritius, Morocco, Nigeria (state revenues only) and South Africa for 2020. The Africa (31) average, the averages for Asia-Pacific (28 economies), LAC (26 countries) and the OECD (38 countries) are unweighted. The Africa (31) average should be interpreted with caution as data for social security contributions are not available or are partial in a few countries.
Botswana: The breakdown of revenue from income tax by personal income tax and corporate income tax is not available.
OECD average: The data are for 2019.
Source: OECD/ATAF/AUC (2022), *Revenue statistics in Africa 2022* (OECD/ATAF/AUC, 2022[7]).

1.2. Growth in digital trade and its drivers

Digitalisation has changed, and continues to change, the commercial dynamics of international trade. Spurred by continuous technological innovation, international digital trade has grown rapidly in recent years and growth is expected at an even greater pace as COVID-19 has further accelerated digital acceptance in societies worldwide. Many African societies are at the forefront of this shift online.

The continuous and rapid growth in international digital trade increasingly puts pressure on VAT systems to adjust to this new environment. It presents challenges for VAT policy and administration but also opportunities for enhanced revenue mobilisation. This subsection provides a high-level overview of the growth and different dynamics of international digital trade with a particular focus on Africa, with e-commerce rapidly expanding across the continent and with significant room for further strong growth in the next decade and beyond.

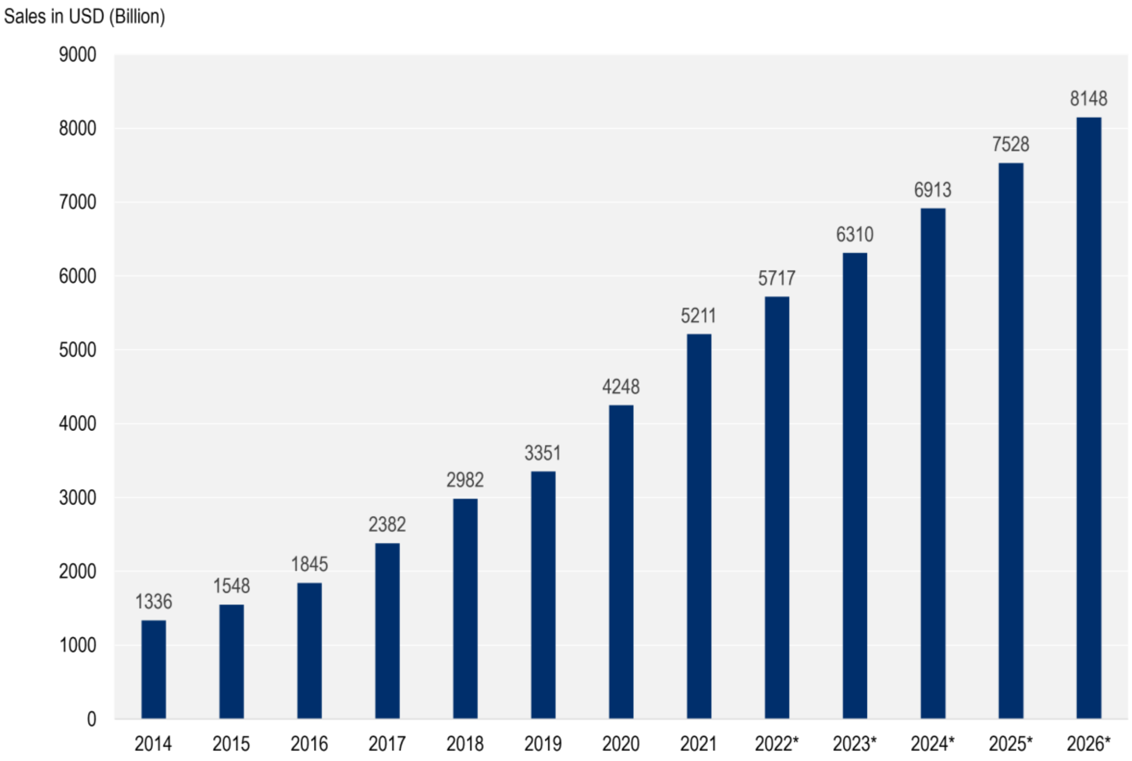
For the purposes of this subsection, the term “digital trade” is used to encompass a broad range of digitally enabled supplies of services, intangibles and physical goods that can be either digitally or physically delivered, involving both private individuals and businesses.

1.2.1. The economic geography of digital trade growth, worldwide and in Africa

1.2.1.1. Ever-growing importance of digital trade at global level

Digital trade includes a wide range of activities, products and services. It is therefore difficult to delineate its scope to measure its exact size. Despite inherent limitations and challenges, the available data from public as well as private sector sources provide useful estimates showing the growing importance of digital trade. Research suggests that the value of global business-to-consumer (B2C) e-commerce sales increased nearly four-fold between 2014 and 2021, with a more than six-fold increase expected by 2026 compared to 2014 (see Figure 1.3).[2] Similarly, the e-commerce share of total global retail sales has been increasing steadily and is reported to have accounted for 18.8% of total sales in 2021 compared to 7% only six years earlier (see Figure 1.4). Africa has experienced this burgeoning growth in digital trade along with the rest of the world.

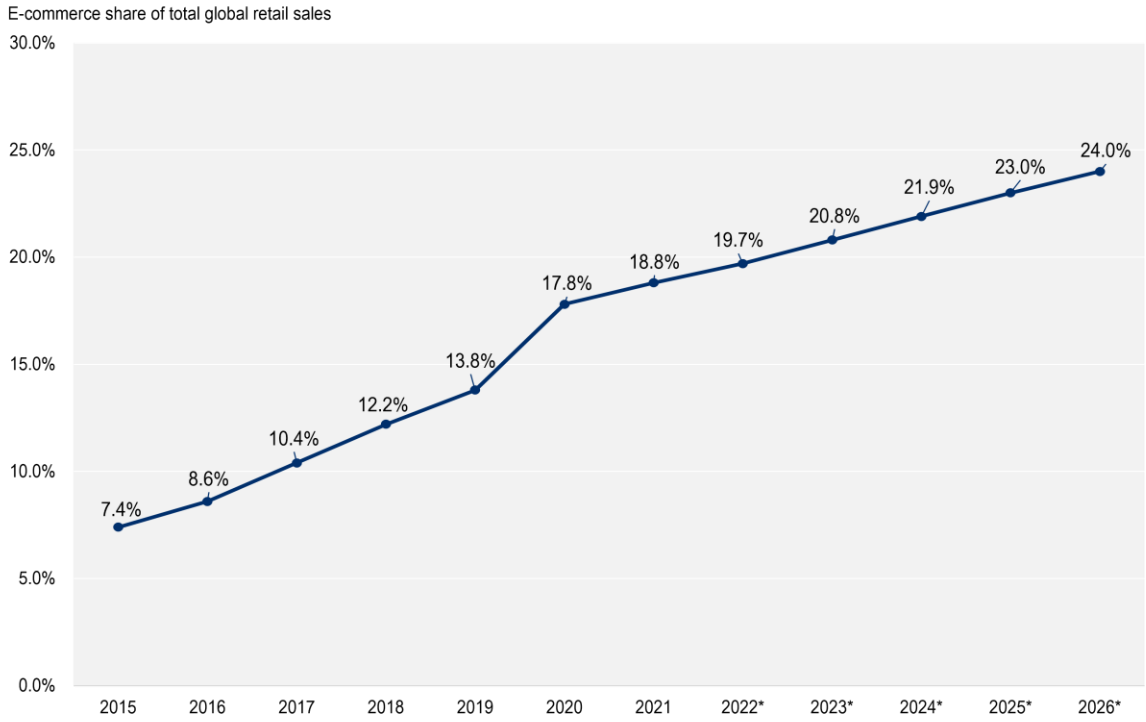
Figure 1.3. Growth of global B2C e-commerce sales (2014-2026)



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)* (Statista, 2022[8]).

[2] Please note that estimates on the size of e-commerce sales may differ depending on the methodology, data and scope used by different studies.

Figure 1.4. E-commerce share of total global retail sales (2015-2026)



Note: *forecast.
Source: Statista (2022), *E-commerce as percentage of total retail sales worldwide from 2015 to 2021, with forecasts from 2022 to 2026* (Statista, 2022[9]).

On a broader scale that also includes business-to-business (B2B) sales, global e-commerce sales have recently been estimated at USD 26.7 trillion in 2019, up 4% from 2018 and equivalent to 30% of that year's global domestic product (GDP) (UNCTAD, 2021[10]). The value of global B2B e-commerce in 2019 has been estimated at USD 21.8 trillion for 2019, representing 82% of all e-commerce, while B2C e-commerce sales were estimated at USD 4.9 trillion, representing approximately one-fifth of all e-commerce, up 11% compared to 2018 (UNCTAD, 2021[10]). Of these B2C e-commerce sales, international cross-border sales amounted to some USD 440 billion in 2019, an increase of 9% over 2018 (UNCTAD, 2021[10]). The share of online shoppers making international cross-border purchases is estimated to have risen from 20% in 2017 to 25% in 2019 (UNCTAD, 2021[10]). In 2022, 2.56 billion people, or close to one third of the world's population aged 14 and older, made purchases online (eMarketer, 2022[11]). Estimates forecast that this will grow to 2.77 billion online consumers in 2025, equivalent to more than one out of every three people in the world (eMarketer, 2022[11]).

The volume of digital trade is likely to continue to grow rapidly in the near and long term. Increasing Internet penetration worldwide through the rising use of personal digital devices (smartphones and tablets) is an important driver for the strong future growth of digital trade. By 2025, the number of mobile Internet users is expected to reach 5 billion globally and smartphone adoption will account for approximately 80% of total connections (GSMA, 2022[12]).

In the context of online trade in physical goods, both online and traditional "brick-and-mortar" retailers are increasingly offering hybrid online/offline services such as in-store pickup and returns for online purchases, further blurring the distinction between the online and traditional economies. Both online and offline retailers invest heavily in their supply and delivery chain infrastructure to reduce delivery times and improve customer services, making it easier and more convenient for customers to shop online. Customers have become more accustomed to and comfortable with purchasing items online, including large items that they traditionally preferred to purchase in-store, particularly as a consequence of the COVID-19 pandemic. COVID-19 notably generated an increase in demand for online ordering of physical goods due to movement restrictions imposed in many countries (see subsection 1.2.2.2 for more discussion on COVID-19 impact) (UNCTAD, 2021[10]).

Combined with improved logistics and changing social trends, the wider availability of technology-enabled payment solutions (including mobile payments) is further driving the growth of global digital trade. Innovations in financial technologies and the emergence of a wide range of online payment solutions provide an important stimulus for the financial inclusion of shares of the population who may not previously have had access to the traditional financial system, opening up more opportunities for them to engage in digital trade (see also subsection 1.2.2.3 for more discussion on digital payment solutions).

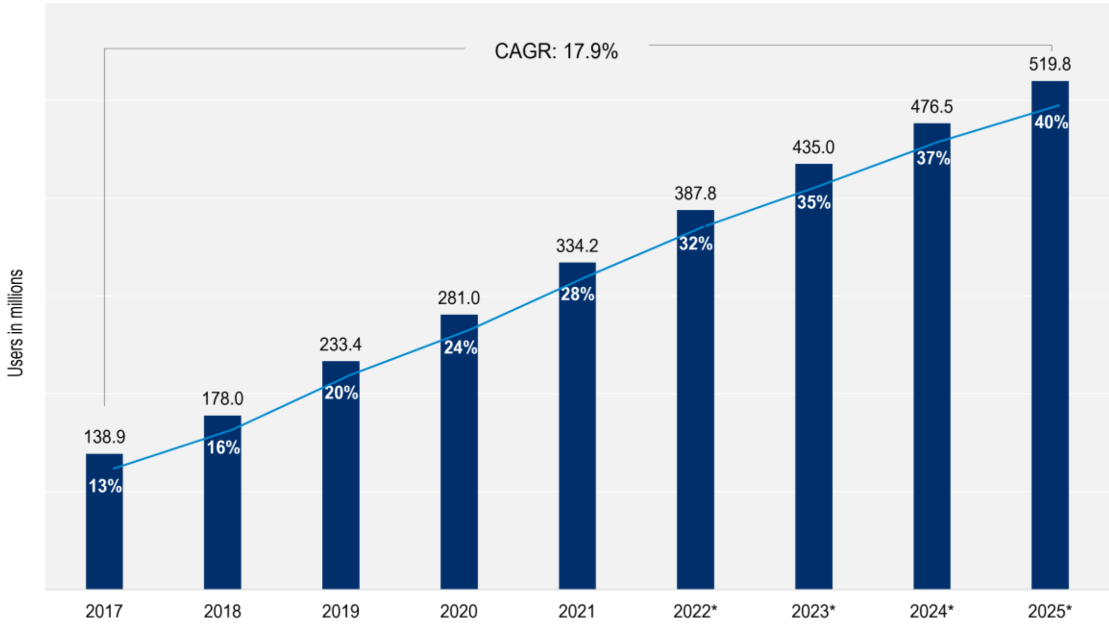
1.2.1.2. Strong digital trade growth in Africa and great potential ahead

Africa has experienced rapid growth of e-commerce in recent years and still holds great potential for further strong growth. The number of African consumers making online purchases has increased significantly between 2014 and 2018, at a higher annual average rate of 18% compared to the global average of 12% (UNCTAD, 2018[13]). This number is expected to almost double between 2020 and 2025, reaching 520 million online shoppers in the region in 2025 (see Figure 1.5) (Statista, 2021[14]). On a broader scale that measures size of the Internet economy[3] in Africa, research also estimates that the African Internet economy could add USD 180 billion to African GDP by 2025, representing 5.2% of the continent's GDP (IFC/Google, 2020[15]). The value of sales generated from B2C online sales of physical goods in the region has been estimated to have increased 53% between 2019 and 2020 and is estimated to increase another 31% between 2020 and 2021. In addition, the volume is projected to more than double between 2020 and 2025 (see Figure 1.6) (Statista, 2021[16]). It is difficult to measure the size or value of B2C online sales of services in Africa, due to a current lack of available statistical data. That said, a general trend of growing volume of services imports in the region can be observed. To illustrate, for the top ten African jurisdictions in terms of total value of imports of "digitally-deliverable services" in 2019, the value of such imports had risen by 191% to USD 52 billion by 2019 compared to USD 18 billion in 2005 (see Figure 1.7).

On a regional level, between 2019 and 2020, South Africa ranked first in the region in terms of total e-commerce volumes, followed by Nigeria in second place, and Kenya and Ghana jointly ranked in third (Visa Consulting & Analytics, 2021[17]). According to a report by UNCTAD, Nigeria, South Africa and Kenya already accounted for more than half of the region's online shoppers in 2017 (UNCTAD, 2018[13]). As e-commerce is further growing across east and southern parts of the continent, Mauritius and Zambia were also among the top six markets between 2019 and 2020 (Visa Consulting & Analytics, 2021[17]).

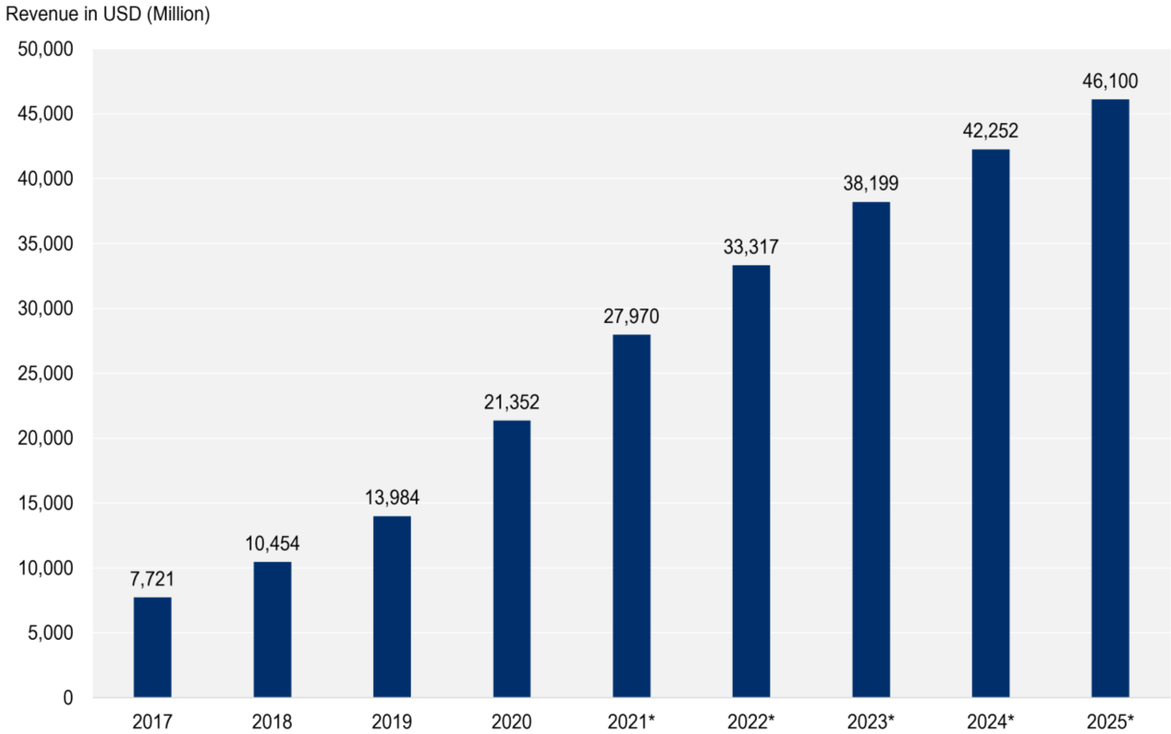
[3] A report by IFC/Google defines the "Internet economy" broadly, to include fintech, e-commerce, healthtech, media and entertainment, local transportation, food delivery, among others.

Figure 1.5. Growing e-commerce penetration in Africa (number of e-commerce users in millions)



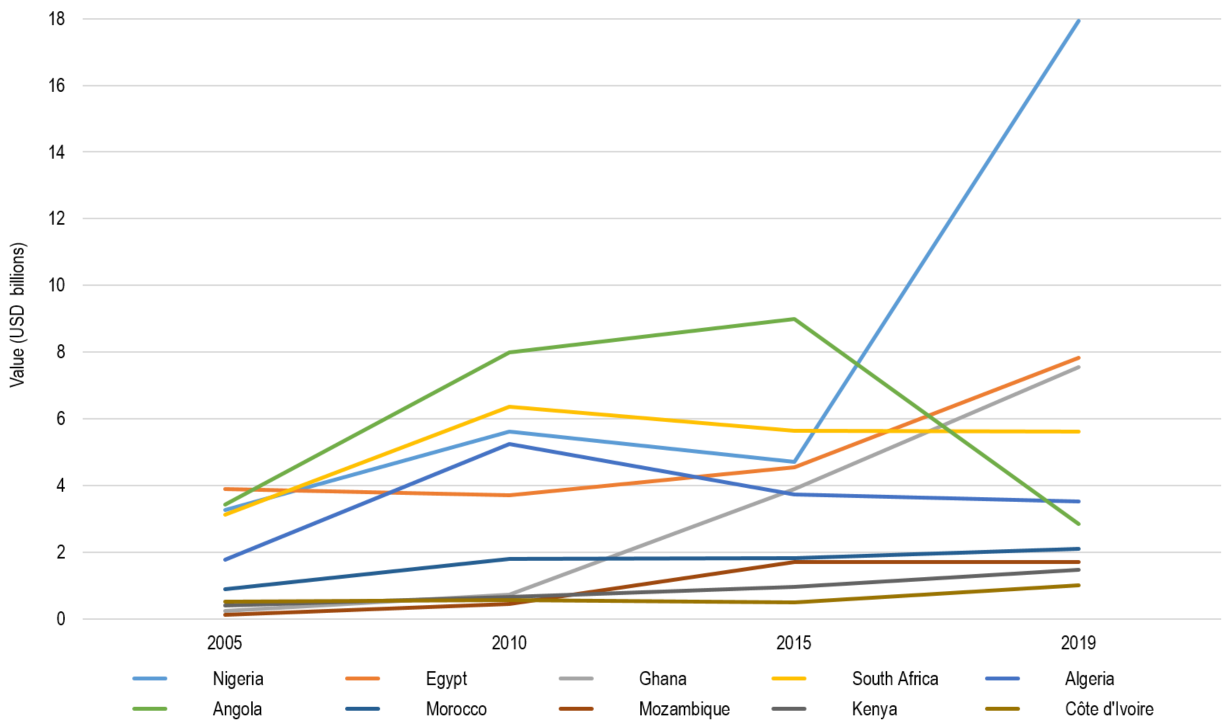
Note: *forecast.
Source: US International Trade Administration (2021), *The Rise of eCommerce in Africa* (International Trade Administration, 2021[18]).

Figure 1.6. Sales from online B2C sales of physical goods in Africa from 2017 to 2025 (USD millions)



Note: *forecast.
Source: Statista (2021), *E-commerce revenue in Africa in 2017 to 2025* (Statista, 2021[16]).

Figure 1.7. Value of imports of digitally deliverable services* in selected jurisdictions in Africa (USD billions), 2005 to 2019



Note: The owner of the underlying data in this figure, UNCTAD, defines digitally deliverable services as an aggregation of insurance and pension services, financial services, charges for the use of intellectual property, telecommunications, computer and information services, other business services and audio-visual and related services. Many elements of these categories of service and intangible may not form part of other organisations' estimates for value of "digital trade" and "digital services". The data includes supplies of digitally delliverable services to all statuses of customer, including both B2C and B2B.
Angola: Please also note there was a steep decline in the value of imports of digitally deliverable services in Angola between 2015 and 2019. The World Bank's *DataBank* records that between these years GDP in Angola declined by 20.5% from USD 87.2 billion to USD 69.3 billion (and this followed an even steeper decline in GDP between 2014 and 2015 of 36.4%).
Source: Adapted from UNCTADSTAT (2021), *International trade in digitally-deliverable services, value, shares and growth, annual* (database) at https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=158358; The World Bank Group, "GDP (current US$) – Angola" in WBG's online *Databank* at https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=AO

Mobile connectivity is an important enabler for online shopping in the region, with approximately 40% of the African population expected to be connected to the mobile Internet by 2025 (GSMA, 2021[19]). In 2020, the share of e-commerce transactions that were completed on a mobile device already amounted to more than 50% of all e-commerce transactions in several large markets in the region, e.g. 54% in Kenya, 56% in Nigeria and 63% in South Africa (Ppro, 2020[20]). This trend is likely to continue with smartphone adoption estimated to reach 64% of the population by 2025 as the region's growing population of young consumers start to own a mobile device for the first time as these devices become increasingly affordable (GSMA, 2021[19]).

While the region presents vast opportunities for further e-commerce growth on the back of growing digitalisation, Africa continues to face a number of challenges to fully realise its potential as a market for e-commerce. Main challenges include low consumer digital trust, poor infrastructure and weak delivery logistics (World Economic Forum, 2019[21]). Online trade in goods in particular faces additional constraints in Africa. For goods that are delivered through postal channels, postal reliability (speed and predictability of delivery) ranks significantly low in Africa compared to other developing regions in the world (United Nations Economic Commission for Africa, 2021[22]). Only 16% of people in the region are able to receive post at home – most of them have to visit a postal establishment to collect the goods themselves (United Nations Economic Commission for Africa, 2021[22]). Cross-border trade in goods has generally been found to present particular difficulties, with research suggesting that it takes twice as much time and costs more in Africa than other developing regions in the world (World Bank, 2020[23]). It has been found that even a one-day delay can cause 1% reduction in the overall trade flow (Djankov, 2006[24]). Against this background, regional initiatives are in progress to facilitate the goods trade on the continent, notably the African Continental Free Trade Area (AfCFTA)[4].

1.2.2. Key drivers fuelling the growth of digital trade in Africa

Economic developments and digital maturity levels vary across Africa. However, common key drivers of the growth of digital trade in Africa are:

- The region's increasing Internet penetration, mostly driven by mobile Internet connectivity using smartphones.
- The rise and growth of digital platforms, including regional platforms that cater to the specific needs of African consumers.
- The availability of alternative payment methods, notably digital payment solutions.
- A young, rapidly urbanising and digitally savvy population.
- The impact of COVID-19, which has further accelerated digital transformation in the region.

The subsections below describe these key drivers in more detail.

1.2.2.1. Increasing Internet penetration, particularly through mobile connections

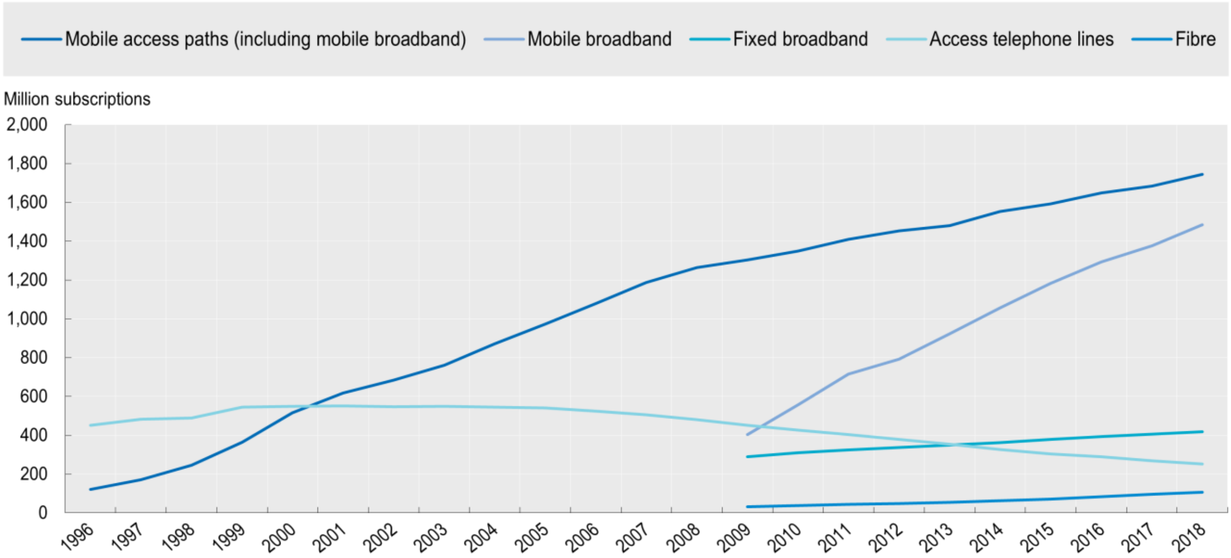
Over the past three decades, the increasingly widespread availability of Internet access has fuelled the digital transformation of the economy and society. Today, more than half of the world's population is connected to the Internet, compared to only 6.7% in 2000 (World Bank, n.d.[25]). In 2019, across OECD member countries, the proportion of adults using the Internet ranged from 70% to 95%, while 93% of enterprises had a broadband connection (OECD, 2020[26]).

In terms of trends in connection paths, mobile connections are growing fast as smartphones become the favoured device for Internet access, with the share of mobile broadband connections increasing from 31% to almost 85% over 2009-2018 in OECD member countries (see Figure 1.8). The growth of mobile broadband penetration is also high in OECD partner economies[5] as mobile broadband fills a connectivity gap where there is a relatively low level of fixed broadband infrastructure (OECD, 2020[26]).

[4] The AfCFTA's Secretariat describes the territory that the free trade area encompasses as the world's largest by number of participating countries, bringing together 55 African jurisdictions and eight "Regional Economic Communities" (RECs). As part of its mandate, the AfCFTA is to eliminate trade barriers and boost intra-African trade. Trading under AfCFTA commenced on 1 January 2021. Please see the following link for further details: https://au-afcfta.org/

[5] At the time of publication of the *OECD Digital Economy Outlook 2020*, these jurisdictions included the following that had responded to the 2019 OECD Digital Economy Policy questionnaire on national digital strategies and policies, i.e. Brazil, Costa Rica, the Russian Federation, Singapore and Thailand. Costa Rica became a member country of the OECD as of May 2021.

Figure 1.8. Trends in communications access paths in OECD member countries, 1996-2018

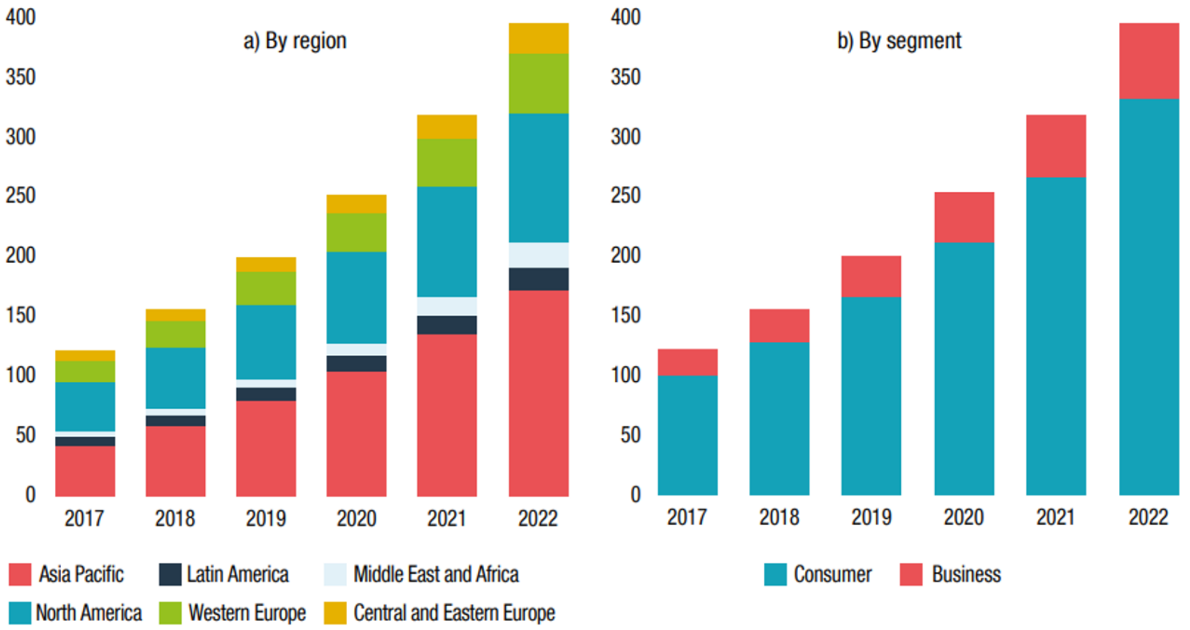


Source: OECD (2020), *Digital Economy Outlook 2020* (OECD, 2020[26]).

Internet connectivity continues to increase also in Africa,[6] although it remains at a relatively low level compared to other regions around the world (see Figure 1.9). Internet penetration is very diverse across the region, however, with the share of Internet users in 2022 reaching over 80% in Morocco, 70% in Egypt and close to 70% in South Africa, in addition to more than half of the population in several jurisdictions. On the other hand, Internet penetration barely reaches 20% in a few jurisdictions in Africa (Statista, 2022[27]) (see also Figure 1.10). Consistent with developments in OECD and partner economies, mobile Internet is playing an important role in bridging Internet coverage gaps in Africa, with 303 million people connected to the mobile Internet at the end of 2020 across the continent, equivalent to a 28% penetration rate (seeFigure 1.11) (GSMA, 2021[19]). By 2025, almost 40% of the population in the region is expected to have access to mobile Internet, adding over 170 million new mobile Internet users (GSMA, 2021[19]). This growth of mobile connectivity is expected to further stimulate digital trade in Africa and in particular to further increase the already significant importance of mobile commerce in the region (see Figure 1.12).

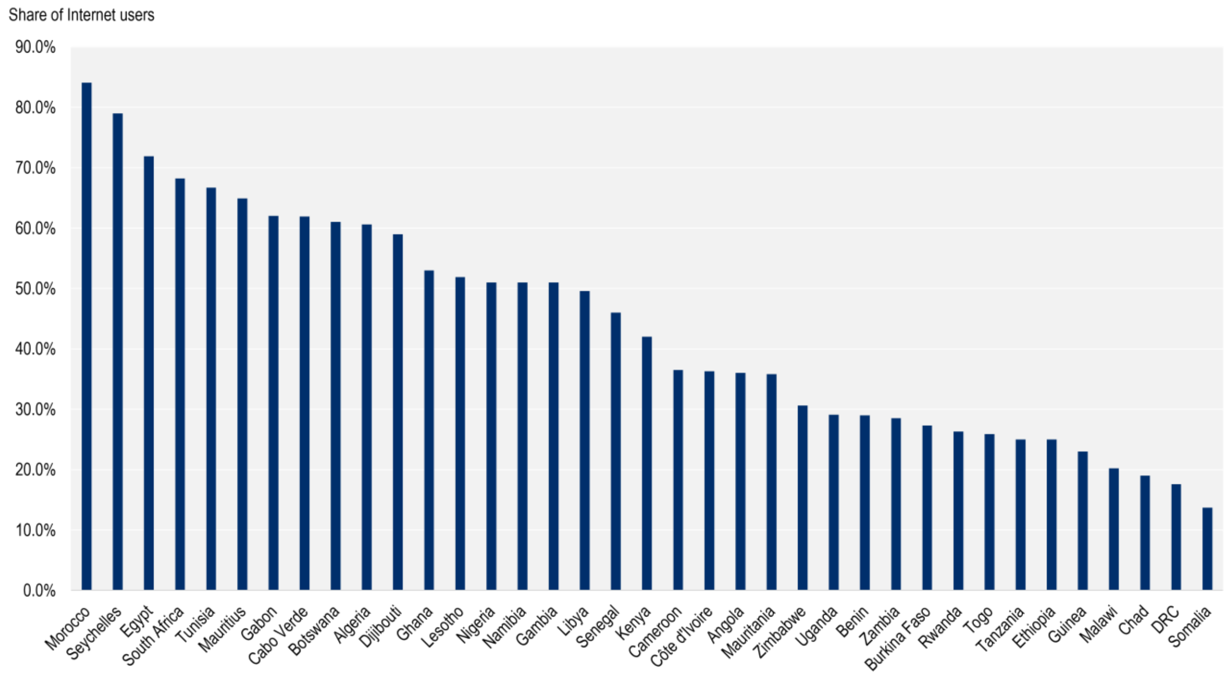
[6] Africa in this context refers to a large and diverse geographical region with a more than 1.3 billion population as of 2021. The jurisdictions of Africa include the 38 members of ATAF.

Figure 1.9. Internet protocol traffic, 2017-2022 (exabytes per month)



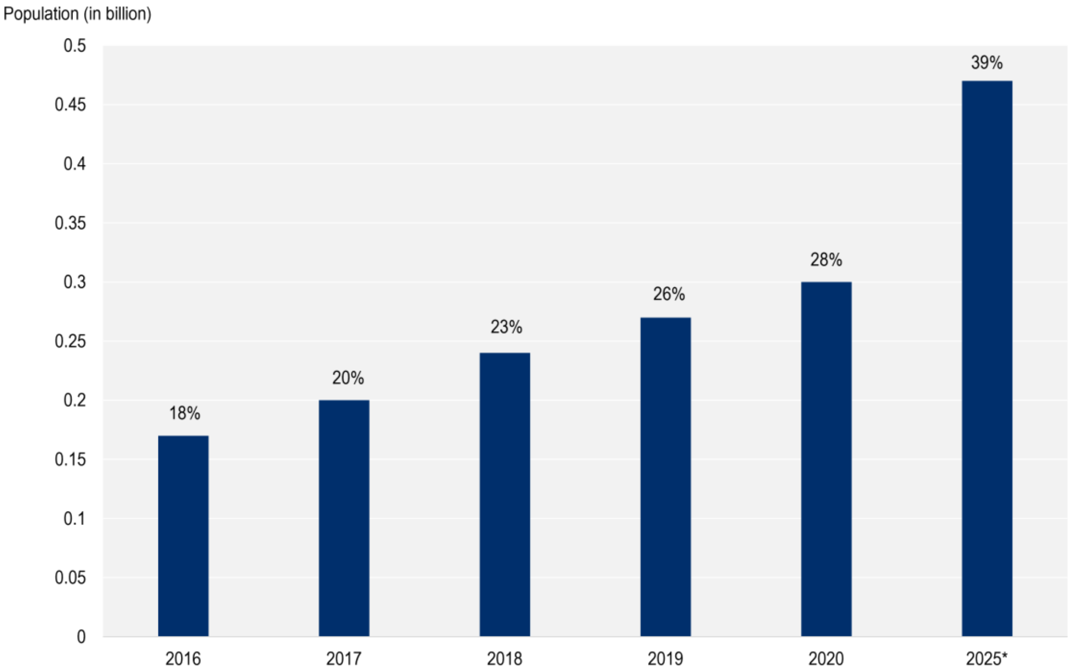
Source: UNCTAD (2019), *Digital Economy Report 2019* (UNCTAD, 2019[28]).

Figure 1.10. Share of Internet users in Africa as of January 2022 in selected jurisdictions



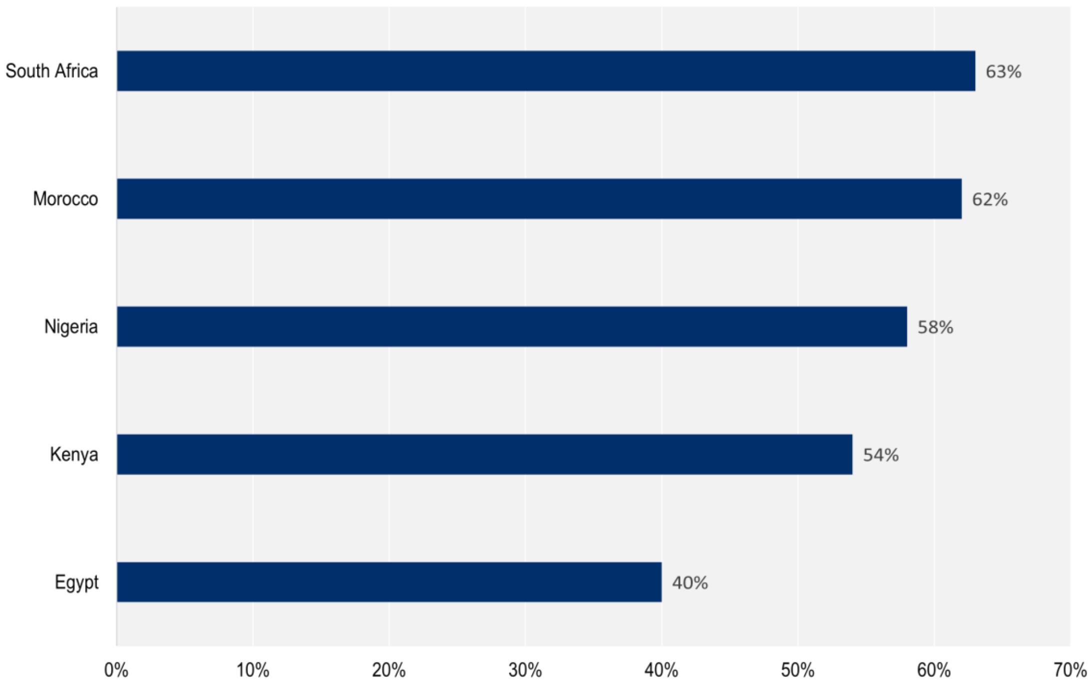
Source: Statista (2022), *Share of Internet users in Africa as of January 2022, by country* (Statista, 2022[27]).

Figure 1.11. Evolution of mobile connectivity in Africa



Note: *forecast.
Source: GSMA (2021), *The state of mobile Internet connectivity in Sub-Saharan Africa: why addressing the barriers to mobile Internet use matters now more than ever* (GSMA, 2021[29]).

Figure 1.12. Mobile commerce penetration in selected African jurisdictions in 2020

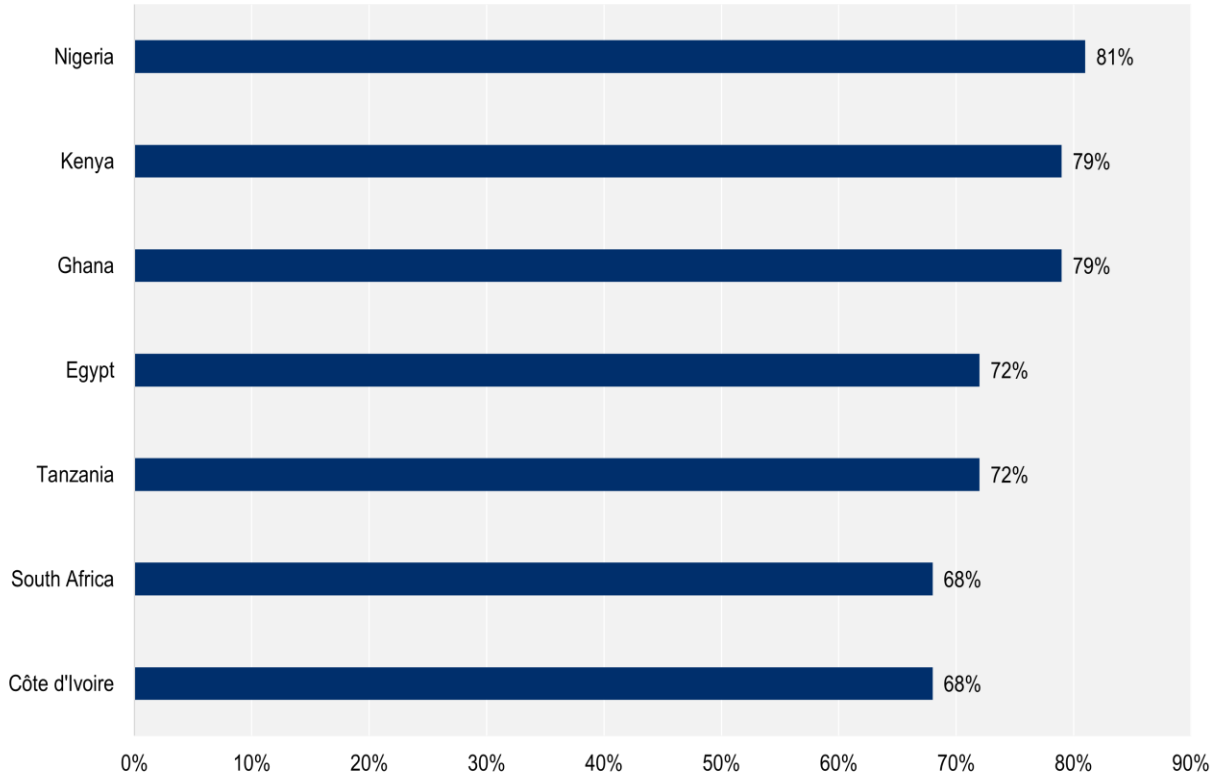


Note: This graph illustrates the share of Internet users that shop online with mobile devices in selected African jurisdictions in 2020.
Source: Statista (2021), *Share of mobile e-commerce in selected African countries in 2020* (Statista, 2021[30]).

1.2.2.2. COVID-19 impact

The COVID-19 outbreak has accelerated the adoption of digital technologies by individuals and businesses, because of their need to transact without personal contact or mobility in many instances. The pandemic has therefore led to a significant increase in digital consumption globally (Nielsen, 2020[31]). This has also been the case in Africa, which has witnessed a significant increase in online purchasing as a consequence of COVID-19. In several African jurisdictions, more than half of the consumer population reported an increase in their online shopping. This was reported by 70% to 80% or more of consumers in the leading e-commerce markets such as Nigeria, Kenya, Ghana, Egypt and United Republic of Tanzania (see Figure 1.13).

Figure 1.13. Share of consumers reporting an increase in their online shopping since the beginning of the COVID-19 pandemic in selected African jurisdictions (2020-2021)

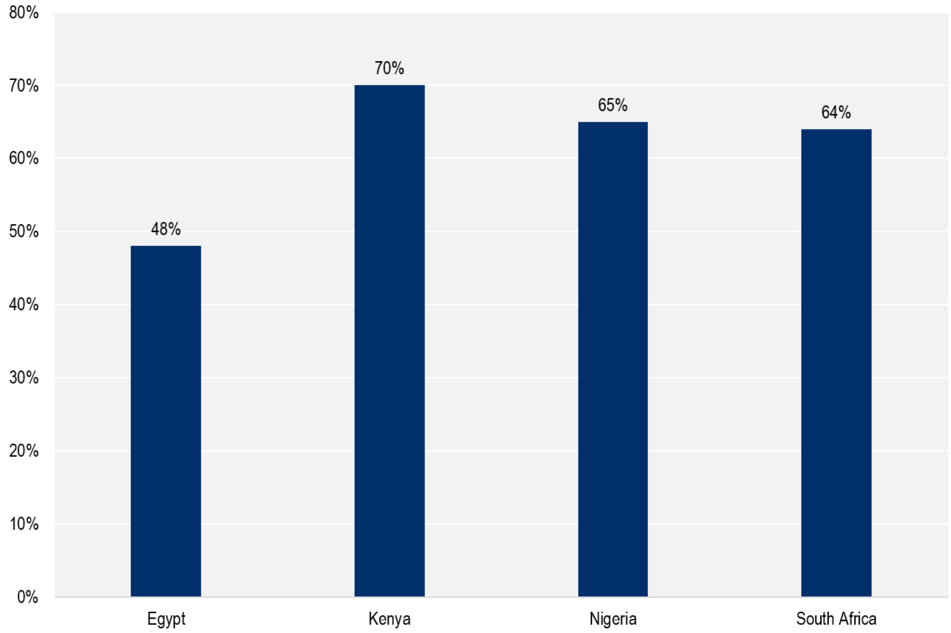


Note: This graph shows survey responses from consumers in selected African jurisdictions that have reported an increase in their online purchases since the outbreak of COVID-19. The survey was conducted in 2020 and 2021.
Source: Statista (2021), *Share of consumers shopping more online since the beginning of COVID-19 pandemic in selected African countries in 2021* (Statista, 2021[32]).

Before the pandemic, many African consumers did not consider online shopping as their first choice. This was notably due to a lack of trust in online shopping or the absence of secure online payment solutions and challenges associated with logistics. Online shopping was also often remained limited to specific product categories such as fashion and electrical appliances (United Nations Economic Commission for Africa, 2021[22]). COVID-19 restrictions, however, made many consumers that used to shop at physical stores turn to online shopping to access basic needs. This includes food and pharmaceutical goods, which were among the top shopping categories during lockdown periods. In response, businesses increasingly adapted their business models to facilitate secure and convenient online transactions. This has translated into a significant sales increase for some of the large e-commerce platforms in the region. Notably, one of the biggest African e-commerce platforms recorded an over 50% increase in transaction volumes for the first six months in 2020 as compared to 2019 (United Nations, 2021[33]). In the same period, online payment transactions also surged. The transaction volumes processed by a financial payments company with more than 60 000 merchants across Africa, for instance, increased five-fold compared to pre-pandemic levels (see subsection 1.2.2.3 for more details on the transition to digital payment solutions) (United Nations Economic Commission for Africa, 2021[22]).

These COVID-19-driven shifts in consumer behaviour towards online shopping are likely to continue beyond the pandemic. Recent consumer surveys, notably suggest that almost half and up to 70% of e-commerce users in Africa's four largest economies plan to reduce their purchases at physical supermarkets post-pandemic (see Figure 1.14) (United Nations Economic Commission for Africa, 2021[22]).

Figure 1.14. Share of e-commerce users who plan to do less supermarket shopping after COVID-19 in selected African jurisdictions



Source: Original data by Nielsen as included in UN Economic Commission for Africa (2021), *Covid-19 Impact on E-commerce: Africa* (United Nations Economic Commission for Africa, 2021[22]).

1.2.2.3. Emerging digital payment solutions

With more than half of the population having limited or no access to traditional banking, cash has been, and still is, one of the preferred payment methods on the African continent (International Trade Administration, 2021[18]). However, digital payment solutions have been emerging even prior to the pandemic, and COVID-19 has further accelerated the transition towards digital payments in the region. Use of mobile money services is already widespread in several African jurisdictions and is increasing further (see Figure 1.15 and Figure 1.16).[7] In fact, Africa already accounted for two-thirds of total global mobile money transactions in 2018 (GSMA, 2018[34]). In 2020, in South Africa alone, 85% of payments through one of the leading payment service providers were made via mobile devices (PayU, 2021[35]). With

[7] Mobile money services refer to payment services operated via a mobile device. Customers can use a mobile to pay for a wide range of services including the purchase of digital or physical goods or payment of utility bills.

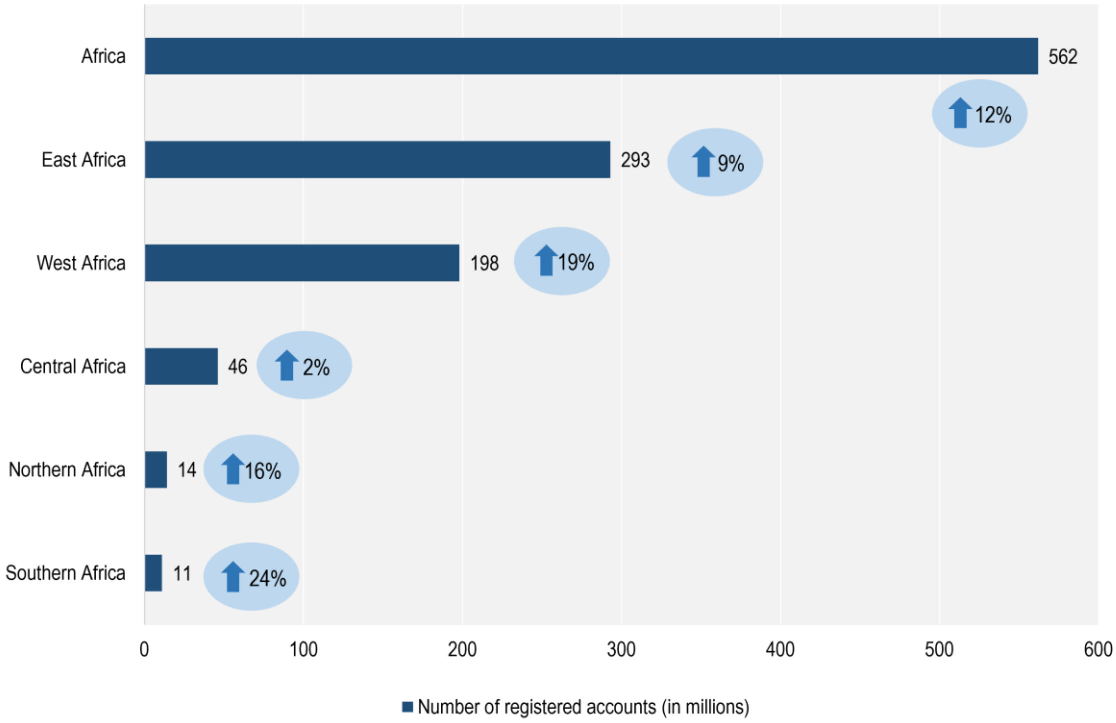
a significant proportion of the population having access to the Internet through mobile phones, mobile money services contribute to bridging the financial gap for those in rural areas who do not have bank accounts (PayU, 2021[35]).

With 475 million people in the region predicted to be mobile Internet users by 2025 - an increase of 42% from the 272 million in 2019 – a shift to digital payments will likely continue in the foreseeable future across the continent (GSMA, 2021[19]). On the business side, banks have started to adopt mobile-based digital services to attract customers. A bank in Nigeria, for example, introduced a mobile service which allows customers to instantly send cross-border payments across 33 jurisdictions in Africa (PayU, 2021[35]). Meanwhile, governments are increasingly partnering with mobile money providers to facilitate direct digital payments to their citizens (e.g. salary payments, COVID-19 financial support, etc.).

Recognising a huge market potential, investment in fintech is pouring into the region with USD 1.6 billion invested in 2021, representing a 50% increase in transaction numbers and a two-fold increase in value compared to the preceding year (KPMG, 2021[36]). The focus of this investment is on expanding payment services and digital banking for private individuals. Also, SMEs are considered as a significant potential market as they are seeking more mobile-led digital solutions to facilitate payments for their customers (KPMG, 2021[36]).

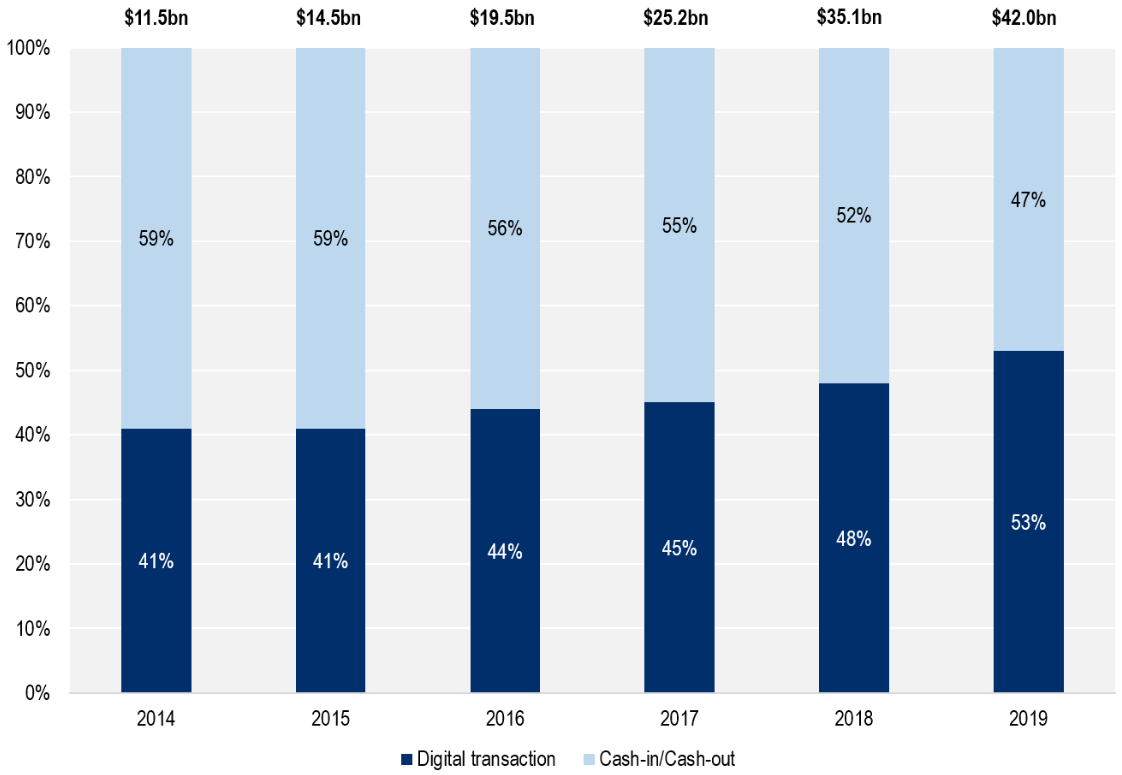
All these changes are expected to further induce greater digital and financial inclusion in the region, and to accelerate the growth of digital trade across the African economy.

Figure 1.15. Increase in number of registered mobile money accounts in different regions across Africa (2020)



Note: The percentage increase is in comparison to the previous year.
Source: Reproduced based on the data in GSMA (2021), *Le point sur le secteur : Les services de mobile money dans le monde* (GSMA, 2021[37]).

Figure 1.16. Mobile money transactions in Africa



Note: Transactions values are in USD billions. Cash-in/Cash-out refers to the process by which a customer deposits cash into his/her mobile money account and later deducts cash from his/her mobile money account. This is done usually via an agent who takes the cash and credits the customer's mobile money account and gives the customer cash in exchange for a transfer from the customer's mobile money account.
Source: GSM Association (2020), *Beyond one billion accounts: Mobile money in Africa enters a new digital era, spurred by more advanced transactions* (GSMA, 2020[38]).

1.3. VAT challenges connected to global digital trade

The international tax challenges of the digital economy are widely recognised. Indeed, these challenges dominate the contemporary global dialogue over sound tax policy and its implementation. The growth of the digital economy, which increasingly informs (if not defines) the broader economy, raises fundamental challenges for tax design and administration.

At the core of many of these challenges is the ability of businesses to conduct economic activity within a jurisdiction without conducting a physical activity or having a physical presence in that jurisdiction. This is perhaps the single most significant feature of the growth of the global digital economy from a VAT perspective. It is virtually definitional: if the digital economy is defined by the ability of businesses to provide value to their customers through ICT, they may not need a physical presence in the jurisdiction of the customer. This applies to digitally supplied services and intangibles as well as to the continuously growing volume of low-value goods purchased online by private consumers from non-resident suppliers. Some of the VAT challenges faced in each of these areas of online trade are common to both.

The following subsections elaborate on these challenges in more detail, focusing on the two most relevant scenarios involving non-resident suppliers from a VAT revenue and neutrality perspective:

- International supplies of services and intangibles (often "digital" services and products")
- Imports of low-value goods purchased online

Possibility for African jurisdictions to implement either distinct or uniform collection mechanisms and administrative processes for B2B and B2C supplies:

International standards and guidance for the imposition and collection of VAT on digital trade outline recommendations on the different regimes that jurisdictions can put in place according to the status of customers as either VAT-registered businesses or final consumers, especially for supplies of services and intangibles.

These recommendations mean the possibility of implementing a “reverse charge” mechanism for VAT collection on B2B supplies by non-resident businesses, i.e. where the VAT-registered business customer accounts for and remits the VAT to the tax authority rather than transferring funds for the tax on the supply to the non-resident supplier. Because customer collection is not feasible in a B2C context, international standards recommend the implementation of regimes that require non-resident supplier to register for and collect VAT on the basis, wherever possible, of simplified compliance processes.

The Toolkit follows the logic of the international standards in presenting these options for distinct regimes based on customer status. However, successful implementation depends upon jurisdictions possessing the infrastructure and resource capacity to support distinction between customer statuses, including to police compliance.

This Toolkit also acknowledges that, for certain reasons, many jurisdictions in Africa may have a strong preference for imposing uniform obligations upon non-resident suppliers for both B2B and B2C supplies. Subsection 2.2 gives detailed guidance to jurisdictions on how best to adapt their VAT frameworks where they wish to impose such uniform collection obligations on both B2B and B2C supplies.

1.3.1. VAT on services and intangibles supplied by non-resident suppliers

Jurisdictions may have to adapt their VAT laws to **assert the right to tax** supplies of services and intangibles by non-resident suppliers. Although jurisdictions embrace the widely accepted destination principle that allocates taxing rights to the jurisdiction of consumption for VAT purposes, they may lack effective provisions to impose VAT on such supplies under the traditional VAT rules that may often have been developed before the advent of significant digital trade to customers within a jurisdiction’s economy.

International trade in supplies of services and intangibles (e.g. applications and “in-app” purchases, streaming of music and on-demand television, gaming, ride-hailing, accommodation rental, etc.) potentially gives rise to all of the key challenges that the digital economy creates for VAT design and administration.

A first challenge is to determine the jurisdiction that has the right to levy VAT on internationally traded services and intangibles in accordance with the generally accepted destination principle.

It is generally accepted that the jurisdiction of consumption has the right to impose VAT. For international supplies of goods, the destination of the goods generally indicates the jurisdiction of consumption. For supplies of services and intangibles by non-resident suppliers, the determination of the jurisdiction of consumption, and with it, the design of appropriate place-of-taxation rules is less straightforward.

Before the advent of the global digital economy, the place of consumption for supplies of services and intangibles was often determined, explicitly or implicitly, by reference to the place where these services were physically performed or the place where the supplier was located. This was appropriate as services were indeed generally consumed or used where they were performed before technology made the remote delivery of services to private consumers possible via broadcasting, telecommunications, and an ever-growing range of electronic and Internet-based services.

Place-of-taxation rules for supplies of services and intangibles that primarily use place of performance or supplier location are ill-suited, however, to a world in which, for example, the service warranty on an individual's personal computer may be fulfilled by a technician who takes digital control of the laptop and resolves the problem through keystrokes performed in another country. Consequently, rules allocating taxing rights associated with remote international supplies of services and intangibles may need to be adapted to better reflect the place of consumption or business use in the digital economy. Such rules should also be designed to assure consistency across jurisdictions and across sales and delivery methods (digital and traditional methods) and to facilitate compliance. Without co-ordination, there is an increased risk of double taxation or unintended non-taxation.[8]

Even if a jurisdiction's VAT law is able to assert the right to tax in line with the destination principle, there is the challenge of **collecting the VAT in an effective way**, especially on supplies made by non-resident suppliers to private consumers.

The challenges for tax authorities in the jurisdiction of taxation include establishing that the non-resident supplier has made supplies that are subject to VAT in their jurisdiction; enforcing collection and remittance of VAT by non-resident suppliers and follow-up enforcement actions such as accessing books and records; and creating auditing and collection procedures for outstanding taxes. Because the transaction involves services and intangibles rather than goods, physical border controls are not available as an alternative means for enforcing VAT collection, as they are, at least to some extent, with respect to imported goods. Although there is potential to develop a regime for VAT-registered business customers in the jurisdiction of taxation to collect VAT on their purchases from non-resident suppliers, tax authorities cannot realistically also look to private consumers to remit VAT on such purchases, even though the private consumer is located in the jurisdiction of taxation.[9] As international trade in services and intangibles continues to grow, tax authorities need to deal with increasingly large numbers of non-resident businesses that have no physical presence in their jurisdiction supplying services and intangibles to both private consumers and businesses in that jurisdiction.

For non-resident business, uncertainty concerning their VAT obligations and/or complex rules and requirements can create undue compliance burden and trade obstacles. This applies particularly when such requirements arise in multiple jurisdictions, for large online operators and even more so to small- and medium-sized enterprises (SMEs).

1.3.2. VAT on imports of low-value goods purchased online from non-resident suppliers

In theory, the key challenges that the digital economy creates for international trade in supplies of services should be less relevant to the international trade in goods. For one thing, the determination of the jurisdiction of consumption or business use should be relatively straightforward as the physical destination of the goods clearly identifies that jurisdiction. Additionally, in contrast to international trade in services and intangibles, physical border controls are in principle available as an alternative means for enforcing collection obligations with regard to imported goods.

[8] If two jurisdictions apply different place-of-taxation rules, some supplies may be subject to tax in both and others in none of the jurisdictions. To reduce this risk, the OECD through its broadly accepted guidance tries to co-ordinate place-of-taxation rules (see subsection 2.1).

[9] Please refer to subsection 2.2.1 for further information on how tax authorities can develop regimes for customer collection and remittance in the B2B context, notably where the purchaser is a VAT-registered business.

The continuous strong growth of e-commerce however creates increasingly significant practical challenges for jurisdictions to effectively collect the VAT on the increasingly enormous volumes of goods that customers purchase from suppliers abroad and that often have only a relatively low individual value. The main challenges are:

- High administrative costs of the traditional, customs-based mechanisms for collecting the VAT on these goods;
- Challenges created by VAT low-value consignment reliefs;
- Compliance challenges – Widespread fraud and abuse.

1.3.2.1. High administrative costs of traditional collection frameworks

VAT collection and control by customs authorities on a parcel-by-parcel basis at importation risk causing disproportionate administrative costs for administrations as well as for businesses, especially in relation to low-value imported goods. Revenue derived from the imposition of VAT is spent on inefficient collection processes, thus undermining the objective of raising vital revenues to support a jurisdiction's public finances.

The significant growth in purchases of low-value goods by customers from non-resident suppliers results in equally enormous quantities of small parcels crossing borders on a daily basis, creating considerable pressure on VAT collection by customs authorities under normal customs processes.

Box 1.1. Studies on administrative costs of traditional collection frameworks in the European Union and Australia

An **EU Commission** study analysed the high level of administrative costs for customs authorities and businesses alike in handling imports of low-value goods for VAT and customs duty compliance purposes (European Commission and Deloitte, 2016[39]) (European Commission and EY, 2015[40]).[1] Extensive research involving stakeholder consultations, external expert studies, and in-house research confirmed the view that the traditional VAT regime for low-value imported goods entering the EU was disproportionately burdensome for tax administrations to ensure compliance and costly for many businesses in fulfilling compliance obligations.

The **Australian** government's Productivity Commission and its Low Value Parcel Processing Taskforce noted similar challenges regarding collection costs associated with border collection of VAT (see Annex C).[2]

The challenges and risks for jurisdictions in Africa is likely to be very similar to those that the EU Commission and Australia identified.

Notes:
1. Administrative costs reflect those associated with intra-EU B2C distance sales of goods as well as sales originating outside the European Union.
2. The main reports that cover this subject include:
   - Productivity Commission (2011), *Economic structure and performance of the Australian retail industry*, Report No.56. See in particular "Chapter 7: Appropriateness of current indirect tax arrangements", pages 169-214, and "Appendix H: Impacts of reducing the LVT", https://www.pc.gov.au/inquiries/completed/retail-industry/report/retail-industry.pdf
   - Australian Department of the Treasury (2012), *Low value parcel processing taskforce: Final report – July 2012*, https://treasury.gov.au/publication/low-value-parcel-processing-taskforce-final-report
   - Productivity Commission (2017), *Collection models for GST on low value imported goods*, Report No.86, https://www.pc.gov.au/inquiries/completed/collection-models/report/collection-models.pdf

Source: OECD analysis.

In addition to the collection of taxes, customs procedures are also concerned, *inter alia*, with facilitating trade and ensuring border security.[10] There is hence a need to maintain a customs infrastructure, for reasons independent of exercising tax collection and compliance control. However, it is likely that the VAT revenues resulting from customs authority assessments are often insufficient to amortise even the marginal costs of collection on an ever-increasing volume of low-value parcels.

The available literature on the challenges that face African jurisdictions in establishing effective VAT frameworks at an economy-wide level tends to maintain a consensus on two key elements of the environment for VAT in Africa. Firstly, the literature states that, in addition to VAT being the single largest source of tax revenue in a large number of African jurisdictions, the import VAT component of those net revenues is more than 50% in many such jurisdictions. Secondly, it notes that the costs of tax administration and collection in Africa is in general high and often considerably higher than in most other parts of the world, which in turn includes administrative costs for VAT and, by extension, import VAT (Ebrill, 2001[41]) (United Nations. Economic Commission for Africa, 2019[42]) (Cantens, 2021[43]). Consistent with the foregoing, the adoption of simple and modern procedures that minimise costs for tax and customs authorities and other parties involved in international trade has been highlighted as one of the main objectives for the modernisation of customs services in African jurisdictions (Montagnat-Rentier, 2012[44]) (Zake, 2011[45]).

See also Box 1.1 above for studies from other parts of the world on administrative costs of VAT collection under the traditional collection framework.

1.3.2.2. Challenges of VAT low-value consignment reliefs

To mitigate the administrative costs connected with the collection of import VAT on "low-value" consignments, most jurisdictions, including some in Africa, provide a VAT exemption on such low-value imports. Jurisdictions often refer to this as "low-value consignment relief" although some also refer to "negligible value". VAT low-value consignment reliefs originated as a simplification measure to remove and reduce what jurisdictions saw as disproportionate administrative burdens for their tax and customs administrations in the handling of imports of low-value goods. Jurisdictions did not historically see the VAT forgone as significant because of the combination of relatively low import volumes and low values. Indeed, the bigger risk was that the administrative costs of collecting VAT on imports of low-value goods would outweigh the revenue collected.

> However, with rising levels of e-commerce, jurisdictions have found that VAT reliefs for low-value consignments have turned into a potentially significant obstacle to VAT neutrality, offering unfair competitive advantages to non-resident suppliers.

The OECD and G20 identified the operation of VAT low-value consignment relief regimes as one of the main VAT challenges of the digital economy.[11] The relative lack of administrative burdens for non-resident suppliers of low-value goods exacerbates the financial advantage that they enjoy from VAT low-value consignment relief. By contrast, VAT-registered domestic businesses (including domestic platforms) will often face extensive compliance obligations when selling to domestic consumers. One of the consequences of these neutrality challenges is the possible triggering of relocations of some domestic businesses offshore. The incentive to relocate results from the fact that domestic retailers that are required

[10] For a short account of customs procedures on importation of low-value goods, see OECD (2015), *Addressing the Tax Challenges of the Digital Economy, Action 1 - 2015 Final Report*, OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, Paris, https://doi.org/10.1787/9789264241046-en, "Annex C: The collection of VAT/GST on imports of low value goods", in particular pages 185 to 193.
[11] Ibid. at 181 to 220.

to register for VAT in the jurisdiction where they are located must generally charge and remit VAT on all domestic sales. These businesses may decide to relocate abroad to benefit from the low-value consignment relief to sell VAT-free online.

In addition to creating competitive distortion, the continuously rising volumes of low-value goods that are imported free of VAT under VAT low-value consignment relief regimes can lead to increasingly important revenue losses for jurisdictions. Fraud such as undervaluation committed by non-resident suppliers can further exacerbate these revenue losses (see subsection 1.3.2.3 below). Further revenue losses can result from domestic suppliers relocating abroad.

VAT low-value consignment reliefs also may have negative consequences for domestic employment and direct tax revenues if domestic suppliers relocate abroad or lose business due to competitive disadvantage. Box 1.2 summarises a study undertaken in the European Union that illustrates the negative VAT revenue effects where supplies of low-value imported goods are not subject to VAT.

There appear to be only a limited number of African jurisdictions (approximately 20) with a relief threshold for VAT on low-value imported goods, including, among others, Angola, Côte d'Ivoire, Democratic Republic of Congo, Rwanda and Zambia. There are no studies available on the revenue impact of these reliefs where they do apply, but it can be assumed that the negative consequences for tax revenue and domestic competition of these reliefs, which have been established around the world, also affect African jurisdictions. In fact, the challenge may be proportionally even greater for them given the relative importance of VAT on imports as a share of total VAT revenues[12] (Ebrill, 2001[41]) (United Nations. Economic Commission for Africa, 2019[42]), as Table 1.1 below illustrates. That said, readers may wish to take note that such reliance upon VAT from imports is an observable phenomenon in developing economies elsewhere in the world too.

Table 1.1. VAT on imports relative to gross VAT revenues

Percentage range	Jurisdictions
90% to 100%	-
80% to 90%	-
70% to 80%	(1) Liberia
60% to 70%	(6) Burundi, Eswatini, Gambia, Madagascar, Mali and Togo
50% to 60%	(8) Botswana, Burkina Faso, Cape Verde, Côte d'Ivoire, Morocco, Mozambique, Senegal and Sierra Leone
40% to 50%	(14) Angola, Benin, Chad, Democratic Republic of the Congo, Ghana, Kenya, Malawi, Mauritius, Niger, Seychelles, Tanzania, Uganda, Zambia and Zimbabwe
30% to 40%	(2) Cameroon and South Africa
20% to 30%	(3) Lesotho, Nigeria and Rwanda
10% to 20%	-
0% to 10%	(1) Namibia

Source: ATAF Databank. Data in this table is based on revenues from 2020, which ATAF obtained from 35 jurisdictions in Africa. This dataset was not publicly available on the website of the Databank at the time of publication.

[12] For example, the United Nations Economic Commission for Africa's *Economic Report on Africa 2019* reports that while "VAT accounts for more revenue than any other single tax in Africa and has become a reliable generator of revenue… around half of VAT collections are on imports".

Box 1.2. European Union study on effects of VAT low-value consignment relief

A comprehensive study undertaken by the **European Union** identified more than 144 million consignments as benefitting from the VAT exemption for low-value consignments in 2015.[13] This was an increase of more than 300% since 2000.[14] The VAT forgone from the exemption for the importation of low-value consignments was estimated as amounting to around EUR 1 billion (nearly USD 1.05 billion) annually,[15] a figure likely much higher today.

An earlier EU study starkly illustrated the long-term growth trend in the level of VAT revenues that EU Member States were not collecting because of low-value consignment reliefs. The study estimated that VAT forgone in the European Union under the relief provisions grew from EUR 118 million (nearly USD 124 million) in 1999 to EUR 535 million (nearly USD 563 million) in 2013, an increase of 355% in 14 years (European Commission and EY, 2015[40]).

This increase in the volume of trade and of VAT revenues forgone was in line with the increase in individuals shopping online in the European Union. For example, the study noted that the volumes of goods that postal operators handle annually grew from approximately 30 million consignments in 1999 to approximately 115 million in 2013, a total increase of 286% (European Commission and EY, 2015[40]).

However, this took place in the context of an increase of EU GDP of just 50% over the same period. Since online trade in consumer goods is a growing and global phenomenon, the opportunity costs of the general status quo continue to increase.

1.3.2.3. Compliance challenges – Widespread fraud and abuse

In addition to the high administrative costs of the traditional customs-based approach for collecting the VAT on the high volumes of low-value imported goods from online sales and the growing revenue losses and competitive distortion caused by low-value consignment reliefs, significant risks of fraud have been identified, notably involving the following practices:

- Under-declaration of higher-value goods to benefit illegitimately from the VAT low-value consignment relief threshold.
- Under-declaration of goods at an amount above the VAT exemption threshold but below the customs duty threshold, to reduce VAT liability and to evade customs duty.
- Mis-declaration of commercial goods as falling under VAT-exempt categories such as gifts, consumer-to-consumer (C2C) transactions, or samples.
- Use of third parties to store imported low-value goods in domestically located warehouses or fulfilment centres, without declaring and remitting VAT on the subsequent sale of such goods[16,17]

Policing compliance under traditional VAT collection frameworks upon importation means that customs authorities must attempt to assess many thousands of parcels every day at a country's busiest ports,

[13] See European Commission (2016), *Impact assessment – Modernising VAT on cross-border e-Commerce*, https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52016SC0379&from=ES. See page 15.
[14] Ibid.
[15] Ibid., page 13.
[16] "Fulfilment houses" enable non-resident suppliers to optimise delivery times to domestic consumers and improve the overall customer experience for online orders by providing warehouses for non-resident online suppliers to store goods they sell both within the jurisdiction of their customers and in neighbouring territories. However, non-resident suppliers that utilise the services of fulfilment houses have often been found not to comply with the domestic VAT obligations that arise for supplies they make through such fulfilment houses, whether through ignorance or deliberate attempts to evade these obligations. This abuse has received widespread media attention. See: The Guardian

airports, and parcel depots in order to verify that businesses have valued and appropriately classified them in their declarations. The practices outlined above, and their magnitude (see e.g. Box 1.3 for related studies in the European Union) are known to have stretched customs authorities' capacities to their limit, if not beyond, in many jurisdictions.

Box 1.3. Studies on non-compliance under the traditional VAT collection regime for imports of low-value goods in the European Union

A Copenhagen Economics study, based on a sample of 400 actual purchases, found that 65% of consignments arriving in Europe from non-EU suppliers through public postal channels were VAT non-compliant (Basalisco, Wahl and Okholm, 2016[46]).[18] This is significant as the same study estimated that businesses send about 70% of consumer goods orders through public postal channels.[19] Although no similar research appears to have been carried out for the African continent, one can expect African jurisdictions to face the same, if not more severe challenges, to collect VAT on imports on low-value goods as European jurisdictions (African Tax Administration Forum, 2021[47]). The main challenge for VAT collection on low-value imported goods is that collection processes are often still highly manual, which becomes increasingly impossible to sustain as the volumes of low-value items imported from online sales continue to increase. (Buyonge, 2008[48]). A 2017 WCO survey (including among African jurisdictions) finds that "risk assessment for low-value e-commerce shipments, especially postal items, is highly manual, resource-intensive and performed in real-time at the border" (World Customs Organization, 2017[49]).

Similarly to the aforementioned Copenhagen Economics study, a report from the French Senate shows that the traditional customs-led VAT collection process is often ineffective in practice (Sénat - Commission des finances, 2015[50]). The report mentions figures from the Roissy Airport ("Paris-Charles de Gaulle", the main airport for Paris) over the course of a year-long period during which 3.5 million express packages and 37 million postal packages arriving from non-EU Member States yielded a total VAT collection of only EUR 1.4 million (nearly USD 1.5 million) (Sénat - Commission des finances, 2015[50]).

Work undertaken for the European Union has estimated EU Member States' annual VAT losses due to fraud and non-compliance in the declaration of imports are in the range of EUR 2.6 billion (nearly USD 2.7 billion) to EUR 3.8 billion (nearly USD 4 billion) (European Commission and Deloitte, 2016[39]). The same report goes on to observe that this estimate might "be quite conservative" referencing the French Senate report above as well as UK figures that estimated losses in the United Kingdom alone at up to GBP 1.5 billion (nearly USD 1.8 billion) annually.[20]

Customs authorities have the power in theory to check whether suppliers have correctly valued goods and, in cases of under-declaration, to demand payment of any VAT and duties outstanding. Failure to pay should result in either a return to the consignor or the abandonment of the consignment. However, if an

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(2017), *Online retailers failed to pay up to GBP 1.5bn in VAT last year, says watchdog*, https://www.theguardian.com/politics/2017/apr/19/online-retailers-1bn-lost-vat-last-year-watchdog-nao-hmrc

[17] See also UK Parliament (2016), *VAT evasion: Internet Retailers*, https://publications.parliament.uk/pa/cm201516/cmhansrd/cm160114/halltext/160114h0001.htm

[18] This study was undertaken on behalf of United Parcel Service (UPS) and involved extensive test purchases from e-commerce platforms located in the United States, Canada, Japan, India and China with delivery to a range of EU destinations. Express operators handled 50% of the purchases and public postal operators the other 50%. VAT was due on all the consignments; customs duties were due on 45% of the consignments.

[19] Ibid.

[20] See figures from HM Revenue & Customs (2016), *Fulfilment House Due Diligence Scheme*, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/507610/Fulfilment_House_Due_Diligence_Scheme_-_HMRC_consultation.pdf. Please see page 4.

administration polices fraud on an individual consignment level, fraud is often detected only on the individual consignment. Consequently, even if an administration detects fraud, payment of any VAT and duties outstanding, penalties, or enforcement measures are often restricted to the individual consignment.

Policing compliance at an individual consignment level is therefore likely to be inefficient and to have only little revenue and preventive effects.

In practice, most customs authorities do not have the capacity to exercise this level of control on a comprehensive and consistent basis. The volumes of such parcels would overwhelm most customs authorities' processing capacity and the administrative costs associated with collecting tax on each consignment (including the costs of risk screening and other ancillary costs) would probably exceed the value of the VAT and duties actually due.

It is also often qualitatively difficult for customs authorities to accurately value a consignment when they do select it for inspection. Assessments of items frequently consume considerable time and resources. One study for the EU Commission found significant variation in the frequency of verification activity that different jurisdictions undertake for VAT and customs duty on imports. It found that the level of verification was generally very low (European Commission and EY, 2015[40]).

In addition to the existing resource constraints confronting most tax and customs authorities, the COVID-19 pandemic is likely to further constrain these scarce public resources while driving increases in e-commerce. Non-compliance resulting from fraudulent under-declaration and mis-categorisation of imports is not always easy to measure but the evidence shows it is widespread and significant.

Jurisdictions should accordingly attempt to take account of the direct and indirect impacts of fraud when assessing the opportunity costs of not reforming the traditional system for VAT collection on imports of low-value goods in light of the continuously rising volume of such imports as a consequence of e-commerce growth.

1.3.3. Sharing and gig economy

The rise of the sharing and gig economy has fundamentally transformed a number of industries within just a few short years. The sharing and gig economy enables, through digital platforms, millions of economic operators, often private individuals, to monetise their underutilised goods and services for temporary ("shared") use. Sharing and gig economy platforms have already disrupted a number of economic sectors, particularly in transportation (ride-sharing), tourism and hospitality (short-term accommodation), professional services and finance. The strong growth of the sharing and gig economy creates a number of specific challenges, and opportunities, for VAT policy and administration. These challenges notably relate to the involvement of a large number of new economic operators, many of whom are not considered taxpayers under current VAT systems and may not be capable or willing to comply with their obligations if they were to be treated as taxable persons for VAT. The frequent use of assets both for sharing or gig economy activities (e.g. vehicles, real estate) and for private purposes, may add to the complexity. The fact that sharing and gig economy suppliers generally have a physical presence in the taxing jurisdiction is another relevant aspect that distinguishes it from the online trade in services, intangibles and low-value goods, as discussed above, where the main VAT challenges arise from the fact that the online suppliers often have no physical presence in the taxing jurisdiction. Given its specific characteristics, the impact of the sharing and gig economy on VAT policy and administration is separately discussed under Section 4.

1.4. OECD guidance and recommendations – Addressing the VAT challenges of digital trade

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 maximises compliance levels at minimal cost, supports the effective international co-operation in tax administration and enforcement, and minimises risks of trade distortion.

In response, the OECD has delivered a comprehensive internationally agreed policy framework for addressing the VAT challenges of the digital economy, reflecting broad consensus on effective and efficient solutions among tax authorities worldwide.

The OECD has been engaged in addressing the VAT challenges of the digital economy for more than two decades. The first tangible output of the OECD's work in this area originated in the 1998 Ottawa Conference on electronic commerce with the endorsement of the *Ottawa Taxation Framework Conditions*, which set out broad policy principles for the application of VAT to electronic commerce. In this connection, the OECD's Committee on Fiscal Affairs ("CFA") embraced in its post-Ottawa agenda specific goals with respect to consumption taxes, including agreement on international standards for the consistent determination of the place of taxation for VAT purposes and the development of options for ensuring the effective administration and collection of VAT as electronic commerce continued to evolve.

In the years following the Ottawa Conference, the CFA, working through its subsidiary bodies, notably Working Party No. 9 on Consumption Taxes (WP9), in close consultation with the business community through the Technical Advisory Group to WP9 (TAG), has developed a substantial body of guidance directed at the VAT challenges of the digital economy. In addition, in connection with the OECD's 2013 Action Plan on Base Erosion and Profit Shifting (BEPS), the OECD/G20 inclusive framework on BEPS has produced substantial guidance in recent years with respect to Action 1, "Addressing the Tax Challenges of the Digital Economy". This includes the question of "how to ensure the effective collection of VAT/GST with respect to the cross-border supply of digital goods and services".

The OECD policy framework thus results from an intense and inclusive policy dialogue over the course of several years among tax authorities from OECD member countries and non-member economies and key international and regional organisations. The core standards and principles are included in the International VAT/GST Guidelines and in the 2015 Final Report on BEPS Action 1 "Addressing the Tax Challenges of the Digital Economy". 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 vendors; the VAT treatment of online marketplaces and other digital platforms in the collection of VAT on online sales; and the VAT treatment of the sharing and gig economy.

These OECD standards and recommendations for online sales of services and intangibles have already been implemented in close to 90 jurisdictions worldwide, including in Ghana, Kenya, Nigeria, South Africa and Uganda, among other jurisdictions. An additional number of jurisdictions have implemented reform in one form or another to make non-resident vendors responsible for collecting VAT on supplies of services and intangibles to consumers in their jurisdictions. Several other jurisdictions are considering similar reforms. Very positive results have been reported in respect of VAT revenue collection, compliance levels and reduction of competitive distortion between traditional physical stores and online vendors (see subsection 1.5.1 and in particular Figure 1.18).

This subsection briefly summarises the standards and guidance reflected in the principal OECD publications addressed in whole or in part to the VAT challenges of the digital economy. Sections 2, 3 and 4 explore this guidance through more comprehensive summaries and analysis. These publications are:

- OECD (2015), ***Addressing the Tax Challenges of the Digital Economy, Action 1 – 2015 Final Report***, OECD/G20 Base Erosion and Profit Shifting Project ("The BEPS Action 1 Report") (OECD, 2015[1])
- OECD (2017), ***International VAT/GST Guidelines*** ("The Guidelines") (OECD, 2017[2])
- OECD (2017), ***Mechanisms for the Effective Collection of VAT/GST Where the Supplier Is Not Located in the Jurisdiction of Taxation*** ("The Collection Mechanisms Report") (OECD, 2017[3])
- OECD (2018), ***OECD/G20 Base Erosion and Profit Shifting Project: Tax Challenges Arising from Digitalisation – Interim Report 2018: Inclusive Framework on BEPS*** ("The BEPS Interim Report") (OECD, 2018[4])
- OECD (2019), ***The Role of Digital Platforms in the Collection of VAT/GST on Online Sales*** ("The Platforms Report") (OECD, 2019[5])
- OECD (2020), ***The Impact of the Growth of the Sharing and Gig Economy on VAT/GST Policy and Administration*** ("The Sharing and Gig Economy Report") (OECD, 2021[6])

These publications address common or related issues but also reflect the evolution in the thinking with regard to the specific issues addressed. They should be viewed holistically as addressing a common "moving target," although often with a focus on a particular issue (e.g. services and intangibles, low-value imported goods, simplified tax compliance mechanisms, digital platforms, the sharing and gig economy, etc.). The ensuing summary attempts to avoid unnecessary repetition by omitting descriptions of issues that are addressed in the publication under consideration but that have already been described or that will be described in connection with the discussion of another publication that considers the same issues.

1.4.1. The International VAT/GST Guidelines

The International VAT/GST Guidelines (Guidelines) provide specific recommendations for legislation to ensure the consistent determination of the place of taxation of internationally traded services and intangibles and to effectuate the effective collection of VAT on these supplies. The Toolkit summarises the key features of the Guidelines in greater detail at subsection 2.1 and Annex A. The recommendations are designed to implement the destination principle by assigning taxing rights to the jurisdiction of consumption and reflecting principles of VAT neutrality. It is noticeable that these Guidelines distinguish between B2C and B2B supplies because it is more effective and efficient to do so where the administrative infrastructure and capacity supports this. Administration of such a distinction may be a challenge for VAT systems which were developed without such a distinction and this Toolkit will provide guidance on ways to manage this. However, jurisdictions may decide to utilise a registration and collection regime for non-resident suppliers that entails responsibility for VAT on both B2C and B2B supplies. Such an approach is both possible and practicable where a jurisdiction wishes to employ it.

- For B2C supplies, the Guidelines recommend a place-of-performance rule for determining the place of taxation for "on the spot" supplies and a rule based on the customer's usual residence as the place of taxation for other B2C supplies of services and intangibles.
- For B2B supplies, the Guidelines recommend a customer location rule for determining the place of taxation, and they provide detailed guidance on the application of this rule in circumstances in which the customer has establishments in more than one jurisdiction.

The Guidelines also provide a specific rule for international supplies of services and intangibles directly connected with immovable property, namely, the jurisdiction in which the property is located, as well as an evaluation framework to assess where further specific rules may be appropriate.

In addition, the Guidelines provide guidance with respect to the collection of VAT in the international B2C context (explained in more detail in the Collection Mechanisms Report described below) and in the international B2B context, where the “reverse charge” or self-assessment mechanism is recommended when it is consistent with the design of the national consumption tax system. The Guidelines offer additional guidance on the adoption of mechanisms to support the Guidelines in practice, including utilisation of existing mechanisms for mutual co-operation and assistance, and information exchange between jurisdictions.

1.4.2. Collection Mechanisms Report

The Collection Mechanisms Report provides guidance for jurisdictions in addressing the effective collection of VAT on supplies of services and intangibles when the supplier is not located in the jurisdiction of taxation, i.e. foreign suppliers upon whom the jurisdiction of taxation may have limited authority to enforce a collection obligation. The Toolkit summarises the key features of the Collection Mechanisms Report in greater detail at subsection 2.2. While the Guidelines generally recommend the “reverse charge” mechanism, which imposes the VAT collection and remittance obligation upon the customer in the B2B context, it is recognised that this is not usually a viable option in the B2C context. Accordingly, the Collection Mechanisms Report and the Guidelines generally recommend the implementation of a requirement for non-resident suppliers to register in the taxing jurisdiction and remit the VAT on supplies of services and intangibles to private consumers there. It recommends the adoption of a simplified registration and collection regime (“simplified compliance” regime in short) to facilitate compliance with VAT obligations for non-resident suppliers in the B2C context.

While acknowledging that there is no one-size-fits-all approach to simplified compliance regimes for collecting VAT from non-resident suppliers, the Collection Mechanisms Report reiterates and elaborates upon the guidance in the Guidelines, providing a detailed examination of the policy considerations informing the design of such a simplified compliance regime and a description of its main features. The policy considerations include the scope of the simplified compliance regime (broad or targeted) as well as questions bearing on all registration-based collection regimes (such as thresholds and the role of third-party service providers). The Guidelines and Collection Mechanisms Report identify (and explore in detail) the following features of a simplified compliance regime: registration procedures; input tax recovery procedures; return procedures; payments; record-keeping; communications strategy; regularisation of suppliers; and adequate lead-time. A key objective of a simplified compliance regime is to encourage compliance by non-resident suppliers, by reducing the level of compliance burden compared to the burden of full registration under a traditional VAT regime.

1.4.3. BEPS Action 1 and Interim Reports in relation to imports of low-value goods

Although the Guidelines and the Collection Mechanisms Report focused on the VAT challenges of the digital economy associated with international supplies of services and intangibles, OECD guidance has also recognised the VAT challenges of the digital economy associated with the international supply of low-value goods. The Toolkit outlines the OECD recommended policy framework for imposing and collecting VAT on these supplies in Section 3. In particular, the BEPS Action 1 Report considers these challenges and jurisdictions’ potential responses to such challenges. As noted below, the Platforms Report provides detailed guidance on measures to enlist digital platforms in the effective collection of VAT on imported low-value goods that are supplied by foreign businesses to private consumers in the jurisdiction of importation.

1.4.4. Platforms Report

The Platforms Report provides guidance for the implementation of robust measures to enlist digital platforms in the collection of VAT on online sales of both services/intangibles and goods. The Toolkit summarises the key features of the Platforms Report in greater detail at subsection 2.3.

In particular, the Platforms Report focuses on the designation of the digital platform as the legal supplier for VAT liability purposes ("full VAT liability regime") and the implications of such a regime for other participants in the supply and for the VAT collection process. The report considers the functional criteria and other factors relevant to determining whether digital platforms can be made subject to a full liability regime; relevant information needs for platforms operating under such a regime; and VAT collection and payment processes under such a regime. In connection with online sales involving the importation of low-value goods, the report addresses the additional design considerations raised by the operation of the full VAT liability regime for such sales. The report also considers other roles for digital platforms to support the collection of VAT on online sales (information sharing, education of suppliers, etc.) and supporting measures for efficient and effective collection of VAT on online sales.

1.4.5. Sharing and Gig Economy Report

The Sharing and Gig Economy Report provides comprehensive analysis and guidance to assist tax authorities in designing and implementing an effective VAT policy response to the growth of the sharing and gig economy (also known as "collaborative economy"). It analyses the key features of the sharing and gig economy, its main business models; identifies the associated VAT challenges and opportunities; and presents a range of possible measures and approaches to support an effective policy response in this area. The report is complemented with an in-depth analysis of the business models in the currently dominant sharing and gig economy sectors of accommodation and transportation.

Building on the analysis and guidance provided by the report, Section 4 of the Toolkit provides an overview of the core components of a comprehensive VAT policy strategy for tax authorities in Africa to consider in response to the growth of the sharing and gig economy, taking into account their own national circumstances and policy priorities. It notably highlights the considerable role that digital platforms can play in facilitating and enhancing VAT compliance in the sharing and gig economy, including in formalising informal economy activity, through data-sharing and/or VAT collection in respect of the sharing and gig economy activities that they facilitate.

1.5. The Toolkit to assist reform

1.5.1. The recommended policy framework

In response to the identified VAT challenges associated with the digital economy and the potential need for reform to address these challenges, the VAT Digital Toolkit for Africa provides detailed guidance to assist policymakers and tax administrations in African jurisdictions in the design and implementation of robust policies for the application of VAT to digital trade. This policy framework builds on the internationally recognised OECD guidance and the experience of jurisdictions that have already implemented it. The Toolkit is not prescriptive, but rather provides advice on the possible approaches based on internationally agreed standards and best practices. This Toolkit does not attempt to present VAT model legislation for adoption by national jurisdictions. It instead presents internationally agreed central policy principles that result from intensive dialogue and consultation among tax authorities worldwide and with the business community. The OECD guidance is aimed at informing national legislation and providing recommendations for the legal and administrative implementation of these principles.

For the application of VAT on digital trade, the Toolkit gives guidance on:

- The creation of the recommended policy framework;
- The administrative and operational implementation of this framework;

- Strategies to enhance and enforce compliance by non-resident online suppliers through a modern risk-based compliance strategy and robust administrative co-operation.

The recommended policy framework presented in this Toolkit itself builds on three main pillars:

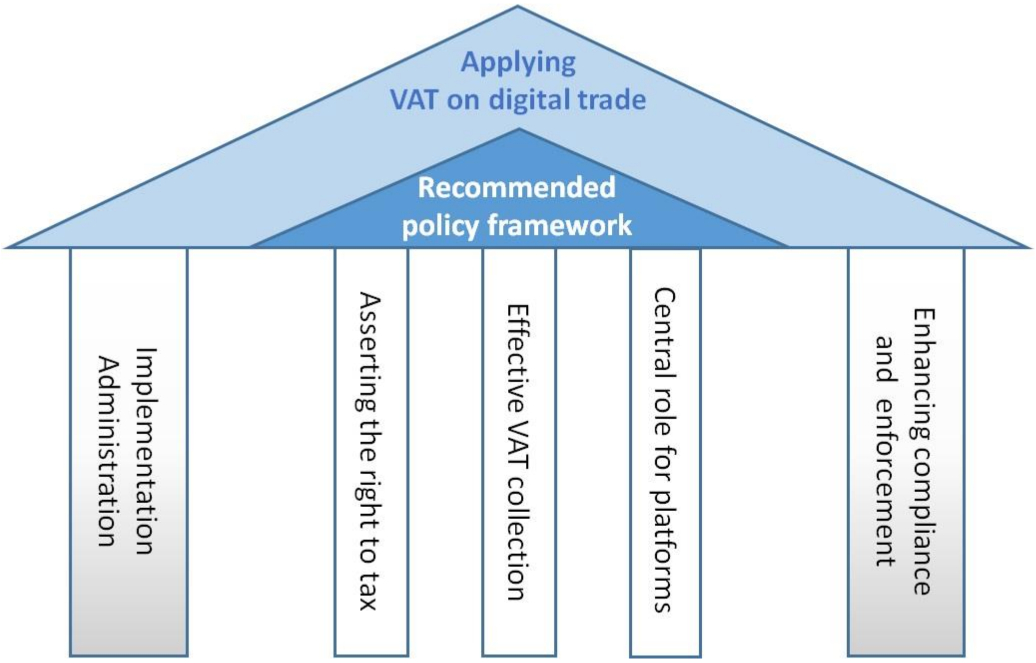
i. Creating the legal basis for jurisdictions to assert the right to impose VAT on international digital trade. This includes implementing internationally agreed standards for determining the "place of taxation" for online sales of services and digital products by reference to the location of the customer.

ii. Ensuring the efficient collection of VAT on online sales services, digital products and goods 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.

Figure 1.17 below visualises these main areas of guidance given in the Toolkit, which form the fundament for an efficient and effective application of VAT to digital trade. They are further reflected in the structure of the Toolkit (as outlined in subsection 1.5.2).

Figure 1.17. Applying VAT on digital trade – The Toolkit to assist reform



Source: OECD analysis.

1.5.1.1. African jurisdictions that already align with OECD guidance

For tax policy officials from jurisdictions that have already incorporated, in whole or in part, these recommended approaches into their national tax legislation, the principal remaining task is to assess the scope and effectiveness of their existing national legislation.

In undertaking this task, jurisdictions may wish to evaluate the overall consistency of their VAT framework with these approaches, notably in facilitating compliance and administration and in limiting opportunities for avoidance and evasion. When tax policy officials identify deficiencies in their jurisdiction's existing legislation, this Toolkit may be helpful in identifying effective solutions, notably to minimise tax revenue losses, administrative burden on tax authorities and disruption to businesses.

1.5.1.2. African jurisdictions considering reforms to align with OECD guidance

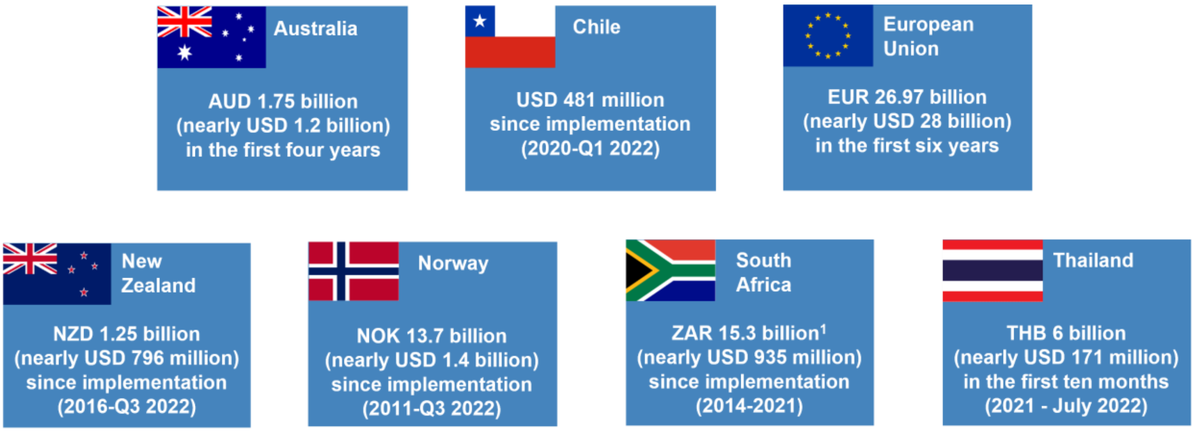
This Toolkit anticipates that many readers will be tax policy officials from jurisdictions that have not yet incorporated (or are beginning to incorporate) components of OECD guidance into their national tax legislation. Translating the guidance into effective national VAT legislation requires careful consideration and a strong understanding of how a jurisdiction's VAT framework currently operates. Sections 2, 3, and 4 of this Toolkit are of particular relevance to those jurisdictions that are in the early stages of the process of developing a policy framework and corresponding legislation reflecting the OECD guidance. These sections seek to provide advice as to how tax officials may approach this task as effectively and efficiently as possible.

Jurisdictions that have not yet embraced OECD guidance may also benefit from reviewing the experience of other jurisdictions that have been successful in adopting legislation that implements this guidance, including the experience of other African jurisdictions. The Toolkit therefore provides a number of potentially instructive examples. A strong note of caution is given, however, in order to acknowledge that it is very unlikely that a jurisdiction can directly transpose legislation or operational procedures from another jurisdiction into its own laws or operational framework without proper adaptation.

Consistent approaches, including simple to use registration, returns and payment mechanisms, have been shown to be very effective. At the time of writing of this Toolkit, over 70 jurisdictions worldwide had already implemented the OECD standards and guidance for VAT on international B2C supplies of services and intangibles. The implementation of these standards is yielding results, as illustrated by Figure 1.18 and Figure 3.3 in subsection 3.2.2.1 shows equally significant results for the regimes that have implemented the OECD guidance for the collection of VAT on supplies of low-value imported goods from online sales.

In their efforts to incorporate the guidance presented in this Toolkit into their legislative framework, jurisdictions are strongly encouraged to develop an internal process of robust oversight and review of new legislation by senior policymakers and government lawyers. They should also combine this with an open and frank process of consultation with the business community.

Figure 1.18. Overview of revenue results for international supplies of services and intangibles



1. The regimes in the jurisdictions in Figure 1.18 either exclusively or primarily target B2C supplies, with the exception of South Africa. The number for South Africa includes B2B transactions on which the customer would have been able to reclaim the VAT as input tax.
Source: OECD research.

1.5.2. Structure of this Toolkit

Section 2 of the Toolkit is devoted to the various components of the recommended policy framework for the collection of VAT on international digital trade in services and intangibles. It concentrates on its three main pillars, i.e. asserting taxing rights, effective collection of VAT, and the central role of digital platforms. It further elaborates and assesses the specific aspects of implementing these recommendations into a jurisdiction's VAT system in the African context.

Section 3 examines the various components of the recommended policy framework for the collection of VAT on imports of low-value goods from online sales by non-resident suppliers. The focus lies again on the three main pillars mentioned above and the policy decisions to be taken by African jurisdictions.

Section 4 looks at the particular aspects of the sharing and gig economy and the recommended policy framework in this specific context.

Section 5 presents detailed guidance on the administrative implementation of the recommended policy framework and on the creation of the necessary operational infrastructure. This includes the implementation 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, and their integration into a tax authority's existing administrative and IT framework. Guidance is developed respectively on internationally traded services and intangibles (including digital services and products), on imports of low-value goods from online sales, and on the sharing and gig economy.

Section 6 advises on the implementation of an effective communication strategy and of robust tax compliance risk management and enforcement strategies to ensure high compliance levels by non-resident suppliers and digital platforms with their obligations under the recommended framework for the application of VAT to digital trade. This section suggests a variety of ways in which jurisdictions can make VAT compliance more reliable, efficient and secure without mandating any single approach. Jurisdictions will have multiple factors to consider in choosing their optimal set of revenue collection tools and strategies, including fallback measures to enforce compliance upon pervasively non-compliant non-resident businesses.

Section 7 finally contains checklists that complement the analysis and guidance. They outline the main aspects for tax policy officials and administrators to consider in making the necessary policy decisions and in integrating these policies into their existing VAT and broader legal and administrative frameworks.

The main elements of this structure are illustrated in Figure 1.17.

2 The recommended policy framework for international supplies of services and intangibles – in particular from online sales

Section 2 of the VAT Digital Toolkit for Africa provides a comprehensive analysis of the recommended policy framework for the collection of VAT on international digital trade in services and intangibles. It provides concrete guidance for the implementation of the policy framework, based on internationally agreed standards and best practices.

In Brief

Section 2 sets out the recommended policy framework for the collection of VAT on international digital trade in services and intangibles. Together with Section 3, which focuses on the recommended policy framework for low-value imported goods, Section 2 is primarily for the benefit of policymakers that are tasked with developing a jurisdiction's policy for the collection of VAT on international digital trade and with designing the legislative framework for its implementation.

Asserting taxing rights for international supplies of services and intangibles

- **The International VAT/GST Guidelines as the starting point.** The Guidelines provide internationally agreed standards and principles allowing jurisdictions to allocate and assert taxing rights for VAT on international supplies of services and intangibles in accordance with the "destination principle". According to this principle, internationally traded services and intangibles are subject to the VAT rules of the jurisdiction where their consumption takes place. This provides the foundation for jurisdictions to establish an appropriately strong and internationally consistent legal basis for imposing VAT on these supplies.
- **Establishing taxing rights over international business-to-consumer (B2C) supplies of services and intangibles by reference to the customer's usual residence.** Jurisdictions that wish to impose VAT on internationally supplied services and intangibles to customers within their jurisdiction must ensure that their VAT regime provides the appropriate rules for determining the place of taxation of these supplies. In the context of international digital trade of services and intangibles, tax authorities must ensure in particular that such a place-of-taxation rule allows them to assert the right to levy VAT on services and intangibles purchased online by private consumers from suppliers abroad. This is achieved by implementing the internationally agreed principle for determining the place of taxation for these supplies by reference to the customer's usual residence. This notably covers all supplies that policymakers would typically define as "online supplies" of services and intangibles or as supplies of "digital services" and "digital products". Exceptions to this principle may be appropriate in certain circumstances, but these do not generally apply to digitally traded services and intangibles.
- **Determining the customer's usual residence**. A customer's usual residence can generally be presumed to be where the customer regularly lives or has established a home. Jurisdictions that adopt a place-of-taxation rule by reference to the usual residence of the customer are encouraged to provide clear and consistent guidance on effective information elements ("indicia" such as billing address, bank and credit card information, etc.) to support the determination of the jurisdiction where the customer has its usual residence.
- **Determining the place of taxation for business-to-business (B2B) supplies**. For B2B supplies of services and intangibles, standard guidance is to determine the location of the customer by reference to the place where the customer has located its permanent business presence. It is recognised that a jurisdiction's VAT regime may not normally make a distinction between B2B and B2C supplies. This will normally not prevent these jurisdictions from adopting a rule for determining the place of taxation of services and intangibles by reference to the customer's location as recommended. Such a rule can specify, in legislation or in accompanying guidance, that the location of a private customer is determined by reference to the customer's usual residence, as set out above, and that the location of a business customer is determined by reference to its permanent business presence.

Establishing an effective VAT collection mechanism

- **A vendor collection regime supported by simplified registration and collection processes is the generally recommended solution for the effective collection of VAT on B2C supplies of services and intangibles supplied by a non-resident supplier.** Under this regime, non-resident suppliers are required by law to register for VAT in the jurisdiction where their customer (private consumer) has its usual residence and to remit the VAT in that jurisdiction at the VAT rate and in accordance with the rules of that jurisdiction. When implementing such a vendor collection mechanism for non-resident suppliers, it is recommended that jurisdictions establish a simple or simplified registration and collection regime ("simplified compliance" regime in short) to facilitate compliance for non-resident suppliers and to maximise VAT collection.
- At its most basic, an effective vendor collection mechanism for non-resident suppliers should be simple to administer and to comply with for a non-resident business and provide the appropriate safeguards to protect VAT revenues for tax authorities.
- Such a simplified compliance regime is ideally based on relatively basic electronic processes, which have become increasingly accessible for most tax authorities including those with limited administrative capacity, and limits compliance obligations to what is strictly necessary for the effective collection of the VAT.
- It is also important to consider how to safeguard VAT neutrality for those non-resident businesses that incur significant input VAT in the jurisdiction of the customer. Jurisdictions may wish to consider allowing non-resident businesses in this situation to register under the standard VAT regime to access all of the rights and fulfil all of the obligations that the standard regime entails, including input VAT credits. The simplified compliance regime would still remain the mechanism of choice for the majority of non-resident businesses, which are unlikely to incur significant input VAT in the jurisdiction of the customer. Jurisdictions can also put in place independent and dedicated VAT refund mechanisms for non-resident businesses, including appropriate due diligence processes to guard against abuse.
- **A reverse charge mechanism is the generally recommended solution for the effective collection of VAT on B2B supplies of services and intangibles by non-resident suppliers, where it is consistent with the jurisdiction's overall VAT design.** Under the reverse charge mechanism, the liability to pay the VAT is shifted from the non-resident supplier to the business customer in the jurisdiction where this customer is located. The non-resident supplier is then relieved of the requirement to VAT register for these supplies in the business customer's jurisdiction.
- **It is recognised that a jurisdiction's VAT regime may not normally distinguish between B2C and B2B supplies.** This Toolkit discusses the possible application of a vendor collection regime supported by simplified compliance processes to both B2C and B2B supplies in such a context.
- **Option to access and use standard VAT registration and collection processes.** Jurisdictions may often choose to operate a simplified compliance regime separately from the standard registration and collection regime, without the same rights (such as input VAT recovery) and obligations (such as full reporting). Some non-resident suppliers may however have a legitimate need to register under the standard VAT registration regime, e.g. to recover VAT incurred in the jurisdiction of registration. Jurisdictions may wish to allow such standard VAT registration for non-resident suppliers but are advised to conduct enhanced due diligence and validation checks upon these non-resident suppliers before providing authorisation.

- **Potential for extending a simplified compliance regime to supplies of goods.** Jurisdictions that have implemented a simplified compliance regime for the collection of VAT on supplies of services and intangibles by non-resident suppliers can consider extending its scope to supplies of low-value imported goods by non-resident businesses. Section 3 analyses the extension of a simplified compliance regime for non-resident suppliers to include supplies of low-value imported goods in further detail.

Establishing a central role for digital platforms

- **Enlisting digital platforms in the collection of VAT on online supplies.** Given the central role of digital platforms in digital trade, jurisdictions can significantly enhance VAT collection and administrative efficiency by enlisting these platforms in the collection of VAT on digital transactions.
- **Full VAT liability regime.** Making digital platform operators liable for the VAT on supplies of services and intangibles that non-resident online suppliers make through their platforms is the most efficient and effective approach to collecting VAT on these supplies. Jurisdictions may consider the advantages of extending such a regime to supplies of low-value imported goods by non-resident suppliers and/or to domestic online supplies, or a subset of them, under certain circumstances.
- **Reporting requirements and other supporting measures**. Jurisdictions may further consider options for imposing information reporting requirements upon digital platforms, as well as related educational responsibilities, to encourage and promote compliance by suppliers selling through their platforms.

The design of VAT as a broad-based tax on final household consumption requires in principle that the tax applies equally to supplies made by resident and by non-resident businesses. A core objective of a jurisdiction's' VAT rules seeking to tax international supplies of services and intangibles is therefore to achieve an equal VAT treatment of supplies made by domestic and by non-resident suppliers to private consumers in that jurisdiction.

Adopting and implementing an effective policy framework for the collection of VAT on supplies of services and intangibles by non-resident suppliers safeguards and increases VAT revenue and helps to ensure a level playing field between domestic businesses and international competitors. In doing so, it can strengthen the integrity and fairness of a jurisdiction's tax system, improving the overall culture of compliance in a jurisdiction.

The Toolkit provides detailed guidance to assist policymakers and tax authorities in the design and implementation of such a policy framework, building on the internationally agreed OECD guidance and the experience of jurisdictions that have already implemented it, with positive results as demonstrated in subsection 1.5.1.

South Africa was among the first jurisdictions in the world to implement the recommended policy framework for international supplies of services and intangibles. Since then, several African jurisdictions have either already followed suit (see Table 2.1), notably Ghana, Kenya, Nigeria and Uganda. Additional jurisdictions are strongly considering introduction of similar laws in the near future, notably Angola, Benin, Burkina Faso, Côte d'Ivoire, Rwanda, Togo, Zambia and Zimbabwe.

Through their reforms, these jurisdictions have responded to the VAT challenges caused by the growth of international digital trade in services and intangibles (see subsection 1.3.1). The VAT Digital Toolkit for Africa has been developed to support jurisdictions that consider similar reforms or seek to further improve their current approach to the collection of VAT on internationally traded services and intangibles, particularly in respect of supplies made by non-resident businesses.

Jurisdictions may find that the implementation of the recommended policy framework within an existing VAT regime may not require a fundamental reform of their VAT system, but rather the introduction of a mechanism to give effect to the destination principle for supplies of services and intangibles by non-resident suppliers that allows them to levy the tax on such supplies made to customers within their territory.

Table 2.1. VAT regimes for international supplies of services and intangibles in selected African jurisdictions

Jurisdiction	General rules			Rules for non-resident suppliers making international supplies of services and intangibles			
	VAT introduction	Standard rate	Registration threshold* for resident suppliers	Date of entry into force of VAT regime for international digital trade based on supplier registration and collection	Rate	Registration threshold* for non-resident suppliers	Simplified registration and collection regime
Algeria	1992	19%	No threshold	1 January 2020	19%[1]	No threshold[2]	No
Cameroon	1999	19.25%	XAF 50 million	1 January 2020	19.25%	No threshold	No
Côte d'Ivoire**	1960	18%	XOF 200 million	1 January 2022	18%	No threshold	Yes
Egypt**	2016	14%	EGP 500 000	1 January 2022	14%	EGP 500 000	Yes

Jurisdiction	General rules			Rules for non-resident suppliers making international supplies of services and intangibles			
	VAT introduction	Standard rate	Registration threshold* for resident suppliers	Date of entry into force of VAT regime for international digital trade based on supplier registration and collection	Rate	Registration threshold* for non-resident suppliers	Simplified registration and collection regime
Ghana	1998	12.5%	GHS 200 000 in 12 months or GHS 50 000 in 3 months and with reasonable grounds to exceed GHS 150 000 in the next consecutive 9 months	1 April 2021	12.5%[3]	No threshold	Yes
Kenya	1990	16%	KES 5 million	9 October 2020	16%	No threshold	Yes
Nigeria	1993	7.5%	NGN 25 million	1 January 2022	7.5%	USD 25 000[4]	Yes
South Africa	1991	15%	ZAR 1 million	1 June 2014	15%	ZAR 1 million	Yes
Uganda	1996	18%	UGX 150 million per year or UGX 37.5 million per quarter	1 July 2022	18%	UGX 150 million per year or UGX 37.5 million per quarter	Yes
Zambia	1995	16%	ZMW 800 000	1 January 2020	16%	ZMW 800 000	No
Zimbabwe	2004	14.5%	USD 40 000 or the ZWL equivalent at time of registration	1 January 2020	14.5%	USD 40 000 or the ZWL equivalent at time of registration	No

* "Registration threshold" refers to an annual turnover threshold unless otherwise indicated. N.B. The second set of columns in the table are about VAT regimes that jurisdictions have implemented for non-resident suppliers making supplies of services and intangibles, with some jurisdictions restricting registration obligations to only certain categories of supply within the scope of digital trade and e-commerce, such as "digital services" or "electronic services". Under such frameworks, different rules for VAT registration (including the absence of a requirement to register) will apply to those supplies of services and intangibles which non-resident businesses make that are outside the scope of the specified categories.

** Legislation has entered into force in these jurisdictions, but the tax administration is currently developing the administration for non-resident suppliers to fulfil their compliance obligations.

1. Algeria. Standard rate applies since 1 January 2022; previously a reduced rate of 9% was in place.

2. Algeria. B2B: Non-resident businesses with no permanent presence (*entreprises étrangères n'ayant pas d'installation professionnelle permanente*) that supply services are subject to withholding (*retenue à la source*) at the rate of 30% covering all taxes including VAT, the filing and payment of which should be borne by the local business customer on behalf of the foreign provider. See articles 150 and 156 of the Algerian Income Tax Law (*Code des Impôts Directs et Taxes Assimilées*). B2C: Non-resident businesses are required to appoint a fiscal representative.

3. Ghana. Jointly with the VAT rate are also applicable the following charges: National Health Insurance Levy at 2.5%, Ghana Education Trust Levy at 2.5% and Covid-19 Health Recovery Levy at 1%.

4. The Nigerian threshold of USD 25 000 only applies to supplies in Nigeria by non-resident businesses of services and intangibles through digital or electronic means, the supply of which is essentially automated, involves minimal human intervention, and is impossible to ensure in the absence of information technology.

Source: OECD research.

2.1. Asserting taxing rights – Implementing the destination principle

Guide to subsection 2.1.

2.1.1. Introduction: Place-of-taxation rules within the broader context of the International VAT/GST Guidelines

This subsection of the Toolkit sets out the core recommendations for the design of effective VAT rules for determining the place of taxation of internationally traded services and intangibles, in accordance with the internationally agreed destination principle. These recommended rules and mechanisms are set out in the Guidelines, which form the basis for this subsection. It further builds on the follow-up guidance developed by the OECD to support the effective and consistent implementation of these standards and principles and on the experience gained by the rapidly growing number of jurisdictions that have implemented these standards and principles worldwide.

A comprehensive summary of the other main components of the Guidelines is set out in Annex A to the Toolkit. The standards and recommendations for determining the place of taxation of internationally traded services and intangibles, which are set out in Chapter 3 of the Guidelines, are closely connected with the other core components of the Guidelines with which they form a coherent body. Tax policymakers and administrators who are not yet familiar with the Guidelines may therefore wish to consult the summary of the Guidelines in Annex A when considering the recommendations for the design of place-of-taxation rules as set out in this subsection 2.1.

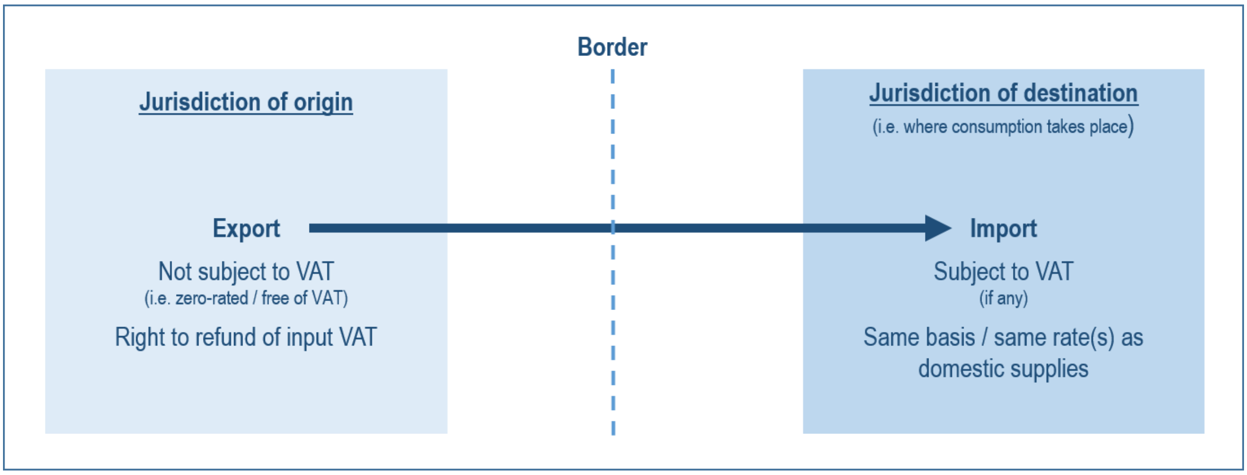
2.1.2. Determining the place of taxation in accordance with the destination principle

For consumption tax purposes, internationally traded services and intangibles should be taxed according to the rules of the jurisdiction of consumption. This core principle lays the foundation for the standards presented in the Guidelines for determining the place of taxation for internationally traded services and intangibles.

There is wide international consensus on the destination principle as the core principle for the application of VAT to international trade. Under the destination principle, tax is ultimately levied only on the final consumption that occurs within the taxing jurisdiction.

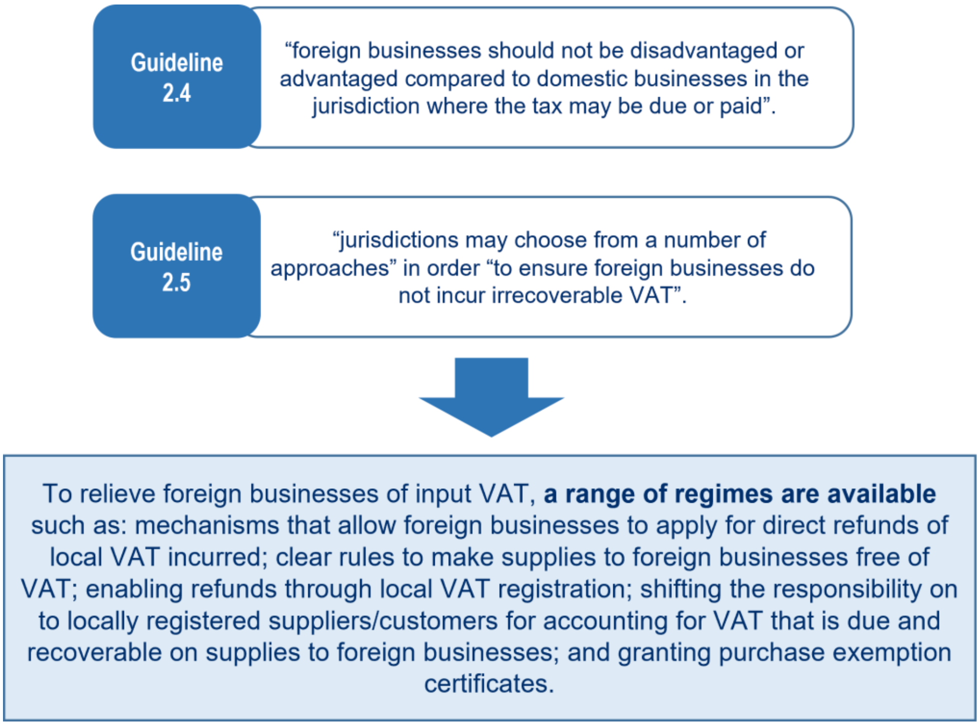
- The application of the destination principle in VAT achieves neutrality in international trade. Under the destination principle, exports are not subject to tax and exporting businesses are entitled to a refund of input taxes (that is, exports are “free of VAT” or “zero-rated”). While international supplies are not taxed in the jurisdiction of origin, the destination principle means that imports are subject to VAT (if any) in the jurisdiction of destination on the same basis and at the same rate(s) as domestic supplies. Accordingly, the total tax paid in relation to a supply is determined by the rules applicable in the jurisdiction of its consumption, and all revenue accrues in principle to the jurisdiction where the supply to the final consumer occurs (see Figure 2.1).
- The destination principle promotes equal treatment between domestic and foreign businesses in respect of the level of VAT due on taxable supplies in the jurisdiction of consumption. A natural corollary of this equal treatment is ensuring neutrality for taxable persons in the treatment of input VAT they incur. This neutrality on input VAT includes measures to make sure that businesses, be they domestic or foreign, do not incur irrecoverable input VAT in connection with supplies that are subject to VAT. To relieve foreign businesses of input VAT, jurisdictions may implement different regimes such as: mechanisms that allow foreign businesses to apply for direct refunds of local VAT incurred; clear rules to make supplies to non-resident businesses free of VAT; enabling refunds through local VAT registration; shifting the responsibility to locally registered suppliers/customers for accounting for VAT that is due and recoverable on supplies to non-resident businesses; and granting purchase exemption certificates. Figure 2.2 illustrates the principles of VAT neutrality in international trade.

Figure 2.1. Application of the destination principle in VAT



Source: OECD analysis.

Figure 2.2. Implementation of neutrality principles in international trade

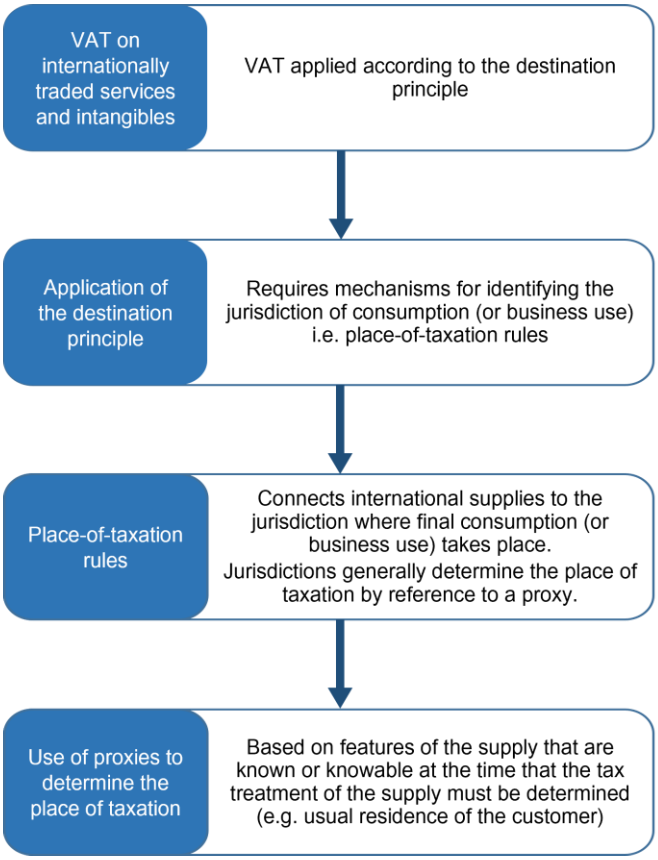


Source: OECD analysis.

In order to apply the destination principle to internationally traded services and intangibles, VAT regimes must have mechanisms for identifying the jurisdiction of consumption by connecting such supplies to the jurisdiction where the final consumption of the services or intangibles is expected to take place. VAT regimes need place-of-taxation rules to implement the destination principle not only for B2C supplies, which involve final consumption, but also for B2B supplies, even though such supplies do not involve final consumption. B2B supplies are taxed under the VAT's staged collection process, and, in this context, the place-of-taxation rules should facilitate taxation of final consumption under the destination principle.

Figure 2.3 below illustrates the key steps that the OECD recommends that jurisdictions take to establish a solid foundation in VAT legislation for the taxation of international supplies of services and intangibles.

Figure 2.3. Determining the place of taxation for international supplies of services and intangibles



Source: OECD analysis.

2.1.2.1. Distinguishing between B2C and B2B supplies of services and intangibles for determining the place of taxation: An option but not a necessity?

The approaches used by VAT regimes to implement the destination principle for B2C supplies are often different from those used for B2B supplies. This distinction is attributable to the different objectives of taxing B2C supplies and B2B supplies:

- Taxation of B2C supplies involves the imposition of a final tax burden.
- Taxation of B2B supplies is merely a means of achieving the ultimate objective of the tax, which is to place the burden of the tax on final consumption, not the intermediary businesses.

> Thus, the objective of place-of-taxation rules for B2B supplies is primarily to facilitate the imposition of a tax burden on the final consumer in the appropriate jurisdiction while maintaining neutrality within the VAT system.

The place-of-taxation rules for B2B supplies should therefore focus not only on where the business customer will use its purchases to create the services or intangibles that final consumers will acquire, but also on facilitating the flow-through of the tax burden to the final consumer while maintaining neutrality within the VAT regime. The overriding objective of place-of-taxation rules for B2C supplies, on the other hand, is to predict, subject to practical constraints, the place where the final consumer is likely to consume the services or intangibles in question.

In addition to the different objectives of the place-of-taxation rules for B2C and B2B supplies, VAT regimes often employ different mechanisms to enforce and collect the tax for both categories of supplies. These different collection mechanisms often influence the design of place-of-taxation rules and of the compliance obligations for suppliers and customers involved in international supplies. In light of these considerations, this Toolkit presents separate rules for determining the place of taxation for B2C supplies and for B2B supplies. This should not be read, however, as an explicit recommendation for VAT regimes to distinguish between B2B and B2C supplies in determining the place of taxation and in collecting VAT on international supplies. The guidance is to apply these different sets of rules when this is consistent with the design of a jurisdiction's VAT system, including where a regime distinguishes between B2B and B2C supplies.

2.1.2.2. The use of "proxies" for determining the place of taxation of internationally traded services and intangibles is recommended

In theory, place-of-taxation rules should aim to identify the actual place of final consumption for B2C supplies and the place of business use for B2B supplies on the assumption that this best facilitates implementation of the destination principle. However, the Guidelines recognise that place-of-taxation rules are in practice rarely aimed at identifying where final consumption or business use actually take place. This is a consequence of the fact that VAT must in principle be charged at or before the time when the object of the supply is made available for final consumption or business use. In most cases, at that time the supplier will not know or be able to ascertain where such final consumption or business use will actually occur. Accordingly, the primary objective for place-of-taxation rules is to predict with reasonable accuracy the place where the services or intangibles are likely to be consumed or to be used for business purposes while taking into account practical constraints. Ideally, such place-of-taxation rules should be simple and practical for taxpayers to apply, for customers to understand, and for tax authorities to administer.

VAT systems therefore generally use "proxies" for the place of final consumption or business use to determine the jurisdiction of taxation, based on features of the supply that are known or knowable at the time that the tax treatment of the supply must be determined.

Table 2.2 summarises the recommended proxies for identifying the place of taxation of supplies of services and intangibles for both B2C and B2B supplies. The following subsections (2.1.3 and 2.1.4) describe in detail the general rules and corresponding proxies. Recognising that these general rules may not always be considered appropriate for determining the place of taxation of internationally traded services and intangibles in all circumstances, subsection 2.1.5 provides guidance on the design of specific rules reflecting those specific circumstances, notably for services directly connected to immovable property.

Table 2.2. Summary of recommended proxies in the OECD VAT/GST Guidelines to identify the place of taxation of internationally traded services/digital products

Destination Principle (Guideline 3.1)				
Type	**General Rules**		**Specific Rules**	
B2C	On-the-spot services	Place of performance (Guideline 3.5)	Evaluation framework (Guideline 3.7)	Location of immovable property (Guideline 3.8)
	Services that can be supplied remotely. Others (e.g. digital services and products)	Customer's usual residence (Guideline 3.6)		
B2B	Customer location			

Source: OECD International VAT/GST Guidelines.

2.1.3. Determining the place of taxation for business-to-consumer (B2C) supplies

2.1.3.1. The jurisdiction of the customer's usual residence: Place of taxation for services and intangibles that can be supplied remotely (e.g. digital services and products)

This Toolkit recommends the implementation of a rule for determining the place of taxation of internationally traded B2C services and intangibles (including services and intangibles supplied online) by reference to the customer's usual residence.

The globalisation of the economy and the growing importance of digital trade have created challenges for determining the place of taxation for B2C supplies of services and intangibles under traditional VAT rules, as discussed in subsection 1.3.1 above. Traditional VAT rules have often determined the place of taxation for B2C supplies of services and intangibles by reference to the supplier's location or to the place of performance. However, these traditional place-of-taxation rules are increasingly unlikely to accurately predict the place of consumption now that services or intangibles can be supplied remotely by suppliers to customers anywhere in the world without the need for these suppliers to have a physical presence in the customer's jurisdiction.[21] This is particularly the case for digitally traded services and intangibles.

The place of the usual residence of the customer is generally considered to be a more appropriate proxy for determining the jurisdiction of consumption for such B2C supplies of services and intangibles. It can generally be assumed that services and intangibles that can be supplied remotely will ordinarily be consumed in the jurisdiction where the customer has its usual residence. The Guidelines therefore recommend that "the jurisdiction in which the customer has its usual residence" has the taxing rights for B2C supplies of services and intangibles, as a general principle.

The "usual residence of the customer" is generally accepted as the most efficient and effective proxy for predicting with reasonable accuracy the place where internationally traded services or intangibles are likely

[21] The same generally also applies, for example, to supplies of services and intangibles that are likely to be consumed at some time other than the time of performance, or for which the consumption or performance are likely to be ongoing.

to be consumed. Proxies based on “effective use”, “enjoyment” or “performance” are considered less efficient and leading to substantial practical implementation challenges as a basis for determining the place of taxation of internationally traded and remotely supplied services and intangibles.

The Guidelines recognise, however, that the general rule by reference to the usual residence of the customer may not be appropriate in all circumstances. In particular, it recommends the application of a rule by reference to the place of performance for supplies that can in principle not be supplied remotely (“on the spot” supplies; see subsection 2.1.3.2) and the application of a specific rule where a rule by reference to the customer’s usual residence may not lead to a correct result (see subsection 2.1.5; e.g. supplies connected with immovable property).

(i) Determining usual residence: Recommended criteria and indicia

> A customer’s usual residence can generally be presumed to be where the customer regularly lives or has established a home.

Customers generally cannot be considered to have their usual residence in a jurisdiction where they are only temporary, transitory visitors (e.g. as a tourist or as a participant in a training course or a conference).[22]

> Jurisdictions that adopt the jurisdiction of the customer’s usual residence as a proxy for determining the place of taxation are advised to provide clear and consistent rules for determining that location. These rules should set out easily identifiable indicia of usual residence. It is advised that non-resident suppliers be permitted to rely as much as possible on information they routinely collect from their customers in the course of their normal business activity and that can be processed in an automated way insofar as such information provides reasonably reliable evidence of their customers’ place of usual residence.

In general, the information provided to the supplier by the customer may be considered as important evidence for determining the jurisdiction of the customer’s usual residence. This could include information collected within business processes (e.g. the ordering process), such as:

- The customer’s jurisdiction and (billing) address;
- The customer’s bank details, such as the location of the bank account used for payment;
- The customer’s credit card information, including the credit card Bank Identification Number (BIN).

If necessary, jurisdictions may require that the reliability of the information provided by the customer to the supplier be further supported through appropriate indicia of residence, other than information provided by the customer. In some cases, such indicia might be the only indication of the jurisdiction of the customer’s usual residence that the supplier has at its disposal. Particularly in the context of digital trade where activities typically involve high-volume, low-value supplies that rely on minimal interaction and communication between the supplier and its customer, suppliers may often not be able to determine the customer’s place of usual residence on the basis of an agreement or on the basis of information provided by the customer. The available indicia are also likely to vary depending on the type of business or product involved and to evolve over time as technology and business practices develop. Useful indicia that are normally available to suppliers involved in online trade include:

[22] Jurisdictions that treat supplies to certain businesses (e.g. small enterprises or exempt businesses) as B2C supplies should keep in mind that these businesses are not necessarily natural persons. Consequently, such jurisdictions may have to adapt the concept of usual residence in these cases. The approach for determining the customer location for B2B supplies as described in subsection 2.2.1 could be useful in this respect.

- The contact telephone number;
- Location of the customer telephone landline through which the service will be supplied;
- the Internet Protocol (IP) address[23] of the device used to make the online purchase or to download digital content;
- Mobile Country Code (MCC) of the International Mobile Subscriber Identity (IMSI) stored on the Subscriber Identity Module (SIM) card used where a customer orders by mobile phone;
- The customer's trading history, which could include information on the predominant place of consumption, language of digital content supplied, or other commercially relevant information, such as a loyalty card or subscription numbers.

Where the IP address is routinely used by a vendor to manage geographical restrictions on intellectual property rights (e.g. when streaming movies or sports events), this may also serve as a useful basis for identifying the customer's location for VAT purposes. It should be noted, however, that where a purchaser is using a virtual private network (VPN) to mask its IP address or to identify it as active in another jurisdiction, this may lead to the incorrect conclusion about the place of the customer's usual residence. Therefore, jurisdictions should be aware of the risks of relying exclusively on an IP address in identifying the customer's usual residence.

Jurisdictions are encouraged to provide clear and realistic guidance for suppliers on what is required to determine the jurisdiction of usual residence of their customers for B2C supplies of services and intangibles. Tax authorities may wish to consider the following specific approaches:

- Requiring that the supplier evidences its determination of the place of taxation on the basis of two non-contradictory pieces of information/indicia as outlined above. Note, however, that emerging international practice increasingly considers one piece of information sufficient, especially for lower-value transactions or small traders.
- Implementing a fall-back rule in cases where no or limited reliable information is available.
- Adopting safe harbour rules. Under such a provision, compliant businesses that generally comply with the jurisdiction's directives and have made reasonable efforts to do so, should expect challenges only where there is misuse or abuse of the underlying evidence on which they rely.
- Moving from a transaction-based system for determining and validating the jurisdiction of usual residence of customers to a systems-based validation approach.

Any guidance provided by the tax authorities will need to take account of the broader regulatory context, particularly regarding data protection and the protection of personal privacy.

(ii) Specific observations for jurisdictions in Africa

A number of jurisdictions in Africa follow an approach by explicit reference to the customer's usual residence for remote supplies of services and intangibles, or for selected categories of these supplies, focusing especially on digital services and digital products, while others implicitly follow its logic in applying VAT to internationally traded services and intangibles. Box 2.1 provides some notable examples from jurisdictions in Africa that have implemented place-of-taxation rules for the imposition of VAT on these supplies through a proxy based on customer location.

[23] An Internet Protocol address, also known as an IP address, is a numerical label assigned to each device (e.g. computer, mobile phone) participating in a computer network that uses the Internet Protocol for communication.

Box 2.1. Examples of how African jurisdictions have integrated customer location proxies and associated indicia into their place-of-taxation rules

Kenya[1]**:** The Kenyan Digital Marketplace Supply Regulations of 2020 effectively establish customer location as the basis for determining the place of taxation for supplies of taxable “digital services” by non-resident suppliers. The Regulations define customer location via the terminology that a “supply on a digital marketplace shall be deemed to have been made in Kenya where the recipient of the supply is in Kenya.”

In practice, the criteria which the Regulations provide to non-resident suppliers to determine a customer’s presence in Kenya are similar to those that other jurisdictions typically employ where they define place of taxation as the “usual residence” of the customer for international B2C supplies. Kenya asks non-resident suppliers to determine whether the customer meets either of the following two sets of criteria:

- Payment-based indicators: A financial institution in Kenya has issued the credit card, debit card, or bank account that the customer uses to fund the supply.
- Address- or access-based indicators: The billing address or stated home address of the customer is in Kenya, or the customer’s Internet protocol address affirms that the customer has accessed the Internet through a Kenya-based Internet server, or the mobile country code of the customer’s sim card shows that the card operates through a Kenyan phone number.

Kenya’s Regulations ask non-resident suppliers to identify a single piece of evidence that shows the customer has utilised a Kenyan financial institution to make payment or indicates that the customer has made the order from an address in Kenya. Jurisdictions often advise businesses to identify a minimum of two non-conflicting pieces of information, in the event of conflicting evidence from different criteria, or to have established an explicit hierarchy of information types, to minimise risks of double taxation for such businesses.

Nigeria[2]**:** Nigeria takes an expansive approach to determining the place of taxation for supplies of services and intangibles. Its VAT laws seek imposition of tax on any supplies that a customer consumes or uses in Nigeria, an approach which includes explicit reference to the concept of usual residence but also could include consumption and use by persons that might otherwise not usually be resident in Nigeria.

The Federal Inland Revenue Service (FIRS) has published a detailed guidance note for non-resident suppliers and digital platforms making supplies of services and intangibles to Nigerian customers. This guidance prescribes a series of criteria or indicia upon which non-resident businesses can determine whether FIRS would consider their customers’ consumption or use of these businesses’ supplies to take place in Nigeria. The supply will be taxable in Nigeria if the customer meets any one of these criteria. In practice, the majority of these criteria align closely to those that jurisdictions utilise for B2C supplies under place-of-taxation laws that more strictly limit their coverage to the usual residence of a consumer. Indeed, FIRS appears to place a priority on indicators of usual residence, which the illustrated examples that it has included in the guidance note suggest.

The criteria that FIRS specifies for determining Nigeria as the place of consumption or use, and therefore taxation, for supplies of services and intangibles are as follows:

a). The recipient of the supplies resides in Nigeria, as evidenced by the billing, business, residential or postal address in Nigeria.

b). It can be inferred from information provided that the consumer's usual place of residence is Nigeria.

c). The customer is a company incorporated under any law in Nigeria.

d). The customer's URL, geo-location or IP address is in Nigeria.

e). It is physically performed in Nigeria.

f). There is any other evidence suggesting that the supply is consumed or utilised in Nigeria or that such supplies can only be utilised in Nigeria; or

g). A place of consumption cannot be established for the supplies, using any of the above indicia, the place of consumption is Nigeria if the payment for such supplies originates from a bank or any other financial institution licensed in Nigeria pursuant to Nigerian laws.

Many jurisdictions advise businesses to identify a minimum of two non-conflicting pieces of information, in the event of conflicting evidence from different criteria, or have established an explicit hierarchy of information types to minimise risks of double taxation for such businesses.

South Africa[3]**:** South Africa imposes VAT on "electronic services" that non-resident suppliers make to customers in its jurisdiction. South Africa's original VAT regulations for the taxation of electronic services came into force in June 2014. These original regulations limited the scope of services that qualified as electronic services to a prescribed list, but South Africa subsequently amended the regulations with effect from April 2019 to widen the scope of taxable electronic services to include all supplies of services that meet a principles-based definition of an "electronic service".

South Africa's Value-Added Tax Act 89 of 1991 establishes the place-of-taxation rules for the imposition and collection of VAT on such electronic services. Section 7(1) of the Act explains that, subject to certain exceptions, VAT is due on all supplies of goods and services that "vendors" make in the course or furtherance of any enterprise they carry on. Section 1(1) of the Act defines "enterprise" to include several forms of economic activity, including the supply of electronic services by a non-resident business where certain conditions apply. The effective purpose of these conditions is to identify whether or not the customer of these electronic services is usually resident/located in South Africa as a proxy for concluding that consumption or use of the supply will take place in South Africa. These conditions are as follows and at least two out of three must apply in order for the supply to be within the scope of VAT:

1. The recipient of the services is a resident of South Africa.
2. The payment for the services originates from a bank registered under South Africa's Banks Act 94 of 1990 (the Banks Act); or
3. The recipient of the services has a business, residential or postal address in South Africa.

N.B. For VAT purposes, a resident is a person that meets the definition of a resident in the South African Income Tax Act, or any other person or company, to the extent that such person or company carries on an enterprise or activity in South Africa and has a fixed or permanent place in South Africa relating to such enterprise or activity.

Example from outside Africa:

Australia[4]

In short, two approaches are available to determine whether a consumer is resident in Australia for the purposes of imposing Australian GST on supplies by non-resident businesses. Both approaches provide a high level of discretion to businesses to form judgements that are logical and consistent based on their own distinct business models and systems:

- Using information that businesses routinely collect as part of their normal business processes. This would necessitate two pieces of evidence where fully automated systems are used; and/or
- Personal information acquired from customers through interactions during the sales process if information from business systems does not produce a definitive conclusion.

Non-resident suppliers may also rely on conclusions they have reached about a customer's residence in another jurisdiction if that jurisdiction has rules similar to Australia's for determining residence for VAT purposes, e.g. New Zealand, Norway, and EU Member States.

Notes:
1. The National Treasury of the Republic of Kenya (2020), *Kenya Subsidiary Legislation 2020: Legal Notice No.190: The Value Added Tax Act (No.35 of 2013): The Value Added Tax (Digital Marketplace Supply) Regulations, 2020*, https://kra.go.ke/images/publications/VAT-Digital-Marketplace-Supply-Regulations.pdf; and Republic of Kenya (2021), *Value Added Tax Act, Act No. 35 of 2013*, The National Council for Law Reporting ("Kenya Law"), Nairobi, http://kenyalaw.org:8181/exist/kenyalex/actview.xql?actid=No.%2035%20of%202013
2. Federal Inland Revenue Service (FIRS) of Nigeria (2021), *Guidelines on Simplified Compliance Regime for Value Added Tax (VAT) for Non-Resident Suppliers, No. 2021/19*, https://www.firs.gov.ng/wp-content/uploads/2021/10/Guidelines-on-Simplified-Compliance-Regime-of-VAT-for-Non-Resident-Suppliers-15102021.pdf
3. South African Revenue Service (SARS) Legal Counsel (2019), *Value-Added Tax: Frequently Asked Questions: Supplies of Electronic Services* (Issue 3), SARS, https://www.sars.gov.za/wp-content/uploads/Ops/Guides/LAPD-VAT-G16-VAT-FAQs-Supplies-of-electronic-services.pdf
4. Australian Taxation Office (ATO), "Australian consumer" in *GST Definitions*, ATO, https://www.ato.gov.au/Business/GST/In-detail/Definitions/#Consumer

Source: OECD research.

In the interest of legal certainty and transparency, it is recommended that jurisdictions include a clear proxy for determining the place of taxation for remote supplies of services and intangibles, or for selected categories of these supplies such as digital services and digital products, by reference to the customer's usual residence in the "primary" legislation whenever possible. The scope of such a place-of-taxation rule by reference to the customer's usual residence can in principle be extended to all supplies of services and intangibles that can be delivered from a remote location and that, due to the nature of their performance or delivery, are difficult or impossible to link to a specific physical location. Where legislation continues to include proxies based on "use", "enjoyment" or "performance"[24], these could be limited to apply to "on-the-spot" supplies of services and intangibles (and/or to circumstances where the place for such "use", enjoyment" or "performance" is readily identifiable and these proxies provide a reasonably accurate indication of the place of consumption; see 2.1.3.2 below).

A clear determination in the law of the place of taxation by reference to the customer's usual residence enhances international consistency. International consistency reduces risks of double taxation or unintended non-taxation while at the same time leading to higher levels of compliance and reducing risks of tax avoidance or tax minimisation caused by unclear or obsolete proxies. The adoption of a clear and easy-to-apply proxy also enhances certainty for international businesses in making correct taxation decisions, including for exporters to apply zero-rating to outbound international supplies.

Scholars and practitioners have highlighted that the VAT systems in place in a number of African jurisdictions have the broad tendency to rely on rules based on the place of "use" or "enjoyment" for determining the place of taxation (Millar, 2008[51]). In practice, it may not always be possible for jurisdictions to modify these rules and include an explicit reference to the customer's usual residence for B2C supplies in the primary legislation itself, particularly when reform of the existing legal framework may be challenging or complex and time consuming (e.g. complex legislative procedures or a challenging political economy in

[24] Note, in particular, that where a jurisdiction employs proxies based on place of performance, it should support VAT-registered businesses to apply the destination principle through issuing guidance on when it is permissible to zero-rate or not apply the jurisdiction's VAT to supplies of services and intangibles to customers located in foreign jurisdictions.

a jurisdiction that creates obstacles to bi-partisan consensus for reforms). These jurisdictions may then rely exclusively on secondary legislation or administrative guidance, where appropriate, to implement a place-of-taxation rule by reference to the customer's usual residence. In these cases, the secondary legislation or administrative guidance may provide that the services or intangibles in scope of this reform (usually digitally supplied services and products) be considered "used", "enjoyed", or more broadly "consumed" in the jurisdiction where the customer has its usual residence. Such provisions can be complemented with further guidance on indicia for determining the customer's usual residence.

2.1.3.2. The jurisdiction where the supply is physically performed: Place of taxation for "on the spot" supplies

The "place of performance" is an appropriate basis for determining the place of taxation with respect to B2C services or intangibles that are physically supplied and consumed at the same location ("on the spot" supplies).

This recommendation is expressed in the Guidelines, which provide that "the jurisdiction in which the supply is physically performed has the taxing rights over B2C supplies of services and intangibles" when these supplies:

- Are physically performed at a readily identifiable place, and
- Are ordinarily consumed at the same time as and at the same place where they are physically performed, and
- Ordinarily require the physical presence of the person performing the supply and the person consuming the service or intangible at the same time and place where the supply of such a service or intangible is physically performed.

This recommendation essentially relates to the group of services that can normally not be supplied remotely. Therefore, it generally does not apply to services or intangibles that can be supplied online. Typical "on the spot" supplies are supplies of services that are physically performed on the person (e.g. hairdressing, massage, beauty therapy, physiotherapy); restaurant and catering services; entry to cinema, theatre performances, trade fairs, museums, exhibitions, and parks; and attendance at sports competitions.

The place of physical performance of the supply is an appropriate proxy to determine the place of consumption for such supplies. It provides a reasonably accurate indication of their place of consumption and it is simple for suppliers to apply and for tax authorities to administer.

It is recognised that jurisdictions' existing VAT regimes may often, explicitly by law or implicitly in practice, determine the place of taxation for these types of "on the spot" supplies by reference to the location of the supplier. The application of such a rule based on the supplier's location for determining the place of taxation of "on the spot" supplies will generally lead to the same result as a rule based on the place of performance. These jurisdictions may decide to maintain their approach based on the supplier's location for determining the place of taxation of "on the spot" supplies. They could then focus their reform on supplies of services and intangibles that can be made remotely, including online supplies of services and intangibles that can typically be made by online suppliers to customers anywhere in the world without requiring a physical presence in the customer's jurisdiction. The place of performance or the supplier's location does not provide an appropriate basis for determining the place of taxation of such remote supplies, as discussed in the previous subsections.

In certain exceptional circumstances, the use of a specific place-of-taxation rule other than by reference to the customer's usual residence or to the place of performance may be justified for determining the place of taxation of a B2C supply of services and intangibles. This is discussed in further detail in subsection 2.1.5.

2.1.4. Place of taxation for business-to-business (B2B) supplies: The jurisdiction where the business customer is located

> It is recommended that the right to levy VAT on international B2B supplies of services and intangibles be assigned to the "jurisdiction in which the business customer is located".

Under the destination principle, taxing rights associated with internationally traded services and intangibles are assigned to the "jurisdiction of consumption". In the B2B context, however, there is normally no final consumption at which the VAT is ultimately directed. B2B transactions are generally subject to VAT to allow the staged collection process that should ultimately lead to a tax on final consumption by individuals in the jurisdiction of consumption (see subsection 2.1.2.1). Accordingly, in the context of internationally traded B2B supplies of services and intangibles, the place-of-taxation rules should facilitate the ultimate objective of the tax, by adopting rules that facilitate the imposition of a tax burden on the final consumer by the jurisdiction of consumption while maintaining neutrality within the VAT system. This can be achieved by assigning the right to levy VAT on these supplies to the jurisdiction in which the business customer is located.

The underlying assumption to use the business customer's location for determining the place of taxation for international B2B supplies of services and intangibles is that it constitutes the appropriate proxy for the place where the business customer can be expected to use its purchases for business purposes. As such, it facilitates the flow-through of the tax burden to final consumers in accordance with the destination principle.

> The customer's location is where the customer has located its permanent business presence (for a "single location entity" or "SLE"). If a customer has establishments in more than one jurisdiction ("multiple location entity" or "MLE"), the Guidelines assign the taxing rights "to the jurisdiction(s) where the establishment(s) using the service or intangible is (are) located".

The Guidelines identify three approaches for determining the establishment[25] of an MLE that is regarded as using a service or intangible and where this establishment is located:

- The "direct use" approach, which focuses directly on the establishment that uses the service or intangible;
- The "direct delivery" approach, which focuses on the establishment to which the service or intangible is delivered;
- The "recharge method", which focuses on the establishment that uses the service or intangible as determined on the basis of internal recharge arrangements within the MLE, made in accordance with corporate tax, accounting or other regulatory requirements.

[25] Registration for VAT purposes by itself does not constitute an establishment for the purposes of the Guidelines. Jurisdictions are encouraged to publicise what constitutes an "establishment" under their domestic VAT legislation. The Commentary of the OECD Model Convention and the BEPS Action 1 Report further underline that registration for VAT purposes is independent from the determination of whether there is a permanent establishment (PE) for income tax purposes. Further information at: OECD (2017), "Commentary on Article 5", in *Model Tax Convention on Income and on Capital: Condensed Version 2017*, https://doi.org/10.1787/mtc_cond-2017-en

Each of the approaches may have its merits in particular circumstances and the Guidelines elaborate upon each one of these in detailed Commentary.

Under certain exceptional circumstances, the use of a specific place-of-taxation rule other than by reference to the customer's location may be justified for determining the place of taxation of B2B supplies of services and intangibles. This is discussed in further detail in the next subsection.

2.1.5. Specific rules for determining the place of taxation for B2B and B2C supplies

> The general place-of-taxation rules for international B2B and B2C supplies of services and intangibles set out above may not lead to the appropriate determination of the place of taxation in all circumstances. In these particular cases, a specific rule that takes account of these circumstances may be better suited to identify the appropriate place of taxation.

2.1.5.1. Evaluation framework for assessing the desirability of a specific rule

To further assist jurisdictions with the overall design of their place-of-taxation rules, the Guidelines provide an agreed framework for evaluating the desirability of any specific rules for determining the place of taxation of international supplies of services and intangibles other than the general rules presented in subsections 2.1.3 and 2.1.4. In particular, the Guidelines recommend a specific rule for supplies of services and intangibles connected with immovable property (see subsection 2.1.5.2).

The general rules presented in subsections 2.1.3 and 2.1.4 determine the place of taxation for B2B and B2C supplies of services and intangibles by reference to the customer's location. A place of taxation rule by reference to the place of performance is recommended as a general rule for B2C supplies of services that cannot normally be supplied remotely ("on the spot supplies"). The evaluation framework presented in the Guidelines, in Guideline 3.7, provides that jurisdictions may consider adopting a specific rule for determining the place of taxation other than these general rules, when two conditions are met:

- The allocation of taxing rights by reference to those general rules does not lead to an appropriate result under the criteria of (i) neutrality, (ii) efficiency of compliance and administration, (iii) certainty and simplicity, (iv) effectiveness, and (v) fairness.
- A proxy other than the one identified by those general rules would lead to a significantly better result when considered under the same criteria.

It may notably be appropriate to apply a place-of-taxation rule by reference to the place of physical performance rather than by reference to the business customer's location for B2B supplies of services and intangibles that are typically made "on the spot" (e.g. restaurant services or access to events), just as for B2C supplies. This relieves suppliers of such services of the compliance burden of having to distinguish between final consumers and businesses when making their taxing decisions under the general rules, as both B2B and B2C supplies of these services are then taxed by reference to the place of physical performance. Such a specific rule might thereby lead to a significantly better result by comparison to the application of the general rule for B2B supplies of services and intangibles under the criteria of the evolution framework presented in the Guidelines.

It is recommended, however, that the use of specific rules be limited to the greatest extent possible. Specific rules for determining the place of taxation of internationally traded services and intangibles increase the risk of diverging approaches across jurisdictions, thereby increasing risks of double taxation and unintended non-taxation.

2.1.5.2. Supplies directly connected with immovable property

Guideline 3.8 provides that for internationally traded supplies of services and intangibles directly connected with immovable property, "the taxing rights may be allocated to the jurisdiction where the immovable property is located". This reflects and recognises the reality that many VAT regimes have directly or indirectly embraced place-of-taxation rules for services and intangibles by reference to the location of the immovable property.[26]

The Guidelines identify two categories of services or intangibles directly connected with immovable property for which it is reasonable to assume that a specific rule by reference to the location of the immovable property leads to a significantly better result than the general rules by reference to customer location or place of performance:

- The transfer, sale, lease or the right to use, occupy, enjoy or exploit immovable property; and
- Supplies of services that are physically provided to the immovable property itself, such as constructing, altering and maintaining the immovable property.

The place-of-taxation rule by reference to the immovable property could be further extended to other supplies of services and intangibles directly connected with immovable property, which have very close, clear and obvious link or association with immovable property. The Guidelines suggest that jurisdictions may use the evaluation framework presented in Guideline 3.7 to further assess the possible application of a place-of-taxation rule by reference to the immovable property to these other supplies. These other services and intangibles could, for instance, include services such as architectural services, which are not physically performed on immovable property but that relate to clearly identifiable, specific immovable property.

2.2. Establishing effective VAT collection mechanisms where the supplier is not established in the jurisdiction of taxation

Guide to subsection 2.2.

[26] The qualifying phrase "directly or indirectly" is intended to recognise the distinction between VAT regimes that have adopted specific place-of-taxation rules for particular types of supplies of services and intangibles, including those relating to immovable property (e.g. in the European Union where the place of supply for services "connected with immovable property" is "the place where the immovable property is located") and VAT regimes (like Australia's and New Zealand's) that often reach a similar conclusion based on an "iterative" approach to determining the appropriate place of taxation.

Introduction to the design of effective collection mechanisms for international supplies of services and intangibles

The preceding subsection, subsection 2.1, provided detailed guidance for jurisdictions in Africa on how to design VAT laws for determining place-of-taxation. Such laws allow assertion of full and appropriate taxing rights over supplies of services and intangibles by non-resident businesses to customers located or resident on these jurisdictions' territory. Having asserted the right to tax such supplies, the next key challenge is for tax administrations to design and implement effective and efficient mechanisms for actually collecting the VAT revenues due.

In implementing effective collection mechanisms, the *International VAT/GST Guidelines* generally recommend the establishment of distinct mechanisms for collecting VAT revenues on B2B supplies and B2C supplies that non-resident businesses make to customers in a jurisdiction.

For international B2B supplies, the Guidelines recommend the "reverse charge" mechanism, which imposes responsibility onto VAT-registered business customers for accounting for and, where applicable, remitting VAT to the tax administration. The Guidelines recognise that such customer collection is usually ineffectual in a B2C context and is thus not usually a viable option for B2C supplies of services and intangibles by non-resident suppliers. Please see subsection 2.2.1.

For such international B2C supplies, the Guidelines and subsequent Collection Mechanisms Report recommend that jurisdictions implement a regime that requires non-resident businesses to register and collect VAT on supplies they make to customers for their private consumption on a jurisdiction's territory. These OECD standards and guidance additionally recommend that the mechanism jurisdictions put in place for compliance be in the form of a "simplified registration and collection" regime. Please see subsection 2.2.2.

This Toolkit for Africa follows the logic of these international standards in presenting these options for distinct regimes for VAT collection based on customer status. However, the effective implementation of such distinctive approaches for international B2B and B2C depends upon jurisdictions possessing the infrastructure and the administrative capacity to support distinction between customer statuses, including to police compliance. Against this backdrop, this Toolkit acknowledges that many jurisdictions in Africa may have a strong preference for imposing uniform collection obligations upon non-resident suppliers for both B2B and B2C supplies. Where jurisdictions do not, or are unable to, permit distinct collection mechanisms, the Guidelines note that a simplified VAT compliance regime can be implemented for supplies made by non-resident suppliers to all customers, B2B as well as B2C.

Subsections 2.2.1 and 2.2.2.3 therefore provide guidance on how best to adapt simplified VAT registration and collection regimes for non-resident suppliers where jurisdictions mandate that these suppliers take responsibility for collecting VAT on both B2B and B2C supplies.

Finally, note that non-resident businesses may in some situations benefit from the ability to register under a jurisdiction's standard VAT regime rather than under a simplified compliance regime. This ability can safeguard VAT neutrality for such businesses when they incur significant expenditure in the jurisdiction of taxation by allowing them to recover input VAT in line with the rules that apply to resident businesses. Expenditure of this nature could, for example, arise from operations such as marketing and advertising to customers in the jurisdiction of taxation.

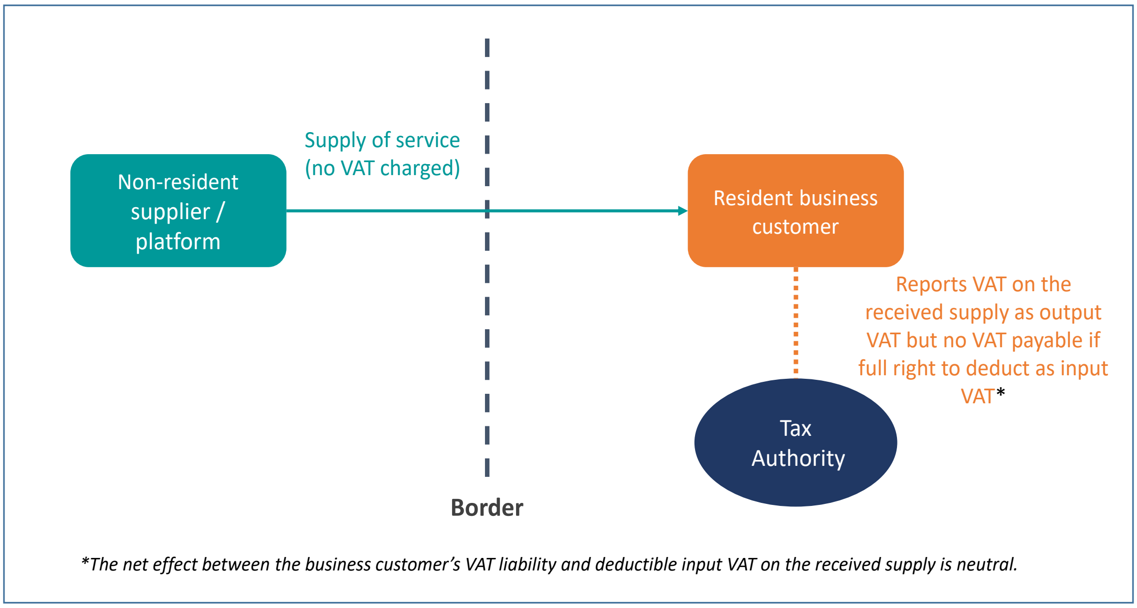
2.2.1. B2B supplies: The "reverse charge" mechanism

For business-to-business (B2B) supplies of services and intangibles by non-resident suppliers, the "reverse charge" mechanism is the recommended VAT collection mechanism when this is consistent with the design of the jurisdiction's VAT regime. This recommendation is aimed at tax authorities in jurisdictions whose VAT framework allows for a distinction in the VAT treatment between B2B and B2C supplies, or which might consider VAT reform to implement such a distinction.

This Toolkit provides further guidance for jurisdictions where the VAT framework does not permit a distinction between B2B and B2C supplies by non-resident businesses (subsections 2.2.2.1 and 2.2.2.3). This is likely to be of particular interest for jurisdictions in Africa, whose VAT framework may often not permit distinction on the basis of customer status. It is recognised that these jurisdictions will often regard the use of supplier-based VAT collection for international B2B supplies, rather than reliance on customer self-assessment, as preferable for reasons of protecting the integrity of their tax systems.

Under the reverse charge mechanism, the customer accounts for any VAT due in its jurisdiction on the services and intangibles it has purchased from a non-resident supplier, thereby relieving the non-resident supplier of the obligation to be identified for VAT purposes and to account for the tax in the customer's jurisdiction in respect of this transaction. The customer typically achieves this by declaring the VAT due on the supply received from the non-resident supplier as output tax in its own VAT return (see Figure 2.4). The customer is entitled to input VAT deduction on this supply, typically in the same VAT return, to the extent allowed under the rules of its jurisdiction. If the customer is entitled to full input VAT deduction on the relevant supply, it may be that local VAT legislation does not require declaration of the output tax under the reverse charge mechanism.

Figure 2.4. Illustration of operation of the reverse charge mechanism for international B2B supplies



Source: OECD analysis.

The adoption of the reverse charge mechanism helps to overcome challenges associated with the effective collection of VAT on B2B supplies of services and intangibles "where the supplier is not located in the jurisdiction of taxation"[27] (see subsection 1.3.1 for more details on these challenges):

- The compliance burden is largely shifted from the non-resident supplier to the customer and is minimised since the customer has full access to the details of the supply.
- The tax authority in the jurisdiction of the business customer can verify and ensure compliance since that authority has enforcement jurisdiction over that customer.
- The compliance burden and administrative costs for non-resident suppliers are reduced as it is not required to comply with tax obligations in the customer's jurisdiction (e.g. VAT identification, registration, audits, which would otherwise have to be administered, and translation and language barriers) and not required to know the VAT rules necessary to assess the tax due (e.g. tax rate, exemptions, etc.) in that jurisdiction.
- Revenue risks that can be associated with the collection of VAT from non-resident suppliers are minimised for the customer's jurisdiction, including the revenue risks from input VAT deduction or claims for refunds by resident business customers of VAT that may not have been or will not be remitted by non-resident suppliers.
- Cash-flow relief is provided to the customer.

In summary, the application of the reverse charge mechanism for B2B supplies of services and intangibles ensures that non-resident suppliers are not drawn into a jurisdiction's VAT system. VAT-registered business customers must instead report VAT chargeable on the supply in their VAT return as both output VAT due and, where applicable, input VAT that is recoverable. The net tax result of these transactions will often be zero, i.e. where the customer has a full right to input VAT deduction. This reduces revenue risks

[27] The references to circumstances "where the supplier is not located in the jurisdiction of taxation" is embodied in the official title of the Collection Mechanisms Report and is used in the Guidelines and other OECD guidance to refer to cases "where the jurisdiction of taxation may have limited or no authority effectively to enforce a collection obligation upon the supplier". See Collection Mechanisms Report in the "Glossary of terms" in this publication.

in the customer's jurisdiction because the tax authority can focus audit activities on business customers that are resident rather than on hard-to-reach suppliers that are non-resident.

Some jurisdictions in Africa that apply VAT to international services and intangibles operate a reverse charge mechanism for B2B supplies. The following Table 2.3 summarises the treatment of B2B supplies of services and intangibles by non-resident suppliers in African jurisdictions that have implemented rules to levy VAT on supplies of services and intangibles by non-resident suppliers.

Table 2.3. Treatment of international B2B supplies of services and intangibles by African jurisdictions that have implemented registration and collection mechanisms for non-resident businesses*

Jurisdiction	Date of implementation	Standard rate for supplies of services	Distinction between B2B and B2C supplies under VAT framework	Treatment of international B2B supplies
Algeria	31/12/2019	19%	No	Withholding by a domestic customer at the rate of 30% that includes VAT
Angola	1/10/2019	14%	Yes	Reverse charge
Cameroon	1/01/2020	19.25%	No	Vendor collection by non-resident suppliers through a fiscal representative with reverse charge as a fallback if non-resident suppliers fail to appoint a fiscal representative
Côte d'Ivoire	4/01/2022**	18%	No	Vendor collection by digital platforms with reverse charge as a fallback in case of non-registration by the platform
Ghana	1/04/2021	12.5%	No	Vendor collection by non-resident suppliers on supplies of "electronic commerce" and "telecommunications services"
Kenya	9/10/2020	16%	No	Vendor collection by non-resident suppliers of digital services***
Nigeria	1/01/2022	7.5%	No	Vendor collection by non-resident suppliers on services and intangibles delivered through electronic or digital means. Reverse-charge by the customer in Nigeria operates as a fallback where non-resident suppliers fail to collect the VAT
South Africa	1/06/2014	15%	No	Vendor collection by non-resident suppliers of electronic services
Tanzania	1/07/2015	18%	Yes	Reverse charge for B2B
Uganda	1/07/2022	18%	Yes	Reverse charge for B2B
Zambia	1/01/2020	16%	No	Reverse charge or non-resident supplier registration through a fiscal representative
Zimbabwe	1/01/2020	14.5%	No	Vendor collection by non-resident suppliers of digital services

Notes:
*For some jurisdictions in the table, the treatment of international B2B supplies of services and intangibles that it describes encompasses only certain categories of supply within the scope of digital trade and e-commerce, such as "digital services" or "electronic services". Under such frameworks, different rules for VAT registration (including the absence of a requirement to register) will apply to those supplies of services and intangibles which non-resident businesses make that are outside the scope of the specified categories.
**Côte d'Ivoire has recently amended its regulation to apply a vendor collection by non-resident platforms. However, this regime has not been implemented yet.
***Kenya has recently amended its regulation to apply a vendor collection for both B2B and B2C supplies. See Kenya Finance Act 2022 (23 June 2022) at https://kra.go.ke/images/publications/Finance--Act-2022.pdf
Source: OECD research.

Jurisdictions that implement a reverse charge mechanism for B2B supplies of services and intangibles by non-resident suppliers are advised to consider the following:

- **Early communication and guidance**. Jurisdictions that plan to introduce a reverse charge mechanism should communicate this reform early in the process to all key stakeholders and provide appropriate lead-time for them to implement corresponding systems changes. Stakeholders include non-resident suppliers, domestic businesses, and accounting software providers, among others.
- **Clearly identify the categories of domestic business that are subject to the reverse charge obligation**.
    - Jurisdictions may limit the application of the reverse charge to supplies made to VAT-registered domestic businesses. They should then instruct non-resident suppliers to treat non-VAT-registered businesses as final consumers (and to account for such sales under a simplified compliance regime for international B2C sales if they have implemented such a regime).
    - Tax authorities should clearly communicate to domestic businesses any other circumstances in which the reverse charge does not apply. For example, the jurisdiction may prohibit the application of the reverse charge mechanism in cases where other parties that are involved in making the supply, such as a resident agent of the non-resident supplier, have a presence in the taxing jurisdiction.
- **Determining the customer status of a domestic purchaser**. Non-resident suppliers will need clear rules and guidance on the information and indicia that they should use for determining whether their customer is a business, which is subject to a reverse charge obligation, or a private consumer, which does not have such an obligation. This could include general information in the contractual arrangements between a supplier and its customer, notably for high-volume supplies of services where it is impractical or even impossible to make the determination of a customer's status on a transaction-by-transaction basis. Box 2.2 below presents internationally agreed indicia that can serve as an appropriate basis for determining the customer status of a purchaser of services and intangibles from a non-resident supplier.
    - Some jurisdictions provide assistance to non-resident suppliers in verifying their customers' VAT status, for instance via an online tool that automatically validates customers' VAT registration or tax identification numbers in real-time. This can notably be provided through an application programming interface (API) allowing suppliers to link their internal systems to an electronic register of VAT registration numbers maintained by the tax authority in the taxing jurisdiction. The Republic of Korea, for instance, provides the possibility for non-resident suppliers of electronic services to verify their Korean customers' business registration numbers via a dedicated webpage. Nigeria's tax authority provides a facility on its website to support verification of counterparties' tax identification numbers (TINs), which allows businesses to both check the validity of TINs and the identity of the entity or person to whom a TIN belongs.[28]
- **What if a domestic business that is subject to a reverse charge obligation is charged VAT by a non-resident supplier?**
    - Jurisdictions sometimes insist that the domestic business customer apply a reverse charge regardless of whether the non-resident supplier charges VAT. The customer's redress would then be to seek a refund from the non-resident supplier.
    - Jurisdictions could consider a concession to enable domestic business customers to recover the input VAT that was inadvertently charged by non-resident suppliers in such cases in their

[28] See Nigerian FIRS portal for verification of taxpayers' TINs at: https://vatcert.firs.gov.ng/vatcert/index.php?p=viewList

VAT return, perhaps limiting this concession to low-value and low-risk purchases (e.g. below a specified materiality threshold).

  - Subsections 5.2.5 and 5.2.9.4 discuss input VAT recovery and refunds more generally.

- **Waivers of the obligation to perform a reverse charge**. Jurisdictions may decide to provide further administrative relief to domestic business customers by removing the obligation to perform a reverse charge if the customer is entitled to full recovery of input VAT on the supply. In this situation, customers would implement a reverse charge only where they themselves make entirely or partially exempt supplies or when they purchase services or intangibles for private/non-business use. Examples of jurisdictions in Africa that follow such an approach are Botswana, Ghana and South Africa. Box 2.3 below provides more detail on this approach.
- **Purchases of exempt and zero-rated supplies.** Where a business customer makes a purchase from a non-resident supplier, and the nature of the supply would be an exempt or zero-rated supply in the customer's jurisdiction, then VAT is not due and hence no obligation to perform a reverse charge would arise.
- **Interactions between the reverse charge mechanism and the VAT registration threshold**. The VAT laws in certain jurisdictions, for instance Singapore,[29] require domestic businesses to include the value of their purchases from non-resident suppliers (i.e. purchases that would normally be subject to a reverse charge) in calculating whether they exceed the domestic VAT registration threshold. In comparison, other jurisdictions like Australia do not.
- **Appropriate anti-abuse and penalty provisions to address fraudulent behaviour by consumers who misrepresent themselves as businesses**. These could include the implementation of administrative penalties for private consumers falsely presenting themselves as business customers to non-resident suppliers.

[29] Singapore has a separate registration threshold for reverse charge supplies. A non-GST-registered business customer that imports services exceeding SGD 1 million would be liable to register. On the other hand, a non-GST-registered business customer that makes SGD 200 000 taxable supplies and imports services not exceeding SGD 900 000 would not be liable for registration.

Box 2.2. Indicia for determining the status of the customer: Indicative typology

- An identification number, such as a VAT registration number or a business tax identification number indicating the business identity and registration of the customer; or
- A certificate issued by the customer's competent tax authority, which indicates the business identity and registration of the customer; or
- Information available in commercial registers; or
- Commercial indicia that may provide a reliable indication of the status of the customer, individually or in combination with other indicia. These may include:
  - The nature or specific features of the supply, e.g. the supply of digitised music with no entitlement to the embedded intellectual property rights might indicate that the customer is not a business, whereas the supply of software that is licensed for business use across a large number of networked computers would indicate that the customer is a business.
  - The value of the supply, e.g. the high value of a software package could indicate that the customer is a business.
  - The customer's trading history with the non-resident supplier. This may include records from prior transactions which could provide information on the status of the customer.
  - Digital certificates or identity certificates (i.e. electronic credentials that are used to certify the online identity of their owner). These could serve to establish the status of the customer particularly when they include specific information about the customer's VAT registration or business tax status. The use of these certificates currently appears to be less widespread among private customers than among businesses.

Source: OECD (2017), *The Collection Mechanisms Report* (OECD, 2017[3]).

Where a supplier, acting in good faith and having made reasonable efforts, is not able to obtain the appropriate documentation to establish the status of its customer, jurisdictions could legislate for or recognise a presumption that the supply is made to a non-business customer, in which case the rules for B2C supplies would apply. This may be particularly relevant for digital services and products where automated solutions for determining customers' VAT status are normally required due to the high volumes of low-value supplies involved.

As mentioned above, some jurisdictions around the world will require that non-resident suppliers and digital platforms visit or link their systems through an API to the tax administration's website to check the validity of customers' VAT registration or tax identification numbers.[30] The South African Revenue Service maintains a searchable web portal to allow suppliers to check the validity of a customer's VAT registration number, and vice versa, and to check whether a company is registered for VAT when a registration number appears to be missing from commercial and tax documents. SARS updates the database that the web portal obtains its results from on a weekly basis. The publicly available version of the portal permits the searching of one VAT registration number or entity trading name at a time. Businesses can sign up to a more sophisticated version of the portal that provides extended listings of entities registered for VAT in South Africa. However, in South Africa, the purpose of this infrastructure for checking businesses' VAT registration status is to support accurate invoicing of customers in accordance with South African VAT regulations and to safeguard against input VAT fraud. South Africa does not operate a distinct collection mechanism for B2B supplies of "electronic services" by non-resident businesses, such as a reverse

[30] Revenue Department of Thailand (2021), *A Guide on VAT on Electronic Service Provided to Non-VAT Registrants in Thailand by Non-resident Business Person*, https://www.rd.go.th/fileadmin/download/eService.pdf

charge, and so the infrastructure has no role in such a business's determination about whether to charge and collect VAT on supplies of electronic services to South African customers.

In the case of Kenya, the Kenya Revenue Authority requires electronic invoices to include (amongst other things) a PIN (personal identification number) of the recipient if the recipient intends to claim input tax for the VAT they have paid. According to the KRA website:

The PIN Checker allows you to confirm whether or not a particular PIN is genuine. A genuine PIN is generated by the KRA - Domestic Taxes Department System and is in Active status. The Information provided by the PIN Checker is limited to basic details of the taxpayer.

The incentive to use a correct PIN rests principally with the purchaser to get this detail correct as it is the purchaser that would seek to claim input tax, but it is possible for the supplier to check the validity of a customer's PIN via the *iTax* online service area of the KRA's website.

By contrast, in other jurisdictions, such as New Zealand, suppliers are able to rely on the provision of an identification number as evidence of GST registration and are not required to check its validity prior to determining not to charge GST on these supplies.

Box 2.3. Minimising administrative burdens for business customers by waiving the obligation to perform a reverse charge

A number of jurisdictions will only require VAT-registered businesses to perform a reverse charge for services or intangibles that they purchase from a non-resident supplier, where the registered business customer does not have an entitlement to full input VAT deduction on the purchase.

Some VAT regimes in Africa take this approach in excluding supplies of services by non-resident businesses from the scope of reverse charge obligations if the resident customer will use such supplies for the making of taxable supplies in the jurisdiction. The following are examples of jurisdictions that follow this approach:

Botswana[1]: VAT is payable by a resident person (e.g. business customer) purchasing a service from a non-resident supplier only if this resident person purchases the service for use in making exempt supplies or other non-taxable purposes, e.g. VAT would also be due upon importation of services by private individuals and non-VAT-registered entities.

Ghana[1]: The reverse-charge mechanism is applicable to recipients of taxable services imported into the country. However, a VAT-registered recipient of taxable imported services is not required to apply the reverse charge mechanism when it is established that such imported services are for the making of taxable supplies.

South Africa[1]: For B2B supplies of imported services other than electronic services, a reverse charge applies if a person resident in South Africa purchases services from a non-resident business with the intention of using such services in the making of non-taxable supplies. This means that if the resident person intends to utilise the services in the making of taxable supplies, then this person does not have any obligation to account for VAT on the supply. By contrast, for B2B supplies of electronic services by non-resident suppliers, the supplier must account for and remit VAT due.

Examples from outside Africa

Singapore[2]**:** The jurisdiction waives the obligation to perform a GST reverse charge, but with an option to fully reverse charge all supplies received from non-resident suppliers.

Under Singapore's GST regime, a GST-registered business that procures services from a non-resident supplier is only designated as a "Reverse Charge Business" when it is not entitled to full input tax credit.

GST-registered businesses that are entitled to full input tax credit may opt for the application of the reverse charge mechanism for their purchases from non-resident suppliers.

Non-GST registered persons that procure services from non-resident suppliers are liable for GST registration by virtue of the reverse charge rules if they satisfy the following conditions:

a). They import services which, if they were registered, would be within scope of reverse charge and that exceed SGD 1 million in a 12-month period, under either a retrospective or prospective basis; and

b). They would not be entitled to full input tax credit if they were GST-registered.

New Zealand[3]**:** Zero rating approach. Non-resident suppliers are not required to charge and remit GST on supplies to businesses registered for GST in New Zealand, nor are they required to provide tax invoices.

The remote supply of services may be subject to GST under a reverse charge mechanism only if a resident who imports the services makes less than 95% taxable supplies and the services would have been taxable if made in New Zealand. If so, the recipient of the services will have to account for output tax and, to the extent that the services are acquired for a taxable purpose, the GST can be recovered as input tax.

Non-resident businesses can choose to zero rate B2B supplies to allow them to claim back New Zealand GST on the costs incurred in making these zero-rated supplies to GST-registered businesses.

Notes:
1. EY (2022), *Worldwide VAT, GST and Sales Tax Guide 2022*, https://www.ey.com/en_gl/tax-guides/worldwide-vat-gst-and-sales-tax-guide
2. Inland Revenue Authority of Singapore, *e-Tax Guide on GST: Taxing imported services by way of reverse charge*, https://www.iras.gov.sg/error-pages/500.html?aspxerrorpath=/irashome/uploadedFiles/IRASHome/e-Tax_Guides/GST%20Taxing%20imported%20services%20by%20way%20of%20reverse%20charge%20(2nd%20Edition).pdf
3. New Zealand Inland Revenue Department, *Special report on GST on cross-border supplies of remote services*, https://taxpolicy.ird.govt.nz/publications/2016/2016-sr-gst-cross-border-supplies
Source: OECD research.

2.2.2. B2C supplies: Simplified VAT registration and collection regime

2.2.2.1. The case for a simplified VAT registration and collection regime for non-resident suppliers

It is recommended that jurisdictions consider the following:

- Assign the responsibility for the collection of VAT on supplies of services and intangibles purchased by private consumers (B2C) from suppliers abroad to the non-resident suppliers that sell them or to the digital platforms that facilitate these supplies ("vendor collection").
- Establish a simple or simplified registration and collection regime ("simplified compliance" regime in short) for the non-resident suppliers and digital platforms that are required to collect and remit the VAT on these supplies.

In contrast to B2B supplies, it is generally recognised that the reverse charge mechanism usually does not offer an appropriate solution for collecting VAT on B2C supplies of services and intangibles from non-resident suppliers. Tax authorities cannot realistically look to private consumers to remit VAT on their purchases from non-resident suppliers, even though these private consumers are located in the jurisdiction of taxation.

The highest feasible levels of compliance by non-resident suppliers and digital platforms (on the involvement of digital platforms, see subsection 2.3) are likely to be achieved if compliance obligations in the jurisdiction of taxation are limited to what is strictly necessary for the effective collection of the tax. Appropriate simplification is particularly important to facilitate compliance for businesses faced with obligations in multiple jurisdictions. Where traditional registration and collection procedures are complex, their application for non-resident suppliers and digital platforms may lead to non-compliance or to certain suppliers or platforms declining to serve customers in jurisdictions that impose such burdens. It is therefore recommended that jurisdictions that choose to adopt a vendor collection regime to collect the VAT on B2C supplies of services and intangibles by non-resident suppliers, implement a simplified compliance regime as presented in this Toolkit to facilitate compliance for these suppliers.

A number of VAT regimes in Africa do not distinguish between B2B and B2C transactions, and therefore the application of a reverse charge for B2B supplies only would not be consistent with the design of these systems. These jurisdictions can consider applying a simplified VAT compliance regime for both B2B and B2C supplies of services and intangibles by non-resident suppliers. This “all in” approach can offer and effective and efficient solution for collecting the VAT from non-resident suppliers. It may, however, cause additional VAT revenue risks notably from the deduction of input VAT that is not remitted to the tax authorities by non-resident suppliers.

Application of a registration and collection obligation for supplies of services and intangibles by non-resident suppliers to both B2B and B2C customers could provide a way to collect VAT without requiring separate approaches for business use and private consumption.[31] The total amount of VAT collected through such a regime will normally be significantly higher than under a vendor collection regime that is limited to B2C supplies. To safeguard neutrality under such a regime, VAT-registered business customers should be granted a right to deduct the input VAT paid to non-resident suppliers, in principle under the same rules and conditions as if they acquired the service or intangible from a resident supplier. The implementation of an appropriate strategy management the associated VAT revenue risks will be required, notably to identify situations where business customers claim deduction of VAT paid to non-resident suppliers that is not remitted to the tax administration by these suppliers. For most jurisdictions that operate a simplified compliance regime for non-resident suppliers, such risks are not significant because they generally only apply the regime to B2C supplies and deny the ability to claim VAT refunds within the simplified compliance regime.

Table 2.4 outlines a number of advantages and challenges that jurisdictions may wish to take into account when considering the application of a simplified compliance regime for non-resident suppliers for B2B supplies of services and intangibles in addition to B2C supplies.

[31] South Africa is an example in this respect. See National Treasury of South Africa (2019), *Explanatory Memorandum: Regulations prescribing electronic services for the purpose of the definition of “electronic services” in Section 1(1) of the Value-Added-Tax Act, 1991*, http://www.treasury.gov.za/publications/other/Explanatory%20Memorandum-Regulations%20prescribing%20electronic%20services%20-%2018%20March%202019.pdf

N.B. Where a non-resident business supplies electronic services to a resident business that forms part of the same group of companies, South Africa excludes such supplies from the scope of its VAT, provided that the non-resident business supplies the services exclusively for the purposes of use by the resident business.

Table 2.4. Evaluating the merits of imposing VAT collection obligations on non-resident suppliers for B2B supplies of services and intangibles

Advantages	Challenges
• Reasonably straightforward policy for non-resident suppliers to apply to all in-scope supplies of services and intangibles that they make to customers in a jurisdiction, irrespective of whether the customer is a business user or private consumer.	• Monitoring and enforcement of compliance by non-resident suppliers may be more difficult for tax administration than under reverse charge mechanism, for supplies to VAT-registered, resident business customers.
• Tax administration does not need to implement rules, administrative capacity and infrastructure to permit non-resident suppliers to distinguish VAT-registered business customers.	• B2B supplies can (are likely to) be of high value, individually as well as on aggregate, so revenue risks are likely to be greater than where vendor collection remains limited to B2C supplies.
• Private consumers cannot obtain supplies free of VAT by falsely claiming to be VAT-registered businesses.	• Jurisdictions will not necessarily raise much net VAT revenue from imposing collection obligations onto non-resident suppliers for B2B supplies, i.e. VAT-registered business customers will often be able to fully reclaim the VAT they have paid to the supplier.
• Maintains the staged chain of collection on which VAT is theoretically based.	• Business customers forfeit the cash flow advantages the reverse charge would provide them, especially for higher-value B2B supplies.
• In jurisdictions where there may be a widespread culture of non-compliance among resident businesses, VAT collection on B2B supplies by non-resident suppliers prevents the possibility of revenue loss through failure to comply with the reverse charge mechanism by resident business customers that do not have a (full) right to input VAT deduction – and/or that may wish to obscure investments and business purchases.	• Jurisdictions must normally require non-resident suppliers to issue VAT invoices and fully account for the tax due on B2B supplies, in order to support claims for input VAT deduction by resident business customers.

2.2.2.2. Recommended design features of a simplified VAT registration and collection regime

The recommended core features of a simplified compliance regime for non-resident suppliers of services and intangibles are outlined in Table 2.5 below. They aim to balance the need for simplification and the need for tax authorities to safeguard VAT revenues. Subsection 5.2 discusses the administrative and operational aspects of such a regime in further practical detail.

Table 2.5. Main features of a simplified registration and collection regime for non-resident suppliers

Registration procedure	• The information can remain limited to necessary details, which could include: ○ Name of business, including the trading name; ○ Name of contact person responsible for dealing with tax authorities; ○ Postal and/or registered address of the business and its contact person; ○ Telephone number of contact person; ○ Electronic address of contact person; ○ Websites' URL of non-resident suppliers through which business is conducted in the taxing jurisdiction;

	○ National tax identification number, if such a number is issued to the supplier in the supplier's jurisdiction to conduct business in that jurisdiction. • The simplest way to engage with tax authorities from a remote location is by electronic processes. An online registration application could be made accessible on the home page of the tax authority's website, preferably available in the languages of the jurisdiction's major trading partners. • Jurisdictions should not make the appointment of a local fiscal representative compulsory under a simplified compliance regime for non-resident suppliers unless there are exceptional circumstances for doing so. • A registration for VAT purposes by itself does in principle not constitute an establishment for the purposes of the recommended policy framework.
Input tax recovery (refunds)	• Taxing jurisdictions may limit the scope of a simplified compliance regime to the collection of VAT on B2C supplies of services and intangibles by non-resident suppliers and digital platforms without making the recovery of input tax available under the simplified regime. • Input tax recovery can remain available for non-resident suppliers and digital platforms under the normal VAT registration and collection regime or via an independent mechanism for VAT refunds for non-resident businesses. This would be appropriate where non-resident businesses have significant expenditure inside the jurisdiction of consumption and input tax credits would apply to equivalent expenditure by VAT-registered, resident businesses. Examples might include marketing or advertising costs.
Return procedure	• As requirements differ widely among jurisdictions, satisfying obligations to file tax returns in multiple jurisdictions is a complex process that often results in considerable compliance burdens for non-resident suppliers and digital platforms. • Tax authorities can authorise non-resident businesses to file simplified returns, which would be less detailed than returns required for local businesses that are entitled to input tax credits. In establishing the requirements for information under such a simplified approach, it is desirable to strike a balance between the businesses' need for simplicity and the tax authorities' need to verify whether tax obligations have been correctly fulfilled. This information could be confined to: ○ Supplier's or platform's registration identification number; ○ Tax period; ○ Currency and, where relevant, exchange rate used; ○ Taxable amount at the standard rate; ○ Taxable amount at reduced rate(s), if any; ○ Total tax amount payable. • The option to file electronically in a simple and commonly used format is essential to facilitating compliance. • Tax authorities should consider limiting the mandatory reporting period to a quarterly frequency if this presents no significant compliance risks.
Payments	• Use of electronic payment methods is recommended, allowing non-resident suppliers and digital platforms to remit the tax due electronically from abroad. • Jurisdictions could consider accepting payments in the currencies of their main trading partners.
Record-keeping	• Jurisdictions are encouraged to allow the use of electronic record-keeping systems and remote storage outside the jurisdiction. • Jurisdictions can limit the data to be recorded to what is required to allow them to verify that the tax for each supply has been charged and accounted for correctly and relying as much as possible on information that is available to suppliers in the course of their normal business

	activity. • This may include the type of supply, the date of the supply, the VAT payable and the information used to determine the place where the customer has its usual residence. • Taxing jurisdictions may require these records to be made available on request within a reasonable delay.
Invoicing	• Jurisdictions may consider eliminating invoicing requirements for business-to-consumer supplies that are covered by the simplified compliance regime, in light of the fact that the customers involved generally will not be entitled to deduct the input VAT paid on these supplies. • If invoices are required, jurisdictions may consider allowing invoices to be issued in accordance with the rules of the supplier's jurisdiction or accepting commercial documentation that is issued for purposes other than VAT (e.g. electronic receipts). • It is recommended that the required information on the invoice remain limited to the data that are necessary to administer the VAT regime, such as the identification of the customer, type and date of the supply (or supplies), the taxable amount and VAT amount per VAT rate and the total taxable amount. Jurisdictions may consider allowing such invoices to be submitted in the language of their main trading partners.
Availability of information	• Jurisdictions are encouraged to make available online all information necessary to register and comply with the simplified compliance regime, preferably in the languages of their major trading partners. • Jurisdictions are also encouraged to make accessible via the Internet the relevant and up-to-date information that non-resident businesses are likely to need in making their tax determinations. In particular, this would include information on tax rates and product classification.
Use of third-party service providers	• Compliance for non-resident suppliers can be further facilitated by allowing such suppliers to appoint a third-party service provider to act on their behalf in carrying out certain procedures, such as submitting returns. • This can be especially helpful for SMEs and businesses that are faced with multi-jurisdictional obligations.

Source: OECD (2017), The Collection Mechanisms Report (OECD, 2017[3]).

As mentioned under "registration procedure" in Table 2.5 above, jurisdictions are encouraged not to require the appointment of a local fiscal representative under a simplified compliance regime for non-resident suppliers and digital platforms as such a requirement conflicts with the intent of a simplified registration and compliance scheme to effectively promote willing engagement with tax obligations by making it easy for non-resident businesses to comply. This is discussed in more detail at subsection 5.2.8 of this Toolkit.

2.2.2.3. Design features of particular consideration for jurisdictions that do not permit separate collection mechanisms for B2B supplies by non-resident businesses

Jurisdictions are advised to consider the following aspect in particular when designing a regime that imposes VAT collection obligations on non-resident businesses for both B2B and B2C supplies:

- **Input VAT:** In line with the *International VAT/GST Guidelines* and the principle of VAT neutrality in international trade, VAT-registered businesses that must make a transfer of funds for VAT on purchases from non-resident suppliers should be able to recover the input VAT on these purchases where they would have the ability to recover it on the same supplies from a resident VAT-registered supplier. This approach on VAT recovery will have the dual effect of, firstly, treating supplies by domestic and international suppliers in the same way, removing any bias for domestic business customers towards the use of a domestic or non-resident supplier and, secondly, will have the effect of consistency with the neutrality principle underlying VAT which is to confine the incidence of the tax to the final consumer, while generally flowing through VAT-registered businesses at all stages of production prior to final consumption. A typical example of such inputs might be VAT on marketing or advertising in the jurisdiction where the customer is located.

- **Full VAT invoices:** Jurisdictions that impose a registration and collection obligation on non-resident suppliers for both B2C and B2B supplies will usually require suppliers produce full VAT invoices to support input VAT recovery for VAT-registered business customers and fulfilment of obligations for reporting and record keeping. These jurisdictions will also generally make it a requirement that a full VAT invoice takes the format that the tax administration demands for resident VAT-registered businesses. Such invoicing rules can prove among the most burdensome elements of VAT compliance for non-resident businesses, especially because they may face the prospect of having to adapt their internal ERP, accounting and IT systems to administer invoices in a different form for each of the many jurisdictions they may operate in. Where internal systems and standard commercial software programs cannot handle production of invoices in several formats, a significant burden of manual adaptation may arise for businesses' tax compliance staff.

  Jurisdictions could consider certain steps to mitigate the administrative burdens for non-resident suppliers, while ensuring that the tax administration can straightforwardly assess and validate invoices for the purposes of authorising input VAT recovery and performing risk management activity. These steps include:

  - Assessing how closely the jurisdiction's rules for invoicing align with the formats that jurisdictions most commonly employ internationally. Jurisdictions could then consider adjusting the national VAT invoicing requirement to more closely align with international norms and trends.
  - Relaxing the range of formats in which the tax administration will accept invoices so that this range can encompass those that the jurisdiction's major trading partners employ.[32] The jurisdiction's tax administration could combine this approach with a more risk-based approach to the authorisation and auditing of input VAT recovery claims, focussing on unusual trends and large claims that constitute the greatest risk of fraud.

- **Risk management:** A regime that demands non-resident businesses collect VAT on B2B supplies creates potentially greater revenue risks because B2B supplies can be of much higher value than B2C supplies, individually as well as on aggregate. The VAT from suppliers for B2B supplies, including high value ones, may not be effectively remitted to the tax authorities due to insolvency or fraudulent behaviour. Enforcement in such circumstances will typically be difficult due to the non-resident status of the supplier. VAT-registered resident businesses that have transferred funds

[32] Nigeria is a good example of a jurisdiction that allows non-resident sellers to issue tax invoices in line with the rules of the sellers' jurisdictions of establishment. Please see:
Nigerian FIRS (2021), *Guidelines on Simplified Compliance Regime for Value Added Tax (VAT) for Non-Resident Suppliers, No. 2021/19*, https://www.firs.gov.ng/wp-content/uploads/2021/10/Guidelines-on-Simplified-Compliance-Regime-of-VAT-for-Non-Resident-Suppliers-15102021.pdf. Refer to section 17.0, "Issuance of Tax Invoice", of these guidelines.
Similarly, the Kenya Revenue Authority made a public statement in August 2022 to clarify that VAT-registered non-resident suppliers of digital services are exempt from the obligation to issue full VAT invoices, provided the invoices or receipts they issue state the value of the supply and the VAT that the supplier has charged. Please see:
KRA (2022), *Exemption of Non-Resident Suppliers of Digital Services from the VAT (Electronic Tax Invoice) Regulations, 2020*, https://www.kra.go.ke/news-center/public-notices/1797-exemption-of-non-resident-suppliers-of-digital-services-from-the-vat-electronic-tax-invoice-regulations,-2020
In both the cases of Nigeria and of Kenya, it will be important to consult periodically with the domestic and international business community to assess how effectively businesses consider these administrative easements to work in practice.

for VAT due to non-compliant, non-resident suppliers will still want to claim input VAT deduction for these amounts, where allowable in line with standard VAT rules in the jurisdiction of taxation. However, because the supplier is in these circumstances unwilling or unable to remit the output VAT due to the tax administration, a real risk of revenue loss occurs to the jurisdiction owing to the conduct of the non-resident supplier, which would not exist under the reverse charge mechanism.

Jurisdictions can address these potential sources of revenue loss through a heightened focus on targeted risk management strategies that concentrate compliance checks and audit activity upon the highest risk non-resident suppliers and transactions. Jurisdictions can also utilise international administrative cooperation mechanisms in situations where they require further information to evaluate the compliance of a supplier or to seek assistance in recovery of large VAT debts that they have identified.

2.2.2.4. Scope of the simplified compliance regime: Types of supplies

Jurisdictions that follow the recommendation to implement a simplified compliance regime for non-resident suppliers and digital platforms will need to determine the categories of supplies for which VAT will be remitted under the simplified regime as distinguished from the other categories for which the traditional regime would normally apply (or for which a jurisdiction may decide not to implement a registration and collection requirement). In general, one can identify two basic approaches to this issue: a broad approach and a targeted approach.

> Under a **broad approach**, the simplified compliance regime is used to collect VAT on B2C supplies of services and intangibles by a non-resident supplier in general, i.e. irrespective of the type of supply or the place-of-taxation rule that applies. Jurisdictions could thus use the simplified compliance regime to collect VAT on any type of B2C supplies by suppliers that are not located in the taxing jurisdiction and for which the jurisdiction has asserted the taxing rights.

An advantage of such a broad approach is that it reduces risks of uncertainty, complexity and possible disputes that might result from implementing different tax treatments for different categories or types of supplies by non-resident suppliers. It reduces definitional questions and hence the need to define which types of supply are in and out of scope. It also reduces the need to revise the rules whenever new types of supplies emerge that can be made by non-resident suppliers and is therefore likely to be more future proof than a limited approach, something that is typically relevant in the digital economy. It is therefore likely to provide greater consistency in the tax treatment of similar types of supplies. Overall, a broad approach is thus likely to reduce complexity and uncertainty for suppliers as well as for tax authorities. Box 2.4 sets out examples of jurisdictions that have adopted a broad approach.

By contrast, tax authorities may wish to choose an approach whereby a simplified compliance regime is implemented only to cover those areas where it has identified a pressing need for such measures. They may thus wish to avoid reforms and changes for both suppliers and the tax authority that may affect areas for which there is no compelling need for change. In the end, it is for the tax authorities to carefully balance these considerations. On the one hand, there is the potential advantage of implementing a broad approach in minimising uncertainty with regard to the scope of a simplified compliance regime and minimising risks of uneven treatment between supplies that are in and out of scope. On the other hand, there is the potential disadvantage of extending simplification for supplies or suppliers when there is no need to deviate from the regular registration and collection regime.

Box 2.4. Jurisdictions that take a broad approach to the scope of supplies within their simplified VAT compliance regime

Australia defines the scope of supplies of services and intangibles, on which it would require non-resident businesses above the registration threshold to account for GST under its simplified compliance regime, in its legal guidance on international supplies. This guidance states that supplies of "services, rights or digital products to an Australian consumer'' are in principle subject to Australian GST.[1] This guidance does not confine the definition of services to those that are of a distinctly "digital" nature and thus a wide range of services that non-resident suppliers can provide remotely are in scope, including accounting, architectural designs, and legal advice, among other services.[2]

Egypt[3] takes a broad approach in determining the scope of its simplified compliance regime for non-resident businesses. Accordingly, Egypt defines "remote services" as being any services where, at the time of the performance of those services, there is no necessary connection between the physical location of the recipient and the place of physical performance. Examples of such services include supplies of digital content (e-books, movies, TV shows, music and online newspaper subscriptions), online supplies of games, apps, software and software maintenance, website design and publishing services, as well as legal, accounting and consultancy services.

New Zealand[4], in accord with its broad-based GST system, applies its simplified compliance regime to a wide range of remote international supplies of services. New Zealand defines a "remote" service as a service where, at the time of the performance of the service, there is no necessary connection between the physical location of the recipient and the place of physical performance. This definition includes digital services, such as e-books, music, videos and software downloads, as well as non-digital services, such as general insurance, consulting, accounting and legal services.

Singapore[5] originally limited its "overseas vendor registration" regime to "digital services" only. However, with effect from 2023, Singapore will extend the regime to supplies of non-digital services by non-resident suppliers and for which it is the jurisdiction of taxation. This will render the Singaporean simplified compliance regime as one that overall aligns with the broad approach that Australia and New Zealand take.

Notes:
1. Australian Taxation Office (2017), *Goods and Services Tax Ruling – GSTR 2017/1 Goods and services tax: making cross-border supplies to Australian consumers*, https://www.ato.gov.au/law/view/document?docid=GST/GSTR20171/NAT/ATO/00001
2. Australia makes an exception for non-resident digital platforms, which need to account for VAT only on digital services and products. This is because remote supplies of services and intangibles by non-resident suppliers through digital platforms are overwhelmingly digital in nature. However, it is not necessary for jurisdictions to restrict the VAT collection responsibilities of digital platforms in this manner.
3. Egyptian Tax Authority, VAT Executive Regulation (January 2023), https://www.eta.gov.eg/sites/default/files/2023-01/VAT-LAW-24-2023.pdf
4. New Zealand Inland Revenue Department, *Special report on GST on cross-border supplies of remote services*, https://www.taxpolicy.ird.govt.nz/publications/2016/2016-sr-gst-cross-border-supplies
5. Inland Revenue Authority of Singapore, *e-Tax Guide on GST: Taxing imported services by way of reverse charge*, https://www.iras.gov.sg/irashome/uploadedFiles/IRASHome/e-Tax_Guides/GST%20Taxing%20imported%20services%20by%20way%20of%20reverse%20charge%20(2nd%20Edition).pdf
Source: OECD research.

A number of jurisdictions have chosen a **targeted approach** and limit the scope of their simplified compliance regime to what can generally be described as "digital" B2C supplies of services and intangibles by non-resident businesses.

These services and intangibles typically include:

- Digital content purchases, such as downloads of e-books, videos, apps, games, music.
- Subscription-based supplies of content such as news, music, streaming of video, online gaming.
- Supplies of software services and maintenance such as anti-virus software, digital data storage etc.
- Licensing of content, such as provision of access to specialised online content like publications and journals, software, cloud-based systems, etc.
- Telecommunication and broadcasting services.

Such an approach may be motivated by the objective of ensuring the effective collection of VAT on B2C supplies in sectors where the risk of competitive distortion between domestic and non-resident suppliers is considered most acute and where VAT revenue potential is considered to be the highest (e.g. because of the scale of transactions). Box 2.5 sets out examples of jurisdictions that have adopted a targeted approach.

Box 2.5. Jurisdictions that take a targeted approach to the scope of supplies within their simplified VAT compliance regime

Kenya[1]**:** The Kenyan VAT Act asserts that Kenya is the place of taxation for supplies of "electronic services" that a non-resident business delivers to a person in Kenya at the time of supply. The VAT Act treats the majority of other supplies of services by non-resident businesses as "taxable imported services" that are subject to a reverse charge by the recipient of the services. The VAT Act defines "electronic services" as "any of the following services, when provided or delivered on or through a telecommunications network":

- Websites, web-hosting, or remote maintenance of programs and equipment
- Software and the updating of software
- Images, text, and information
- Access to databases
- Self-education packages
- Music, films, and games, including games of chance
- Political, cultural, artistic, sporting, scientific and other broadcasts and events including broadcast television

Ghana[2]: Non-resident businesses that make supplies that sit within the definition of taxable telecommunication services and electronic commerce have an obligation to register for and collect VAT on such supplies where their aggregate value is above the registration threshold in any 12-month period.

The Ghanaian VAT Act asserts that the place of taxation for "electronic commerce" is the place in which "effective use and enjoyment occurs", except for those supplies that the Act defines as "digital services". For such digital services, the place of taxation is where these supplies are "supplied, used or enjoyed", which the Act defines as being Ghana where the customer satisfies two out of four potential indicia. For "telecommunication services", the place of taxation "is the place where the facility or instrument for the emission, transmission or reception of the service… is ordinarily situated". In the case of all other supplies of services by non-resident suppliers, the VAT Act treats these as "imports of services" for which the recipient of the service has the obligation to perform a reverse charge.

The Act defines "electronic commerce" to include "a business transaction, including a digital service, that takes place through the electronic transmission of data over a communication network such as the internet". The Act distinguishes the subset of electronic commerce that it defines as "digital services" through the following list of categories of supply:

- Social networking
- Online gaming
- Cloud services
- Video or audio streaming
- Digital marketplace operations
- Online advertisement services

South Africa[3]**:** The jurisdiction takes an approach to supplier registration and collection of VAT on international supplies that is targeted at "electronic services". The definition of electronic services originally meant those types of supply which South African VAT regulations specified in a list as being such electronic services when the regime for non-resident suppliers came into force in June 2014. However, South Africa subsequently determined this basis for a definition did not provide sufficient certainty to ensure that all supplies of electronic services would face similar VAT treatment irrespective of whether the supplier was a resident of South Africa or a non-resident business. South Africa therefore amended its VAT laws accordingly to adopt a more principles-based definition of electronic services as of April 2019 (*Government Notice 429 of 18 March 2019 (Updated Regulations)*).

Under the amendments to the VAT Act following the 2019 regulations, South Africa defines electronic services as the following:

any services supplied by a non-resident for a consideration by means of –

- *an electronic* agent*;*
- *an electronic communication; or*
- *the internet*

as defined in the Electronic Communications and Transactions Act 25 of 2002 (the ECT Act).

Electronic services are therefore services, the supply of which –

- *is dependent on information technology;*
- *is automated; and*
- *involves minimal human intervention.*

Notes:
1. Kenya (2013), *Value Added Tax Act, 2013*, The National Council for Law Reporting, Nairobi, http://kenyalaw.org:8181/exist/kenyalex/actview.xql?actid=No.%2035%20of%202013.
See in particular Sections 2(1), 5, 8(2) and 8(3).
2. Ghana (2013), *Value Added Tax Act 2013*, Act 870, https://gra.gov.gh/wp-content/uploads/2020/09/vat_act_870.pdf.
See Sections, 2, 5, 16 and 42.
At the time of drafting this publication, it was necessary to read the Ghanaian VAT Act available on the Ghana Revenue Authority's website in combination with:
Ghana (2022), *Value Added Tax (Amendment) Act, 2022*, Act 1082, https://gra.gov.gh/wp-content/uploads/2022/10/Value-Added-Tax-Amendment-Act-2022-Act-1082.pdf. See Section 2 (amending Section 16 of Act 870) and Section 4 (amending Section 42 of Act 870).
Please note also that, at the time of drafting, GRA was still in the process of passing regulations defining exclusions to the categories of supply that it considers within the scope of "electronic commerce". The extensiveness of these exclusions will determine how targeted Ghana's regime for VAT collection by non-resident suppliers remains following the passing of the amendments to the VAT Act in Act 1082.
3. South African Revenue Service (SARS) Legal Counsel (2019), Value-Added Tax: Frequently Asked Questions: Supplies of Electronic Services [3rd issue], https://www.sars.gov.za/wp-content/uploads/Ops/Guides/LAPD-VAT-G16-VAT-FAQs-Supplies-of-electronic-services.pdf

Source: OECD analysis.

Jurisdictions that have adopted a broad approach generally note that it has greatly simplified the communication and management of their reforms and more comprehensively addressed domestic suppliers' level playing field concerns. By comparison, jurisdictions operating a targeted approach can face definitional challenges and these can, in turn, create difficulties for businesses that face the task of determining which supplies are in and out of scope across multiple jurisdictions.

A distinct VAT treatment of supplies depending on their classification (e.g. digital vs. non-digital supplies) is likely to create classification challenges for both tax authorities and suppliers. This is particularly true in a digital environment, which is in constant evolution and is characterised by constant innovation, leading to continuous changes in business and delivery models and the emergence of new business sectors and new types of services. In such an environment, it is often difficult for a non-expert to understand the key characteristics of a supply and to classify it for VAT purposes as being in or out of the intended scope of the simplified compliance regime, e.g. whether or not it is a "digital" service or intangible. It also requires tax authorities to constantly monitor digital economy market evolutions, to ensure that the existing classifications remain updated. The failure to do so may result in revenue losses (as new types of supplies may not be captured) and competitive distortions. These classification challenges are likely to become increasingly difficult for suppliers to manage, as more tax authorities implement simplified compliance regimes and different classifications and definitions are implemented across jurisdictions. This is likely to have a negative effect on compliance levels as a result of misclassification and the growing complexity confronting suppliers with VAT obligations in multiple jurisdictions in a globalised digital economy.

To conclude, determining the scope of a simplified compliance regime requires consideration of a wide range of factors including the existing domestic legal and economic context, the administrative and technical capacities of the tax authorities and the constantly changing technological and commercial environment. Both a broad and a targeted approach merit consideration.

It is anticipated, however, that a targeted approach may become increasingly difficult to operate over time as new technologies and business models continue to emerge and the variety of services and intangibles that non-resident suppliers can supply remotely to final consumers continues to increase.

The broad approach to defining supplies of services and intangibles that are in scope of the simplified compliance regime has the advantage of minimising inconsistencies of treatment and maximising potential VAT revenues. It also relieves tax authorities of the administrative burden of constantly updating and policing a targeted definition of digital supplies. For these reasons, there is a trend towards a broad approach to determining scope among jurisdictions that have been asserting their taxing rights over supplies of services and intangibles by non-residents (as illustrated in Box 2.4).

Whichever approach tax authorities may choose to implement, they are encouraged to:

- Provide clear and easily accessible communication on the supplies that are covered by the regime in order to maximise certainty for both suppliers and the tax authorities.
- Regularly review the efficiency and the effectiveness of the regime, including assessment of whether its scope remains fit for purpose.

2.2.2.5. Registration threshold for non-resident suppliers?

Several jurisdictions have adopted registration thresholds in connection with VAT collection obligations for non-resident suppliers of services and intangibles to minimise the risk of disproportionate administrative burden and compliance costs for small and medium-sized enterprises and for tax authorities.[33]

Approaches taken under simplified compliance regimes for non-resident suppliers of services and intangibles in Africa vary significantly. For illustrative purposes, they include:

- The absence of a registration threshold for non-resident suppliers; for example, in Côte d'Ivoire and Kenya. This can be the case even where the jurisdiction applies a registration threshold for resident suppliers, such as in Kenya where the domestic registration threshold is KES 5 million per year (nearly USD 42 000);
- The application of a lower threshold for non-resident suppliers than for domestic businesses. This is the case, for example, in Nigeria, where the domestic threshold is NGN 25 million per year (nearly USD 70 000) and the threshold for non-resident businesses amounts to USD 25 000 or its equivalent in other currencies;
- The application of a threshold for non-resident suppliers that aligns with the registration threshold for domestic businesses. This the case, for example, in South Africa (ZAR 1 million per year / nearly USD 61 000). Such a universal registration threshold can greatly relieve tax authorities of the costs of administering smaller non-resident suppliers that would provide minimal net revenue.

Jurisdictions can mitigate any perceived risks of forgoing revenue from sales made by non-resident suppliers below a registration threshold through the adoption of a full VAT liability regime for digital platforms. Under such a regime, VAT is collected from the digital platform operator on the individual supplies by the large number of underlying suppliers that conduct their online business through these platforms, including suppliers that are individually below the registration threshold. The Toolkit discusses this in more detail at subsection 2.3.3.

The variation in approaches concerning the adoption of a registration threshold will often reflect jurisdictions' existing VAT framework, their policy objectives (e.g. revenue collection and/or ensuring an even playing field between domestic and non-resident suppliers) and administrative capacity. A registration threshold is particularly useful when jurisdictions have limited administrative capacity to manage possibly significant numbers of micro and small suppliers that may lack the means and perhaps the willingness to comply with VAT obligations abroad while representing only limited revenue risk. No or a very low registration threshold may have a negative impact on compliance, in particular filing rates, as the number of taxpayers may exceed the administrative capacity to enforce and monitor filing obligations, and thus weaken a tax authority's overall risk management process (Schlotterbeck, 2017[52]).

The introduction of thresholds deserves careful consideration, and a balance should be sought between the desire to minimise administrative costs and compliance burdens for tax authorities and non-resident suppliers and the need to maintain an even playing field between domestic and non-resident businesses. Box 2.6 describes key policy issues for tax authorities to consider in implementing a threshold for a simplified compliance regime for non-resident suppliers of services and intangibles.

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[33] For a full comparison of registration thresholds in OECD member countries, see:
OECD (2022), *Consumption Tax Trends 2022: VAT/GST and Excise, Core Design Features and Trends*, https://doi.org/10.1787/6525a942-en
Refer to "Annex Table 2.A.5. Annual turnover concessions for VAT registration and collection", in Chapter 2: "Value-added taxes - Main design features and trends", pages 102 to 103.

Box 2.6. Registration thresholds under simplified compliance regimes – Issues to consider

Tax authorities may need to review the following key policy issues when considering the possible implementation of a threshold in the context of a simplified compliance regime for non-resident suppliers of services and intangibles.

- Neutrality: the potential impact of a threshold on the competitive position of domestic and non-resident suppliers.
- Simplification: the potential reduction of compliance costs for non-resident businesses, particularly for SMEs. The costs of registration may be prohibitive for SMEs in a jurisdiction where it has low sales volumes.
- The impact on the efficiency and effectiveness of tax administration: this includes possible reduction in administrative costs and increased efficiency for tax authorities that can focus their attention on fewer taxpayers with higher tax liabilities.
- Efficiency of and limitations to enforcement: administrative co-operation agreements may limit the recovery of tax claims to cases where the claim exceeds a certain amount.
- The determination of the level of the threshold, including whether it should be set at the same level as the domestic VAT registration threshold.
- Which supplies are to be included in the threshold calculation (e.g. B2C and B2B supplies; services, intangibles and low-value goods), including where jurisdictions operate a simplified compliance regime that mandates that non-resident suppliers must account for VAT on all taxable supplies that they make into a jurisdiction.
- The provision of clear guidance on the operation of the threshold.
- The implementation of anti-abuse measures and the associated costs for tax authorities, e.g. to tackle avoidance by non-resident suppliers artificially splitting up their activities to remain below a registration threshold.
- The treatment of occasional or unintended sales into a jurisdiction.

Source: OECD analysis based on OECD (2017), The Collection Mechanisms Report (OECD, 2017[3]).

2.2.2.6. Role for intermediaries and agents?

Parties other than the supplier and customer, such as intermediaries and agents, may take part in some way in the supply chain. Their enlistment in the VAT compliance process can greatly facilitate the collection of VAT on international supplies of services and intangibles, particularly when they are part of a digital supply chain.

Digital platforms, including online marketplaces, are well placed to facilitate the collection of VAT on digital supplies. Subsection 2.3 provides further detailed guidance on the possible role of digital platforms in the collection of VAT on digitally traded services and intangibles.

Jurisdictions could further facilitate compliance for non-resident suppliers by allowing them to appoint a specialised third-party service provider to act on their behalf on certain procedures, such as registration and submitting returns. See subsection 5.2.8 for further guidance.

In the past, when international transactions were relatively few and individual transactions relatively high value, jurisdictions often required the appointment of local fiscal representatives to collect and remit VAT on behalf of non-resident suppliers. Despite the potential benefits of this approach, the complexity of such an appointment has been found to result in unintended consequences, such as the decision of non-resident suppliers (particularly those with few sales or small profit margins) to limit their trade with jurisdictions that mandate fiscal representatives or, in certain cases, not to comply with VAT obligations in jurisdictions.

It has become increasingly difficult in many jurisdictions for non-resident suppliers to find third parties willing to act as fiscal representatives, notably due to the greater complexity of international trade, the higher number and greater diversity of businesses that are engaged in international trade, and the possible liability risks involved. Research suggests that inadequate controls over the actions of such tax agents may lead to practical problems in certain cases in African jurisdictions.[34] These consequences merit careful consideration when designing a simplified compliance regime for non-resident suppliers. See subsection 5.2.8.3 for more details.

That said, representatives of the international business community have been positive about the approach of African jurisdictions towards the utilisation of fiscal representatives. This is because many jurisdictions on the continent do not make the appointment of a fiscal representative mandatory, but rather leave the decision to make such an appointment optional.

2.2.2.7. Building an effective administration and operational infrastructure

The simplest way to engage with tax authorities from a remote location is most likely by electronic processes, i.e. registration and collection processes delivered principally by electronic means, with minimal requirements for physical movement of documentation. Such an approach can provide considerable benefits to both tax authorities and taxpayers. Many tax authorities have taken steps to exploit the use of technology to develop a range of electronic processes to support the operation of their simplified compliance regimes including the development of dedicated web portals.

It is recognised, however, that tax authorities operate in varied environments and reliance on electronic processes may differ depending on existing infrastructure and capacity. For detailed guidance on the creation and administration of the IT infrastructure, see subsection 5.3.

Section 5 of this Toolkit provides detailed practical guidance regarding the design and implementation of a simplified VAT compliance regime. This guidance covers registration procedures, input VAT recovery/refunds, return procedures, payments, record-keeping, invoicing, and lead-times.

Suggestions on effective communications strategies that should accompany the implementation of a simplified VAT compliance regime, as well as other compliance enhancement strategies are discussed in Section 6 of this Toolkit.

[34] For example, a study on one east African jurisdiction detected that tax agents may often register their own contact details as if they are themselves the taxpayer, in order to control future communications between the tax administration and the taxpayer. This is one among other examples of where inadequate controls have permitted inaccuracies and allowed duplicate information to remain undetected, although in this case an example that is not unique to African jurisdictions. See for example:
Mick Moore (2020), *ICTD Working Paper 111: What is Wrong with African Tax Administration?*, Institute of Development Studies, Brighton, https://www.ictd.ac/publication/wrong-african-tax-administration/

2.3. Establishing a central role for digital platforms in the collection of VAT on international supplies of services and intangibles

Guide to subsection 2.3.

2.3.1. Overview

Digital platforms facilitate a significant share of digital trade transactions globally and in Africa. They have become increasingly popular among consumers in the region, having tailored their service offerings to regional needs and appetites with a level of innovation that makes these digital platforms key players in the future regional digital trade development. Marketplaces, particularly mobile application stores, offer a range of popular services such as gaming, TV and music streaming, online gambling, dating, software subscriptions, financial services, and online education services, among others.

As more people in the region gain access to digital networks through mobile connections and as digital platforms further expand their presence across different sectors of the digital economy, the role of digital platforms is expected to become even more prominent in the future.

"Digital platform" is used as a generic term to describe the platforms that enable, by electronic means, direct interactions between two or more customers or participant groups, typically buyers and sellers. Digital platforms have two key characteristics: (i) each group of participants (e.g. online buyers and sellers) are users and therefore customers of the platform in some meaningful way, and (ii) the platform enables a direct interaction between these groups of participants (e.g. online sales of goods or services). Because these platforms interact with multiple groups of users (e.g. online buyers as well as sellers), they are also known as multi-sided platforms.[35] Online marketplaces are the typical examples of a digital platform. This subsection generally focuses on digital platforms that are non-resident entities in the taxing jurisdiction.

This subsection first highlights the central role of digital platforms in digital economy growth and the potential roles they may play in the collection of VAT on online sales. It then provides further detailed guidance for the design of these roles, focusing in particular on:

- The full VAT liability regime;
- Information sharing obligations;
- Education of suppliers using digital platforms;
- Formal co-operation agreements; and
- Platforms operating as voluntary intermediaries.

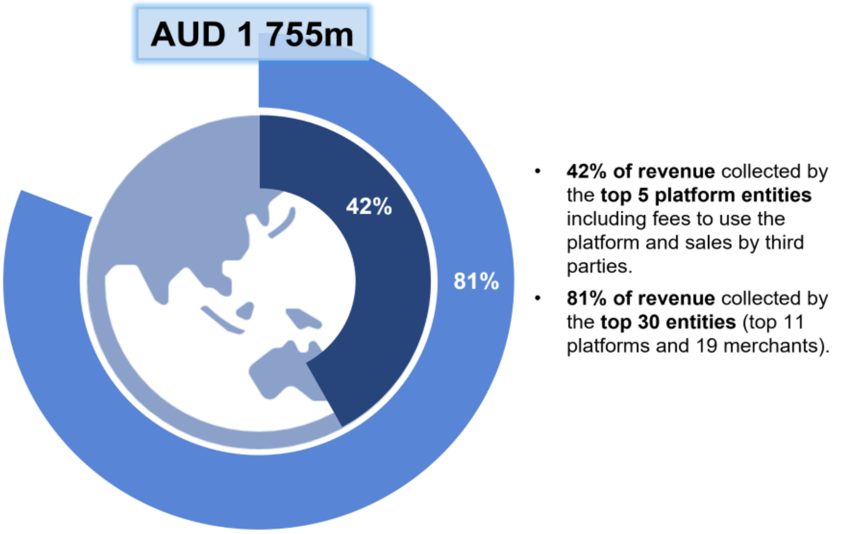
2.3.2. The role of digital platforms in the digital economy and their potential to support VAT collection

The growth of the digital economy has fundamentally changed the nature of sales and distribution in business-to-consumer (B2C) trade. Where a consumer would traditionally make most of its purchases from a local store, their first choice of method for shopping is now often a website of a business that may be established in another jurisdiction or increasingly a website operated by a digital platform that facilitates the online sales of large numbers of individual suppliers.

Digital platforms allow businesses, particularly smaller businesses, to efficiently access millions of consumers in what is now a global online marketplace. The number of consumers buying online has been estimated to have exceeded two billion in 2020 (Statista, 2021[53]). The information in Figure 2.5 below, which shows the share of the tax collected from digital platforms under Australia's GST simplified compliance regime for supplies of services and intangibles by non-resident suppliers, provides an illustration of the importance of digital platforms in online trade and their relevance for the collection of VAT on these supplies.

[35] It may be useful to observe that a digital platform might also be viewed as including all forms of intermediation in a supply, including an undisclosed agent model where a platform sells in its own name or acts as wholesaler, as well as broadcasters that perform intermediation functions.

Figure 2.5. Australia GST reform on services and intangibles by non-resident suppliers – Revenue collected from 1 July 2017 to 30 June 2021



Source: Australian Taxation Office.

The increasingly dominant role of digital platforms in digital trade offers significant opportunities to enhance the efficiency and the effectiveness of VAT collection on the online supplies made by the large numbers of individual suppliers that these digital platforms facilitate. Digital platforms generally are better positioned than other third-party service providers to assist with the VAT collection process on the supplies that they facilitate because of their close connection with the supplier and the supply as well as their access to the VAT-relevant information. Imposing VAT compliance obligations on the platform in principle relieves the underlying non-resident suppliers from incurring the economic and administrative burdens of having to comply with the associated VAT obligations in the taxing jurisdiction. Moreover, digital platforms are generally able to exercise a degree of economic control over non-resident suppliers, which can be used to assert their compliance with VAT obligations, whereas tax authorities may have limited authority or capacity to enforce VAT obligations on the large number of non-resident businesses selling online to customers within their jurisdiction via the digital platforms.

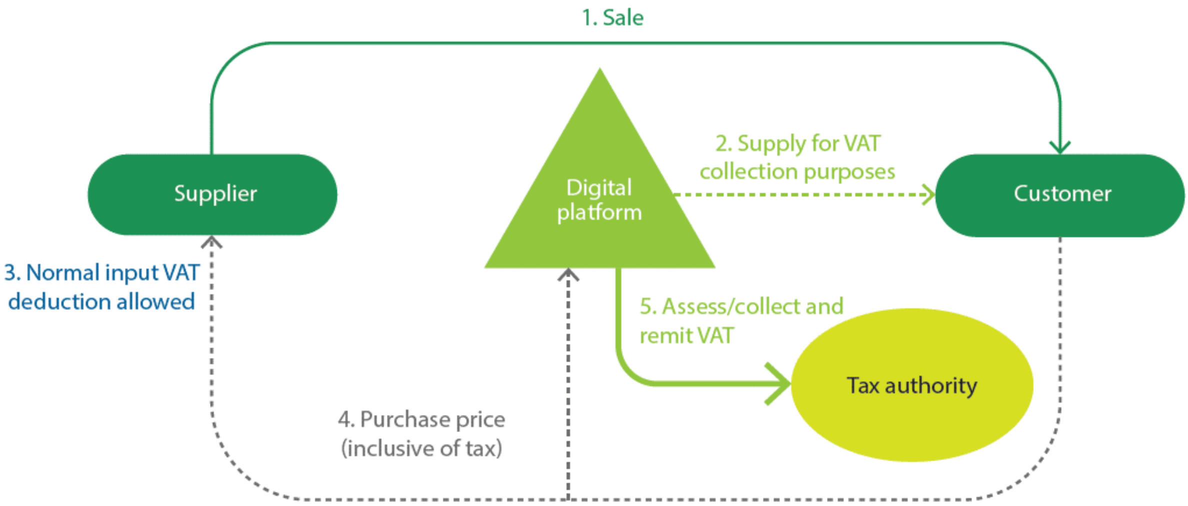
2.3.3. The full VAT liability regime for digital platforms

2.3.3.1. Overview of the full VAT liability regime

> A full VAT liability regime for digital platforms is the most effective and comprehensive means of ensuring compliance with VAT obligations on the online sales that non-resident suppliers make through these platforms.

Under a full VAT liability regime, the digital platform is designated by law as the supplier for VAT liability and compliance purposes. The digital platform is solely and fully liable for assessing, collecting, and remitting the VAT on the online sales that it facilitates, towards the tax authorities in the jurisdiction of taxation in accordance with the VAT legislation of that jurisdiction.

Figure 2.6. Basic operation of the full VAT liability regime for digital platform



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.
Source: OECD (2019), The Platforms Report (OECD, 2019[5]).

Under a full VAT liability regime as illustrated in Figure 2.6, if a supplier (the "underlying supplier") makes an online sale (the "underlying sale"; see transaction (1) in the illustration) through a digital platform to a customer in the jurisdiction of taxation, the platform is fully and solely liable for the VAT with respect to that sale in the jurisdiction of taxation. The jurisdiction of taxation defines the conditions for the application of the regime. The basic mechanics for the collection and payment of the VAT can be summarised as follows:

- The digital platform assumes VAT liability for the underlying sale as if it had made the sale itself (2).
- The underlying supplier is in principle relieved of any VAT liability on the underlying sale to avoid double taxation.
- The full VAT liability regime should not have any impact on the right of the underlying supplier to deduct any associated input VAT. It is up to the supplier's jurisdiction to design the appropriate mechanism to achieve that objective (3). This objective can be achieved by treating the supply by the underlying supplier as if it is made to the digital platform, which is then presumed to have supplied it onwards to the customer in the jurisdiction of taxation. Each of these supplies is then subject to the appropriate VAT rules, including invoicing and reporting requirements. Such an approach allows the underlying supplier and the digital platform to process the sale for VAT purposes, including the deduction of the associated input VAT by the underlying supplier. It allows the digital platform to enter an input transaction that corresponds to the output transaction into its VAT account.
- Each of these supplies should be supported by the appropriate documentation covering the full value chain for VAT auditing purposes, in accordance with the rules of the full VAT liability regime in the jurisdiction of taxation. In this connection, jurisdictions are encouraged to adopt simplified documentation and reporting requirements as appropriate.
- The customer can make the payment for its purchase, inclusive of VAT, either to the digital platform or to the underlying supplier (4). If the payment is made to the digital platform, then the digital platform will remit the VAT component to the tax authority in the jurisdiction of taxation. If the payment is made to the underlying supplier, the digital platform will need to recover the VAT

component from the underlying supplier in order to remit it to the tax authorities in the jurisdiction of taxation (5).

The primary policy motivation for tax authorities to consider introducing a full VAT liability regime for digital platforms is to reduce the costs and risks of administering, policing, and collecting VAT on the ever-increasing volumes of online sales by the ever-growing number of non-resident online suppliers. Tax authorities effectively achieve this by drawing on the relatively limited number of platforms that currently facilitate large shares of online sales and that are capable of complying with the VAT obligations with respect to these sales. These administrative costs and risks are likely to be significantly lower than in circumstances where VAT would need to be collected on individual sales from the large number (potentially millions) of underlying suppliers, especially non-resident suppliers. At the same time, such a regime could potentially reduce the compliance costs for the underlying suppliers who are likely to face multi-jurisdictional obligations.

In Africa, Kenya, Nigeria and South Africa have in some form imposed full VAT liability regimes on digital platforms. Globally, many jurisdictions, such as Australia, the European Union, the Republic of Korea, Norway, New Zealand and the United Kingdom and several others have adopted a similar approach or are in the process of doing so (Box 2.7 below sets out Australia’s primary legislation for such a full VAT liability regime for digital platforms as an example).

Box 2.7. Example of primary legislation for full VAT liability for digital platforms facilitating B2C supplies of services and intangibles by non-resident suppliers

The provisions included as examples in this box are presented here only for illustrative purposes. Their inclusion is not intended to suggest that these provisions are translatable templates for model legislation. Indeed, it is crucial that tax officials responsible for developing tax policy in their own jurisdictions ensure that they design laws that are compatible with their domestic VAT legal framework and which they can integrate smoothly without oversights and unintended consequences.

South Africa[1]**:** In South Africa, the Value-Added Tax Act 89 of 1991 provides the legal basis for the full VAT liability of digital platforms on supplies of electronic services by underlying non-resident suppliers through these platforms. The relevant South African provisions are situated primarily within Section 1(1) *Definitions*, Section 7(1)(a) and Section 54(2B) of the Act.

Section 1(1) of the Act defines an “enterprise” as including the “activities of an intermediary”. The same section of the VAT Act defines an "intermediary" as a person “who facilitates the supply of electronic services supplied by the electronic services supplier and who is responsible for issuing the invoices and collecting payment for the supply.”

The South African Revenue Service (SARS) has issued guidance to clarify that facilitation of a supply includes a range of services. For example, facilitation could include advertising or listing electronic services for sale on the platform or electronic marketplace, with or without declaring that such advertising or listing is on behalf of an underlying principal. However, a person cannot qualify as an intermediary if that person is not also responsible for the issuing of invoices and the collection of payment.

Section 7(1)(a) states that, subject to certain exceptions, vendors must account for and remit VAT on all goods and services that they supply “in the course or furtherance of any enterprise”. Section 1(1) defines a vendor as any person that has registered or should have registered for VAT in South Africa.

Section 54(2B) of the Act states when a supply is deemed to be made by an intermediary:

For the purposes of this Act, where electronic services are supplied by an intermediary, who is acting on behalf of another person who is the principal for the purposes of that supply, and –

(i) the intermediary is a vendor;*

(ii) the principal is not a resident of the Republic and is not a registered vendor; and

(iii) the electronic services are supplied or to be supplied by the principal to a person in the Republic, that supply shall be deemed to be made by such intermediary and not by that principal.

[*N.B. A vendor is any person that has registered or should have registered for VAT in South Africa.]

Example from outside Africa:

Australia[2]**:** In Australia, the Goods and Services Act 1999 provides the legal basis for the full GST liability of digital platform operators on the supplies by non-resident suppliers selling through their platforms.

The relevant Australian provisions are situated primarily within the part of the Act entitled: *Chapter 4 - The special rules, Part 4-2 – Special rules mainly about supplies and acquisitions, Division 84 - Offshore supplies, Subdivision 84-B - Inbound intangible consumer supplies.*

As part of Subdivision 84-B:

- **Section 84-55 Operator of electronic distribution platform treated as supplier, paragraph (1),** states:

  'If an inbound intangible consumer supply is made through an electronic distribution platform, the operator of the platform, instead of the supplier, is treated, for the purposes of the GST law:
  (a) as being the supplier of, and as making, the supply; and
  (b) as having made the supply for the consideration for which it was made; and
  (c) as having made the supply in the course or furtherance of an enterprise that the operator carries on

- **Subsection 84-55(4)** qualifies **84-55(1)** to explain the relatively limited set of circumstances in which a digital platform would not be liable for GST as the supplier of the digital products sold through it. This would include, among several other criteria, an agreement with the underlying non-resident supplier explicitly acknowledging the latter's responsibility for collecting and accounting for the GST due.
- **Section 84-65 Meaning of inbound intangible consumer supply** defines the relevant inbound intangible consumer supplies to make it clear they encompass virtually all international supplies of services and intangibles by non-resident businesses to Australian consumers.
- **Section 84-70 Meaning of electronic distribution platform** defines an electronic distribution platform (EDP) to capture the business models of almost all digital platforms and online marketplaces that enable third-party suppliers to make supplies of services and intangibles (including 'digital products') to consumers through the platform. Where non-resident suppliers generate sales through the platform, they must make and deliver the supplies to the consumer by means of electronic communication in order for the platform to qualify as an EDP.

Notes:
1. Republic of South Africa (n.d.), *Value-Added Tax Act 89 of 1991* [as amended and in force as of 1 April 2019], https://www.lph.co.za/dev/wp-content/uploads/2019/09/Value-Added-Tax-Act-89-of-1991.pdf and; South African Revenue Service (2019), *Legal Counsel: Value-Added Tax – Frequently Asked Questions: Supplies of Electronic Services* [3rd issue], https://www.sars.gov.za/wp-content/uploads/Ops/Guides/LAPD-VAT-G16-VAT-FAQs-Supplies-of-electronic-services.pdf
2. Australian Government (2022), *A New Tax System (Goods and Services Tax) Act 1999*, https://www.legislation.gov.au/Details/C2022C00193
Source: OECD research.

The following paragraphs outline a number of considerations that could facilitate and encourage compliance by digital platforms under a full VAT liability regime and further mitigate their associated compliance burdens and risks.

2.3.3.2. Scope of a full VAT liability regime: Functional criteria to determine the eligible digital platforms

It is reasonable to assume that a platform will be in a position to comply with the obligations imposed by a full VAT liability regime only if the platform:

- Possesses or has access to sufficient and accurate information to make the appropriate VAT determination, and
- Has practical means to collect the VAT on the supply.

One can consider that a digital platform will be effectively capable of complying with the obligations under a full liability regime when it performs certain core functions, including at least one of the following:[36]

- Controlling the terms and conditions of the underlying transactions (e.g. price, payment terms, delivery conditions) and imposing these on participants in the supply (buyers, sellers, transporters).
- Involvement in the authorisation and processing of payments (either directly or indirectly through arrangements with third parties, including collection of payments from customers and transmission of payments to sellers).
- Involvement in the delivery process or the fulfilment of the supply (including influence over the conditions of delivery; transmission of approval to suppliers and instructions to transporters; and provision of order fulfilment services with or without warehousing services).

There are functions performed by platforms that by themselves will not be sufficient to bring them within the scope of a full liability regime. In particular, if a digital platform only carries content, only processes payments, only advertises offers, or only operates as a click-through referral platform, it may not be able to comply with the obligations under a full liability regime. It may be appropriate to exclude such a platform from the scope of a full VAT liability regime.

In delineating the criteria for determining digital platforms' eligibility for a full VAT liability regime, tax authorities may wish to consider the following broader policy concerns:

- Focusing on functions rather than on types of platforms or business models, because such an approach is likely to be more future proof and to encourage greater consistency in the tax treatment of platforms performing similar functions irrespective of the business and delivery models used.
- Addressing cases where more than one digital platform in a supply chain is eligible for a full VAT liability regime, including the possible application of hierarchy rules.
- Undertaking regular review of platforms' eligibility and suitability for a full VAT liability regime in light of technological and commercial developments to ensure their continuing efficiency and effectiveness.
- Consulting with the business community for the design and effective operation of a full VAT liability regime.
- Providing clear and easily accessible information, preferably online, on the criteria for determining whether digital platforms fall within the scope of the full VAT liability regime.

2.3.3.3. Scope of a full VAT liability regime: Factors other than functional criteria

Other factors that are likely to be important when designing the scope of a full VAT liability regime are the following:

- The residence of the digital platform operator;
- The application to supplies by domestic underlying suppliers as well as to supplies by non-resident underlying suppliers;
- The application to supplies of low-value imported goods as well as to supplies of services and intangibles;
- The application to B2B supplies as well as to B2C supplies.

[36] For a practical example of how jurisdictions implement this approach to determining whether a digital platform performs critical functions to make them fall within the scope of a full liability regime, please see:
European Commission (2020), *Explanatory Notes on VAT e-commerce rules*, https://ec.europa.eu/taxation_customs/system/files/2020-12/vatecommerceexplanatory_28102020_en.pdf, pages 17 to 21.

Residence of the digital platform operators. In principle, for supplies of services and intangibles it should make no difference whether the digital platform is operated by a resident or by a non-resident of the taxing jurisdiction. Consideration might nevertheless be given to the fact that enforcement may be more challenging with respect to a digital platform operated by a non-resident, and tax authorities might consider introducing additional (reasonable and proportionate) safeguards to reduce risks of non-compliance where appropriate.

Residence of the underlying suppliers. In principle, the introduction of a full VAT liability regime for digital platforms may be directed primarily at the collection of VAT on sales by non-resident underlying suppliers in recognition of the greater challenges of effectively enforcing VAT compliance obligations on taxpayers that are not located in the jurisdiction of taxation. However, limiting the scope of the full VAT liability regime to transactions involving non-resident underlying suppliers may create compliance complexities for both digital platforms and tax authorities in distinguishing between domestic and non-resident suppliers. These considerations might support the application of the full VAT liability regime to all relevant transactions regardless of the location of the underlying supplier. There may however also be drawbacks to extending the full VAT liability regime for platforms to sales by domestic suppliers, notably where the collection of VAT on supplies by domestic suppliers is shifted to a digital platform that may be operated by a non-resident business. For a more detailed evaluation of the application of a full VAT liability regime for digital platforms to supplies by resident underlying suppliers, see Section 4 on the sharing and gig economy. Alternative roles for digital platforms to support VAT collection from resident underlying suppliers (such as information sharing obligations or education of suppliers) are discussed in subsection 2.3.4 below.

Services, intangibles and goods? In considering the appropriate scope of a full VAT liability regime for digital platforms, jurisdictions must address the question of whether the regime applies to all supplies (services, intangibles, and goods) carried out over such platforms; or to services and intangibles generally but not to goods; or only to a subset of services and intangibles.

A number of jurisdictions have limited the scope of the full VAT liability regime to digital platforms that intervene in what may broadly be described as remote “digital” or “electronic” supplies by non-resident suppliers. Such an approach may be motivated by the objective of ensuring the effective collection of VAT on supplies in sectors where tax revenue is considered to be most at risk while aiming to avoid changes for suppliers and tax authorities in areas where there is no compelling need to deviate from the existing collection regime.

Broadening the scope of this regime to cover other types of services that non-resident suppliers can deliver remotely to consumers could be a logical extension, ensuring a broad tax base for VAT on international supplies of services and intangibles, and minimising neutrality challenges. For example, such extension might include accountancy, legal and consulting services, which non-resident firms can provide via the Internet to consumers in a taxing jurisdiction.

A rising number of jurisdictions have also adopted a full VAT liability regime for digital platforms as an approach to increase the efficiency and the effectiveness of VAT collection on imports of low-value goods (see subsection 3.3 for further details).

B2C and B2B supplies? When a jurisdiction’s VAT rules do not distinguish between B2B and B2C supplies, the full VAT liability regime could apply to the collection of VAT on both categories of supplies performed over a digital platform. However, where a jurisdiction’s VAT regime distinguishes between B2B and B2C supplies a full VAT liability regime is normally not intended to serve as an alternative for a reverse charge mechanism to collect VAT on B2B supplies of services and intangibles by non-resident suppliers (see subsection 2.2.1).

When a jurisdiction distinguishes between B2B and B2C supplies for the collection of VAT on supplies of services and intangibles by non-resident suppliers, it should provide clear practical guidance to digital platforms on how they should distinguish between B2B and B2C supplies for the operation of the full liability regime. In addressing this issue, jurisdictions are encouraged to rely on the guidance concerning the indicia for determining customer status included in subsection 2.2.1 above.

Non-digital business models. Finally, jurisdictions could also consider adopting a broader definition of a platform so as to encompass non-digital business models. For example, Australia's platform rules apply equally to goods that customers order by telephone, while New Zealand allows non-electronic platforms facilitating supplies of goods to register as a VAT-liable digital platform (marketplace) subject to the tax authority's approval.

2.3.3.4. Information needs for digital platforms under a full VAT liability regime

To make the correct tax determination under the full VAT liability regime, digital platforms should in principle be able to rely on information that is known, or can reasonably be obtained, at the time when the tax treatment of the supply must be determined. While a digital platform can reasonably be assumed to know the status of the underlying suppliers selling through its platform, other key information elements that may be considered relevant for digital platforms to make correct VAT determinations under the full liability regime include:

- Customer status (business or private consumer) if the taxing jurisdiction differentiates between B2B and B2C;
- The nature of the supply;
- Elements to determine the place of taxation and the applicable VAT collection regime;
- VAT registration threshold, if applicable;
- The value of the supply and the applicable VAT rate;
- The taxing point, i.e. the time at which VAT liability arises in respect of the supply (see 2.3.3.5. below).

Legal presumptions may help minimising risks for platforms that act in good faith. A presumption on the status of the underlying parties could foresee, for instance, that a platform may treat the underlying supplier as a business and the underlying customer as a consumer, unless it has information to the contrary (e.g. tax identification number if it indicates that the customer is a business).[37] Such safe harbour rules are particularly helpful in the area of digital services and products where the high volume of low-value transactions requires automated processes.

2.3.3.5. VAT collection and payment processes under a full VAT liability regime

A crucial element in the design of a full VAT liability regime for digital platforms is the definition of the taxing point, i.e. the time at which the digital platform is required to account for the VAT on the supplies carried out through its platform for which it has VAT liability. In principle, making this determination could give rise to significant complexity for digital platforms, because they are required to account for the VAT on supplies going through their platform without being the actual underlying supplier. A practical solution for this problem is to define the taxing point at the time at which the confirmation of the payment is received by or on behalf of the underlying supplier. This is the time at which the payment has been accepted or authorised by or on behalf of the underlying supplier. This does not necessarily mean that the actual money transfer has been made. The underlying supplier normally notifies the digital platform of the confirmation of the

[37] Presumptions of this kind are, for instance, contained in EU legislation. See for example Articles 5d and 18(2) of *Council Implementing Regulation (EU) No 282/2011*, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02011R0282-20220701

payment, if the digital platform has not accepted or authorised the payment itself on behalf of the underlying supplier.

Further detailed guidance regarding the payment process under the full VAT liability regime is set out in subchapter 2.2.5 of the Platforms Report and in its annexes B and C.

2.3.3.6. Overarching design considerations of a full VAT liability regime

While the design of full VAT liability regimes is likely to differ across jurisdictions, tax authorities are encouraged to ensure as much consistency as possible across jurisdictions. Consistency among jurisdiction approaches is vital to achieving high compliance levels, notably by reducing compliance costs and improving the quality and performance of compliance processes. This is particularly important for full VAT liability regimes for digital platforms that are likely to be faced with multi-jurisdictional obligations with respect to supplies that are carried out by third-party suppliers that they facilitate.

To achieve these consistency objectives, tax authorities are encouraged to consider the following overarching policy design considerations when designing and implementing a full VAT liability regime for digital platforms:

- Promote compliance by limiting VAT compliance obligations to what is strictly necessary.
- Publicise the introduction of the regime widely and provide adequate lead-time when introducing the regime.
- Clearly define the VAT obligations of the underlying supplier, notably in its relationship with the platform.
- Ensure that the full liability regime does not have any impact on normal VAT deduction rules for underlying suppliers.
- Provide guidance on the operation of registration thresholds or sales thresholds, where such thresholds have been implemented.
- Consider the need for safe harbour rules to limit compliance risks for platforms acting in good faith and having made reasonable efforts to ensure compliance, particularly in relation to the information on which platforms have based their tax determination.
- Consider trade-related issues.
- Take account of a range of additional policy design considerations focused on the operation of the full VAT liability regime for online sales connected with an importation of low-value goods (see subsection 3.3).
- Complement the design of the full VAT liability regime with robust international administrative co-operation and the implementation of a risk-based compliance strategy as appropriate (see Section 6).

2.3.3.7. Extending the simplified registration and collection regime to platforms that are subject to a full VAT liability regime

Jurisdictions are recommended to make their simplified compliance regime accessible to digital platforms (in addition to non-resident suppliers) to carry out their VAT obligations under a full VAT liability regime. The rules and requirements that apply to non-resident suppliers under a simplified compliance regime can normally be applied equally to digital platforms on which a jurisdiction has imposed full VAT liability measures.

Some digital platforms, however, may prefer to register under the standard VAT regime so that they can claim input VAT deduction. This may be because such platforms can have a physical presence in the jurisdictions to which they facilitate supplies, even if this presence encompasses only ancillary and logistical services (e.g. proxy servers). Such a physical presence can help to facilitate engagement between platforms and tax authorities in the jurisdiction of taxation.

Tax authorities should publish detailed guidance material on how they will administer the full VAT liability regime for digital platforms. Several jurisdictions have published such guidance material[38] so that platforms and their advisors can comply with greater certainty and confidence. For example, the South African Revenue Service first issued its "Frequently Asked Questions" document for non-resident suppliers of electronic services and digital platforms facilitating such supplies in 2019.[39] Representatives of the international business community that sell into African markets have remarked upon the great utility they have derived from this document, which comprehensively addresses the main questions that such sellers and platforms have about the VAT registration and collection obligations they may have in South Africa. The document also provides numerous case studies and examples to illustrate the SARS guidance about how to interpret and comply with South African VAT laws and regulations, including potentially more complex cases and matters that would demand careful judgement about the facts of a particular case. The Kenyan Revenue Authority has also produced an instructive list of frequently asked questions and associated responses for non-resident suppliers and digital platforms that are within scope of its "Digital Marketplace Supply" regulations for VAT.[40]

2.3.4. Additional roles for digital platforms to support VAT collection

A range of possible additional or alternative roles for digital platforms can be considered besides the full VAT liability regime to assist jurisdictions with the efficient and effective collection of VAT on online supplies, particularly in respect of supplies that are not subject to a full liability regime.

These additional or alternative measures for enlisting digital platforms in the collection of VAT on the online supplies that they facilitate include the following:

- Imposing information reporting or sharing obligations upon the platform.
- Encouraging or requiring platforms to educate the underlying suppliers that use their platforms.
- Entering into formal agreements with digital platforms based on the co-operative compliance concept.
- Authorising platforms to operate as a voluntary intermediary for VAT collection on behalf of underlying suppliers.

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[38] See, for example:

- Australian Taxation Office (2018), *Law Companion Ruling – LCR 2018/2: GST on supplies made through electronic distribution platforms*, https://www.ato.gov.au/law/view/document?docid=COG/LCR20182/NAT/ATO/00001
- Chilean Tax Administration (2020), *Circular Nº42*, https://www.sii.cl//normativa_legislacion/circulares/2020/circu42.pdf
- Norwegian Tax Administration, *Guidelines – VAT on e-Commerce*, https://www.skatteetaten.no/globalassets/bedrift-og-organisasjon/voec/guidelines---sell-charge-and-ship-goods-to-norway.pdf

[39] South African Revenue Service (2019), *Legal Counsel – Value-Added Tax: Frequently Asked Questions: Supplies of Electronic Services* [3rd issue], https://www.sars.gov.za/wp-content/uploads/Ops/Guides/LAPD-VAT-G16-VAT-FAQs-Supplies-of-electronic-services.pdf

[40] Kenya Revenue Authority, webpage on "VAT on Digital Marketplace Supply", in *Helping Tax Payers / FAQs*, https://kra.go.ke/helping-tax-payers/faqs
Note that KRA may wish to reflect feedback from stakeholders in future editions of these FAQs, by integrating more explicit guidance on the responsibilities of digital platforms for supplies that they facilitate in their capacity as an "intermediary".

- Imposing clearly defined and proportionate joint and several liability upon platforms and their suppliers, as well as other intermediaries, in cases where the underlying supplier has failed to comply with its VAT obligations in the taxing jurisdiction.[41]

2.3.4.1. Data sharing obligations for platforms

A jurisdiction could opt to introduce a legal obligation for digital platforms to provide the tax authority with VAT-relevant information concerning the supplies by third-party suppliers that they facilitate, without necessarily imposing a VAT liability or a collection obligation on the platform for these supplies. This could, for instance, be considered as an option to enhance compliance by underlying suppliers, which will be aware that the platform will report VAT-relevant data concerning their activities to the tax authorities, and to enhance the tax authorities' visibility of the activities of suppliers via digital platforms that are not covered by a full liability regime (e.g. potentially activities by domestic suppliers).

In designing such a measure, a tax authority will need to carefully consider the objective of introducing a reporting obligation (e.g. to monitor, to prepopulate VAT returns, or to support compliance risk management) and what type of information it needs to achieve that objective. The tax authority must determine to what extent it is reasonable to seek such information from digital platforms, including whether the platforms can reasonably be expected to have the requested information at hand and to have the human and technical resources to process and transfer these data.

In general, tax authorities are encouraged to ensure that information sharing obligations for digital platforms to support VAT collection on online sales are properly balanced against the overall policy objective of avoiding undue compliance costs and administrative burden.

Scope and application of information sharing obligations. In determining the scope and application of a reporting obligation for digital platforms, it is useful to consider whether this obligation is introduced as a standalone measure or whether it supplements a full VAT liability regime or any other roles to support VAT collection.

If the obligation is designed as a standalone measure, it is reasonable to impose it on all digital platforms that have access to information that is considered relevant for VAT compliance purposes. In this case, the information sharing obligation could apply to digital platforms that perform one or more of the following functions:

- Play an integral role in the underlying supplies (typically online marketplaces);
- Connect buyers with sellers (incl. click-through or shopping referral platforms);
- Receive a fee, commission, or other consideration for listing items online;
- Process payments.

If, however, the obligation is introduced along with other requirements for digital platforms that may already include a reporting obligation, such as a full VAT liability regime, it might be reasonable to limit the

[41] As way of illustration, *Articles 283 bis* and *293 A ter* of the French Tax Code (*Code Général des Impôts*) provide for a joint and several liability mechanism for online platform operators and the underlying suppliers that carry out a business activity through these platforms. Under the French joint-and-several liability measures, the tax administration will notify a digital platform that it has identified a potentially non-compliant underlying supplier operating through the platform. The digital platform has one month to take measures to encourage compliance by the underlying supplier. Failure to take action leads to a formal notice from the tax administration to the platform that demands the adoption of certain measures towards the underlying supplier or the exclusion of that supplier from selling through the platform. The formal notice contains a hard deadline of one month, following the expiry of which the tax administration will hold the platform responsible for settlement of any VAT for which the underlying supplier has liability.

application of any additional information sharing obligations to the digital platforms that are not already covered by those other measures.

Because digital platform operators may be established outside the taxing jurisdiction, it should be recognised that enforcing such an obligation against such non-resident platform operators may be challenging. Accordingly, such an information sharing obligation is ideally combined with administrative co-operation arrangements between jurisdictions. See subsection 6.8 and Annex A (in the subsection summarising Chapter 4 of the International VAT/GST Guidelines) for further details.

Nature of the information that can be subject to a reporting obligation for digital platforms. Digital platforms are capable of collecting a vast amount of data. It is reasonable to require digital platforms to report information that is available to them in the normal course of their business activities and that is proportionately relevant for VAT compliance purposes. Specifically, this would comprise information necessary to satisfy the tax authorities that the VAT for a supply has been charged and accounted for correctly by the underlying supplier. Box 2.8 below outlines the core information elements that tax authorities may reasonably require to be shared.

Box 2.8. Potential information elements that tax authorities may require from digital platforms

- The identification of the supplier, including the tax identification number;
- The nature of the supply;
- The date of the supply;
- The value of the supply;
- The VAT amount and rate;
- The customer location;
- Information used to determine customer location;
- The payment service provider;
- An invoice or other document issued to the customer.

Plus, for platforms that have underlying suppliers of low-value goods:

- The shipping agent;
- The shipping address;
- The fulfilment warehouse, if any.

Source: OECD analysis.

On request or periodically and systematically. Under an obligation to provide information on request, a jurisdiction requires the digital platform to retain records of the supplies that are subject to VAT in that jurisdiction and to produce such information upon request.[42] Most jurisdictions in Africa that have implemented measures for full VAT liability for digital platforms appear to have taken the approach of placing an obligation on such suppliers to provide information upon request. For example, this applies to

[42] For instance, the Republic of Korea has announced that effective from 1 July 2022, for supplies of electronic services, non-resident suppliers will be required to maintain electronic service transaction details for five years after the due date of the final VAT return and to submit a transaction statement within 60 days of receiving a request from the Commissioner of the National Tax Service (NTS).

the regimes in Ghana, Kenya, Nigeria and South Africa. In each case, digital platforms with full VAT liability on certain supplies by non-resident suppliers will in general be subject to the same record-keeping obligations for these supplies under the jurisdiction's VAT regulations as if they had made them. For example, South Africa requires that all VAT-registered businesses maintain the following records[43]:

A record of all the goods and services supplied by or to you in sufficient detail to determine the rate of tax applicable to the supply, and the supplier or agents must be kept. This includes, for example, all invoices, tax invoices, credit and debit notes, bank statements, deposit slips etc. Records must generally be kept for five years. The records may be kept in electronic form.

By contrast, under a systematic reporting requirement, a digital platform is required to systematically provide specified information on a periodic basis. Both approaches can be combined, e.g. by requiring a digital platform to periodically report aggregated data per underlying supplier for risk analysis purposes with the possibility for the tax authority to require the transmission of transaction-based data upon request in specific cases, for instance, if needed for audits of identified risk cases.

General policy and design considerations for information sharing obligations. The following policy and design considerations may inform a tax authority's approach to information sharing obligations imposed on digital platforms:

- Identifying in advance the information that is relevant and that digital platforms can reasonably be expected to report to the tax authority to meet this authority's policy objectives.
- Striking an appropriate balance between the information requirement and the policy objective to avoid imposing undue or disproportionate compliance burdens.
- Considering the broader regulatory context, e.g. as regards the protection of privacy and personal data, trade secrecy law, limitations of access to information held in other jurisdictions.
- Ensuring that information requested is not available by other means.
- Provision of clear guidance on the practical aspects of the information obligation (content, form, and frequency).
- Allowing for appropriate lead-time in implementing the information sharing obligation.
- Ensuring that the necessary administrative capacity, including IT infrastructure, is available to effectively receive, store and process bulk data, recognizing that information requirements for digital platforms will often involve large volumes of data on large numbers of transactions often with a low individual value.
- Ensuring that data collected are used efficiently to boost compliance.
- Sharing data across agencies, including with customs authorities, to facilitate their utilisation across taxes.
- Ensuring that the information collected from digital platforms can be used to support the international administrative co-operation.

2.3.4.2. Education of suppliers operating on digital platforms

Experience suggests that the availability of readily accessible and easily understood guidance for taxpayers benefits compliance levels, particularly in jurisdictions that are using simplified registration and collection mechanisms for the collection of VAT from non-resident suppliers. It can be difficult in practice, however, for tax authorities to directly reach out to the potentially large numbers of non-resident businesses selling online to customers in their jurisdiction.

[43] South African Revenue Service (2019), *Legal Counsel – Value-Added Tax: Frequently Asked Questions: Supplies of Electronic Services* [3rd issue], https://www.sars.gov.za/wp-content/uploads/Ops/Guides/LAPD-VAT-G16-VAT-FAQs-Supplies-of-electronic-services.pdf. See page 22.

Because many of these online suppliers use digital platforms to access the global market, there is an opportunity to use these platforms as communication channels to provide accurate and timely information to these suppliers on their VAT obligations. It is notable that several digital platforms have spontaneously taken initiatives to communicate with their underlying suppliers about these suppliers' VAT obligations in the various jurisdictions where they make online sales, including through online forums for suppliers where information on tax and other regulatory issues is shared.

Ideally, non-resident suppliers should have easy and online access to all the necessary information concerning their VAT obligations in the jurisdiction of taxation in one place, e.g. through a dedicated web portal. This increases the efficacy of communication and facilitates the regular updating of the information by the tax authorities. It is recognised, however, that tax authorities may not always have the administrative and technological capacity to provide or manage information in such a manner and to keep it updated and accessible to suppliers worldwide. The capacity of digital platforms to communicate with the often large numbers of suppliers that sell through their platforms offers a unique opportunity to tax authorities to use these platforms for the dissemination of information on these suppliers' VAT obligations. This could include the provision and dissemination of guidelines, direct messages concerning notifications of changes in obligations, the organisation of webinars, and the provision of information and guidance via the online forums that certain platforms make available to their underlying suppliers.

The following general design considerations are relevant to the role that platforms may play in educating online suppliers:

- The education role should be designed to supplement rather than replace existing communication strategies employed by tax authorities.
- Platforms should be able to rely on the information provided by tax authorities in communicating with their underlying suppliers.
- Tax authorities should inform digital platforms of any changes to the information to be provided to underlying suppliers in a timely manner.
- Tax authorities should engage proactively with digital platforms in addressing questions raised by underlying suppliers.

2.3.4.3. Formal co-operation agreements

A further option that can be considered by tax authorities is to enter into formal agreements with digital platforms based on the co-operative compliance concept. These agreements can combine a variety of measures and approaches to involve digital platforms in supporting VAT compliance in respect of the online sales that they facilitate. This typically includes information sharing (periodic and spontaneous) and education, including using the platform as a conduit to communicate with underlying suppliers on compliance obligations, etc. It can also encompass mutual obligations for tax authorities and platforms to alert one another to instances of fraud, and platforms responding quickly to notifications by a tax authority where underlying suppliers are found to be in breach of their VAT obligations. Formal co-operation agreements are discussed in more detail in subsection 6.6 of this Toolkit.

2.3.4.4. Digital platforms as voluntary intermediaries

Tax authorities can consider allowing digital platforms to act voluntarily as a third-party service provider on behalf of underlying suppliers (i.e. businesses that carry out supplies through their platform). This could notably be relevant in cases where a platform is considered liable for certain supplies but not for others (see below). This provision could benefit the efficiency of compliance for both the platform and the underlying supplier.

Scope of a voluntary intermediary role. When considering the introduction and the scope of a measure allowing a platform to act as a voluntary intermediary for VAT compliance, the core question is whether such an arrangement is likely to lead to a more efficient and effective VAT collection. An arrangement whereby a trusted platform operator with a positive compliance history voluntarily agrees to collect the VAT or to assume VAT liability on behalf of potentially large numbers of suppliers that operate through its platform, could achieve such an objective.

A jurisdiction could for instance allow such an arrangement to operate as complementary to the full VAT liability regime, applying it to transactions not covered by that obligation. A jurisdiction could also consider a voluntary intermediary model to be useful as an intermediate step pending the coming into effect of a full VAT liability regime.

General policy and design considerations for a voluntary intermediary arrangement. The principal design and policy considerations when introducing and designing a measure authorising digital platforms to opt for a voluntary intermediary role include the following:

- The scope for such a voluntary intermediary arrangement should be clearly defined.
- The digital platform's voluntary intermediary role should be clearly reflected in an agreement between the digital platform and its underlying suppliers.
- Considering that the arrangement is voluntary and that it has the potential to enhance VAT compliance for the supplies in its scope, tax authorities can incentivise digital platforms to opt for such a voluntary intermediary role by ensuring that compliance is made sufficiently easy and simple (e.g. by providing the necessary information, responding to questions and helping digital platforms to address challenges in implementing and operating the arrangement).
- Where a simplified registration and collection regime is applied for non-resident suppliers, this regime should also be accessible to a digital platform that chooses to operate as a voluntary intermediary for its underlying suppliers.
- It is essential that a tax authority has the means to verify that the platform has taken responsibility for its obligations under a voluntary intermediary role and that the VAT has been, or will be, accounted for.

Intermediary for domestic underlying suppliers. As discussed in subsection 2.3, limiting the scope of a full VAT liability regime to transactions involving non-resident underlying suppliers can create compliance complexities for both digital platforms and tax authorities, in having to determine whether supplies have been made by domestic or non-resident suppliers to ensure their correct VAT treatment. Some jurisdictions therefore provide the option for a digital platform operator under certain circumstances to treat all digital products and digital services supplied through its platform as within the scope of its full VAT liability obligation, regardless of the supplier's location. [44]

[44] Outside the African continent, this is the case, for example, in Australia. Please see:
Australian Taxation Office (2018), *Law Companion Ruling – LCR 2018/2: GST on supplies made through electronic distribution platforms*, https://www.ato.gov.au/law/view/document?DocID=COG/LCR20182/NAT/ATO/00001
Similarly, Singapore allows marketplace operators to seek the tax authority's approval to charge and account for GST on B2C digital services made through its marketplace by both resident and non-resident suppliers, on behalf of these suppliers. This arrangement has been introduced notably to facilitate compliance for micro-businesses, such as digital entrepreneurs, who may not have the capacity or resources to be able to account for their GST obligations.

3 The recommended policy framework for international supplies of low-value goods – in particular from online sales

Section 3 of the VAT Digital Toolkit for Africa provides a comprehensive analysis of the recommended policy framework for the collection of VAT on international supplies of low-value goods. It provides concrete guidance for the implementation of the policy framework based on internationally agreed standards and best practices.

In Brief

Section 3 sets out how jurisdictions can extend the recommended policy framework for the collection of VAT on supplies of services and intangibles by non-resident suppliers, as described in Section 2, to include supplies of low-value imported goods by non-resident suppliers. The key components of this policy framework and the associated main policy considerations are outlined below.

- **Transfer of the responsibility to collect VAT on imports of low-value goods to non-resident online suppliers and to digital platforms ("vendor collection").** This Toolkit provides guidance on how to extend the vendor collection regime for international B2C supplies of services and intangibles presented in Section 2 to the collection of VAT on supplies of low-value imported goods by non-resident suppliers. This means imposing an obligation upon non-resident suppliers and, where appropriate, digital platforms to collect the VAT on those supplies of low-value imported goods at the point of sale and to remit this VAT to the tax authority in the jurisdiction of importation of these goods. As VAT is already collected at the point of sale, no VAT is collected upon importation of these goods. This notably allows a jurisdiction to:
  - Collect VAT on imported goods that may currently be untaxed (e.g. due to a VAT low-value consignment relief threshold).
  - Increase the efficiency of VAT collection and compliance risk management for the online supplies of low-value imported goods, by focusing compliance and enforcement efforts on the relatively limited number of non-resident suppliers and digital platforms that sell these goods to customers in that jurisdiction, rather than having to police the correct VAT treatment of each individual imported consignment.
  - Relieve customs authorities of the burden of assessing and collecting VAT on low-value imported goods (except perhaps in cases where there is no evidence that the supplier or a digital platform has collected VAT at the point of sale) allowing them to focus on their important border protection and trade facilitation tasks.
- **Extension of the simplified registration and collection regime to imports of low-value goods**. The introduction of a simplified compliance regime is recommended to facilitate and enhance VAT compliance for non-resident suppliers under a vendor collection regime for supplies of low-value imported goods. This can be done by extending the operation of a simplified compliance regime for international supplies of services and intangibles to include low-value imported goods. It is recommended that this simplified compliance regime is also accessible to digital platforms to fulfil their VAT obligations under a full VAT liability regime.
- **Central role for digital platforms, in particular by implementing a full VAT liability regime**. It is recommended to enlist digital platforms in the collection of VAT on supplies of low-value imported goods by non-resident suppliers, by making these platforms fully liable for the VAT on these supplies that they facilitate. The full VAT liability regime for digital platforms will significantly enhance the effectiveness and efficiency of the recommended policy framework for the VAT collection on low-value imported goods.
- **Treatment of low-value imported goods that are subject to a vendor collection regime at the time of importation – available approaches to ensure proper VAT collection and to avoid double taxation:**

- One approach is that customs authorities check the "VAT-paid" status of low-value imported goods that are subject to the vendor collection regime at the time of their importation. These goods are cleared without collection of VAT at importation if the customs authorities are satisfied that VAT has been collected at the point of sale in accordance with the vendor collection regime. The customs authorities do collect VAT as a fall-back in case they are not satisfied that VAT has been collected at the point of sale by the non-resident supplier or digital platform. Checking the "VAT-paid" status complements the audit and risk management efforts that focus on compliance by non-resident suppliers and digital platforms with their VAT obligations under the vendor collection regime in the jurisdiction of importation. This approach must be complemented with a mechanism to prevent double taxation in case the non-resident supplier or platform did collect VAT at the point of sale.
- Another approach is that customs authorities clear all imports of items or consignments with a value below a specified VAT consignment relief threshold without any assessment for import VAT. The VAT on low-value imported goods that are supplied by non-resident suppliers to private consumers in the jurisdiction of importation is collected directly from these suppliers or from the platforms that facilitate these supplies under a full VAT liability regime. This may be complemented with a threshold of supplies made to customers in the jurisdiction of importation below which these non-resident suppliers and digital platforms are not obliged to register and remit the VAT in that jurisdiction (typically aligned with the VAT registration threshold for local businesses). The audit and risk management efforts in the jurisdiction of importation then focus predominantly on compliance by non-resident suppliers and digital platforms with their VAT obligations under the vendor collection regime rather than on the "VAT-paid" status of goods by customs authorities at the border.

- **Roles for other intermediaries**. Transportation intermediaries can be given a fall-back role in collecting VAT on importation on behalf of customs authorities when a non-resident supplier or digital platform has not collected the VAT due on low-value imported goods at the point of sale. The use of a VAT withholding mechanism through financial intermediaries, such as payment service providers, is not recommended as a primary mechanism for VAT collection on supplies of low-value imported goods. Jurisdictions can however consider the use of such a withholding regime as a fall-back option to address persistent non-compliance by non-resident suppliers that refuse to register or collect the VAT due on supplies of low-value imported goods.
- **Higher-value goods and goods subject to excise duty.** It is recommended to exclude higher-value goods and goods to which excise duties apply (e.g. alcohol, tobacco, perfume, etc.) from the scope of vendor collection obligations for non-resident suppliers and digital platforms in respect of low-value imported goods.
- **B2B supplies.** The use of the vendor collection regime is recommended in particular for B2C supplies of low-value imported goods by non-resident suppliers. Jurisdictions should decide on the treatment of low-value imported goods supplied to business customers in this context. Jurisdictions that make a distinction between B2B and B2C supplies could consider applying a reverse charge or "postponed accounting" scheme for B2B supplies of low-value imported goods.
- **Extension of the full liability regime for digital platforms to certain domestic supplies of goods by non-resident suppliers**. Particular non-compliance risks have been identified in respect of arrangements whereby non-resident suppliers use local fulfilment houses to sell goods that are already in a jurisdiction to private consumers in that jurisdiction without properly accounting for the VAT due. To address these risks, jurisdictions can consider extending the full

liability regime for digital platforms to include such local supplies of goods by non-resident suppliers.

- **Extension of the vendor collection regime to supplies of low-value imported goods by resident suppliers.** Making resident suppliers liable for the VAT on low-value imported goods can provide similar benefits as the application of such a vendor collection regime to non-resident suppliers. Jurisdictions could therefore adopt this regime for supplies of low-value imported goods irrespective of the residence of the supplier of these goods.

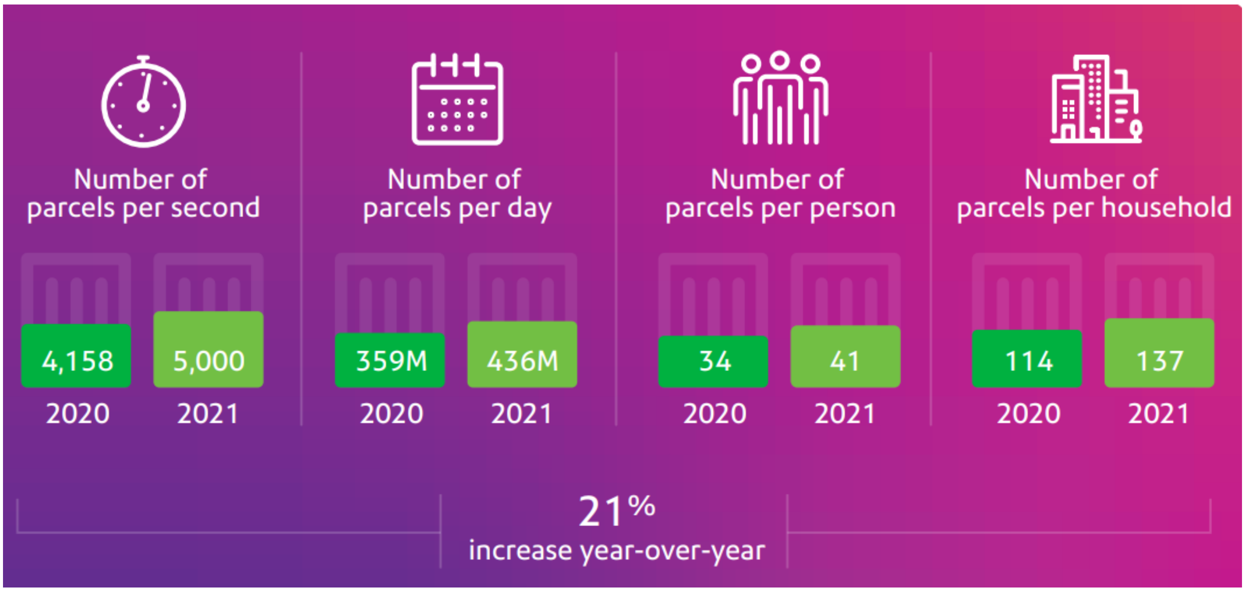
Guide to Section 3

Customs authorities traditionally levy and collect any VAT due on individual consignments of goods that are declared for importation. VAT on imports is normally collected at the time of importation when customs authorities prepare to release goods for delivery to consumers and businesses. The import VAT and customs duties due are normally calculated on the basis of information provided in an import declaration. A transporter, such as an express carrier or a postal operator, will often be responsible for filing such a customs declaration and paying for the import VAT and duties, and subsequently recover the VAT and duties from the customer. The customer will also be liable for any administrative fees that the transporter charges for these and any other services that customs authorities require them to perform. Imposing the

VAT payment obligation on the customer as the importer of these goods achieves the allocation of VAT taxing rights to the jurisdiction of consumption in accord with the destination principle.

However, jurisdictions increasingly confront significant practical challenges in effectively collecting VAT through their traditional customs-based collection regime on imports of low-value goods, e.g. goods with a value below the jurisdiction's customs duty low-value relief threshold (see also subsection 1.3.2). These challenges are attributable to the enormous growth in online purchases by consumers of low-value goods from non-resident suppliers, which results in equally enormous quantities of small parcels crossing borders on a daily basis. As an illustration, more than 131 billion parcels were shipped globally in 2020, representing a 27% year-on-year growth (see Figure 3.1). Parcel volumes tripled within just seven years and are estimated to double in the next five years (Pitney Bowes, 2022[54]). This significant increase creates considerable pressure for VAT collection by customs authorities, reducing the resources available to focus on their other important tasks of border protection and trade facilitation.

Figure 3.1. Ever-growing volume of parcels shipped globally



Note: The index measures parcel volume for business-to-business, business-to-consumer, consumer-to-business and consumer consigned shipments with weight up to 31.5 kg in 13 major markets around the world. These markets include Australia, Brazil, Canada, China, France, Germany, India, Italy, Japan, Norway, Sweden, the United Kingdom and the United States.
Source: Pitney Bowes (2022), *Parcel shipping index 2021* (Pitney Bowes, 2022[54]).

Historically, the compliance and administrative costs resulting from the traditional customs-based process for collecting the VAT on the importation of low-value goods have often been considered to outweigh the revenue benefits of collection. Where jurisdictions have responded by relieving imports of low-value goods below a certain threshold from VAT without an alternative VAT collection mechanism, the revenue forgone and distortions of competition from such a VAT low-value consignment relief are likely to have created growing pressures as these jurisdictions are confronted with increasingly significant volumes of low-value imported goods that are sold free of VAT via the Internet. Where low-value consignment relief mechanisms are in place, the integrity of declared values of consignments has often been proven to be a revenue risk because of under-declaration or because of global logistics practices of declaring a nominal value rather than the actual purchase price of goods. All in all, VAT assessment at the point of importation can be onerous, not cost effective, vulnerable to non-compliance from under-reporting and impede the logistical movement of consignments across borders, e.g. through air and seaports. Section 3 presents recommended alternative approaches to significantly enhance the efficiency and effectiveness of VAT collection on the importation of low-value goods – in particular from online sales.

3.1. Asserting taxing rights – Implementing the destination principle

3.1.1. Implementing the destination principle: Vendor collection regime for non-resident suppliers and digital platforms

Jurisdictions that wish to enhance the efficiency of VAT collection on low-value goods imports are recommended to consider reassigning the responsibility for the collection of the VAT to the non-resident businesses that supply these goods to customers in the jurisdiction of importation and to the digital platforms that facilitate these supplies. These non-resident suppliers and digital platforms are then required to collect the VAT at the point of sale and to remit it directly to the tax authorities in the jurisdiction of importation, thus relieving the customs authorities from the task of collecting the VAT on goods at importation. This can be achieved by extending the scope of the vendor collection regime that is recommended for supplies of services and intangibles by non-resident suppliers, to supplies of low-value imported goods by non-resident suppliers.

Historically, jurisdictions have generally implemented the destination principle for cross-border trade in goods by levying VAT on imports and treating exports as free of VAT. With respect to low-value goods, however, many jurisdictions apply an import VAT exemption (low-value consignment relief), thus not fully asserting their right to tax, in accordance with international conventions on trade.[45] Additionally, they often encounter significant challenges with traditional VAT collection processes for imports of low-value goods which may lead to inefficient tax collection or imports wrongfully remaining under- or untaxed. As consumers' online purchases of low-value goods from non-resident suppliers have increased significantly, the overall consequence of these low-value consignment relief regimes and VAT collection challenges has been rising amounts of VAT revenue forgone and distortions of competition to the detriment of domestic suppliers (see subsection 1.3.2 for more details).

Jurisdictions that currently relieve imports of low-value goods from VAT but wish to start levying VAT on those imports will need to introduce a mechanism that ensures an efficient and effective collection of the VAT due on these imported goods (see subsection 3.2 below). Reducing or simply abolishing VAT low-value consignment relief while maintaining the existing customs-based collection process is unlikely to lead to a satisfactory outcome and could even risk being counterproductive. Considering the increasing numbers of low-value goods that arrive at jurisdictions' borders every day due to the enormous growth of global e-commerce, maintaining the traditional customs-based collection process could lead to disproportionate VAT collection costs, make fraud detection even more challenging and have detrimental effects on tax collection on the importation of goods with higher value.

Jurisdictions that do not operate a VAT low-value consignment relief and thus collect the VAT on low-value imported goods at customs may face increasingly important efficiency and compliance risk challenges connected with this customs-based import VAT collection process, as highlighted above (see further

[45] Clause 4.13 [Transitional Standard] of Chapter 4 of the "General Annex" to the Revised Kyoto Convention (17 April 2008) states: *National legislation shall specify a minimum value and/or a minimum amount of duties and taxes below which no duties and taxes will be collected*.
Please refer to: World Customs Organization (2008), *International Convention on the Simplification and Harmonization of Customs Procedures*, WCO, Brussels, https://www.wcoomd.org/en/topics/facilitation/instrument-and-tools/conventions/pf_revised_kyoto_conv/kyoto_new.aspx

discussion in subsection 1.3.2). Also these jurisdictions may wish to consider reform to increase the efficiency of VAT collection on low-value imported goods as further discussed in this Section.

3.1.2. Place of taxation

> There is widespread consensus that the allocation of taxing rights applying to international trade should follow the "destination principle". Under the destination principle, VAT revenues in respect of internationally traded goods should accrue to the jurisdiction of importation.

In contrast to the implementation of the destination principle in connection with internationally traded services and intangibles, for which determining the jurisdiction of consumption may be challenging in the absence of the appropriate place-of-taxation provisions, implementation of the destination principle with respect to international trade in goods is straightforward, at least in principle. When a transaction involves a business transporting goods from one jurisdiction to another, the jurisdiction to which it delivers the goods (as reflected in the delivery address for the consignment) is a very reasonable proxy for determining the jurisdiction of consumption in accord with the destination principle.

3.2. Establishing effective VAT collection mechanisms

Guide to subsection 3.2.

3.2.1. VAT collection on low-value imported goods – Summary of options

The rise of the digital economy has created significant challenges for jurisdictions to collect VAT on the importation of low-value goods under their traditional collection regimes, as a consequence of the rising volumes of goods purchased online by private consumers from suppliers abroad (see subsection 1.3.2). The BEPS Action 1 Report highlighted that jurisdictions might be in a position to address some of these challenges, including those associated with VAT low-value consignments relief, if they could improve the efficiency of VAT collection on imports of low-value goods. In-depth research was carried out on possible options for a more efficient collection of VAT on imports of low-value goods, and the outcome of this research was presented in detail in Annex C to the BEPS Action 1 Report. This report advised jurisdictions to consider these options in light of their domestic situation and of the possible impact of the growing volumes of low-value imported goods resulting from digital trade growth on their VAT revenues and on the competitive position of their domestic economy.

The following subsections briefly summarise the key findings of the BEPS Action 1 Report, complementing these findings with the insights and results of jurisdictions' experiences over recent years. They then outline the OECD's principal recommendation for reform of the traditional, customs authority-led framework for VAT collection on international supplies of low-value goods. In summarising the report's findings, notably on the different collection models, this Section of the Toolkit notes where experience and further work since the report's publication in 2015 have resulted in refinement of earlier conclusions.

3.2.1.1. The traditional collection model

The traditional, customs authority-led model is generally not an efficient model for the collection of VAT on imports of low-value goods, particularly as importation volumes of these goods increase (see subsection 1.3.2 for further detailed discussion). The efficiency of the traditional collection model is likely to improve over time as electronic systems for pre-arrival declaration and advance electronic VAT assessment and payment are implemented worldwide to replace paper-based and manual verification processes. These are an increasing feature of the regulatory environment for international consignments even independent of tax-related imperatives (European Commission, n.d.[55]).

These electronic processes are already prevalent in the express carrier environment where they have resulted in considerable efficiency gains. Express carriers will generally transmit the data and documents that suppliers provide them in electronic format to the customs authorities in both the country of export and the country of destination. The customs authorities at the destination can perform initial risk assessments prior to the shipment's arrival in the country. Electronic processing of advance cargo information combined with advance payment of duties and taxes allows customs authorities to clear most goods upon arrival without assessment for revenue collection purposes.

However, the use of electronic processes for declaration and settlement of taxes and duties on imports is much less frequent among postal operators. Postal services still handle the bulk of parcels generated by international online B2C trade and most still administer the transportation of these goods by predominantly paper-based means. The worldwide implementation of electronic processes among a critical mass of postal operators across key markets might allow the removal of the current VAT low-value consignment relief thresholds. These systems are still under development in the postal environment and may be available only in the medium-to-long term, as it will take some time for them to be universally accessible.

Enhancements in the use of electronic processes and systems by transporters are unlikely to fully address the principal challenges of the traditional collection framework, as it will normally continue to rely on customs authorities to police compliance at an individual consignment level. It is likely that this customs-based system will continue to face the important challenges of labour intensiveness and vulnerability to fraud, at least in the short to medium term, in light of the continuously rising volumes of low-value imports.

3.2.1.2. The purchaser collection model

A model relying on the purchasers to self-assess and pay the VAT on their imports of low-value goods is not likely to provide a sufficiently robust solution for an efficient collection of the tax. Although the purchaser collection model is likely to involve only limited compliance burdens for vendors, experience suggests that the level of compliance by purchasers is likely to be low. Online purchases of low-value goods are made primarily by private households, both in terms of volumes and value, and the vast majority of these consumers will normally have very limited knowledge of the associated tax and VAT obligations. Those that do may quickly identify numerous means at their disposal to avoid or evade their obligations. This model thus carries the risk of an unacceptably high level of non-compliance and of increasingly important revenue losses. In addition, this model would be highly complex and costly for customs and tax authorities to implement, operate and enforce, taking into account that payment of the VAT due on potentially millions of low-value imported goods would have to be pursued from potentially millions of private consumers that have purchased these goods online. This model is also likely to be significantly more burdensome for purchasers compared to the other models.

3.2.1.3. The vendor collection model

The vendor collection model requires non-resident suppliers to register for and collect the VAT on their supplies of low-value imported goods to customers in the jurisdiction of taxation. This model focuses essentially on supplies to final consumers (B2C) and is recommended to include a simplified compliance mechanism to facilitate compliance for non-resident suppliers in the jurisdiction of taxation.

A simplified compliance regime for non-resident suppliers is a central component of the recommended policy framework for the collection of VAT on their supplies of low-value imported goods. The design and operation of a simplified compliance regime in this context is covered in detail in subsections 3.2.2 and 5.2.

3.2.1.4. The intermediary collection model

"Intermediary collection model" is a generic term referring to the approaches whereby VAT collection obligations are imposed on one or more categories of intermediaries that participate in supplies of low-value imported goods by non-resident suppliers. Any intermediary upon which governments impose such obligations will need access to the information that is necessary to assess and remit the right amount of VAT to the jurisdiction of importation.

While the intervention of intermediaries in the collection of VAT on low-value imported goods is likely to reduce VAT compliance burdens for non-resident suppliers, the intermediaries may pass the additional VAT-compliance costs that they incur onto to consumers or suppliers. This model may be attractive to consider for tax authorities in respect of intermediaries that have a presence in the jurisdiction of importation, e.g. express carriers, postal operators, fulfilment houses and locally established digital platforms. These intermediaries generally have a much stronger understanding of local tax and customs rules and procedures than non-resident suppliers.

Four principal types of potential intermediaries have been identified:

- **Postal operators:** The discussion of the "traditional collection model" above highlighted significant challenges resulting from the limited state of technological advancement in the postal operator environment. For the same reasons, the vast majority of postal operators do not have the appropriate systems in place to directly manage the assessment and collection of VAT on low-value imported goods.
- **Express carriers:** Express carriers have normally already implemented electronic data collection and transmission systems that enable a relatively efficient collection and remittance of import VAT, and such VAT collection and remittance by express carriers is already common practice. Express carriers collecting VAT on imports of low-value goods could provide an efficient and effective solution for the consignments they transport, perhaps most helpfully as a fall-back to a vendor collection model. Jurisdictions can consider giving express carriers access to a simplified compliance regime and to fast-track processing for consignments on which they collect VAT.
- **Digital platforms:** Assigning a central role to digital platforms, including the implementation of a full VAT liability regime, is a core component of the recommended policy framework for the collection of VAT on supplies of low-value imported goods by non-resident suppliers. This is discussed in detail in subsection 3.3.
- **Financial intermediaries:** Most financial intermediaries do not collect the necessary information for the assessment and collection of VAT on low-value imported goods. A model relying on financial intermediaries to collect and remit VAT on these imports would involve fundamental changes in financial intermediaries' operations and data collection processes. It is therefore considered unlikely that financial intermediaries can play a leading role in a more efficient collection of VAT on imports of low-value goods in the short-to-medium term. Subsection 6.7.6 presents a further detailed analysis.

3.2.1.5. Overall conclusion: Recommendation for a vendor collection model for non-resident suppliers and digital platforms

The findings of the analysis outlined above and jurisdictions' experiences show that the most efficient and effective approach to collecting the VAT on the rising volumes of low-value imported goods purchased by consumers via the Internet from suppliers abroad is likely to be one that combines VAT registration and collection obligations for non-resident suppliers with a full liability regime for the digital platforms that play a central role in facilitating these supplies. This vendor collection model for non-resident vendors and digital platforms forms the core of the recommended policy framework presented in this Toolkit.

The outcome of the vendor collection model for non-resident suppliers and digital platforms is that VAT is applied to the correct transaction value of the supply by the non-resident supplier or digital platform at the point of sale rather than on the declared (and often under-declared) value at the time of importation, and that customs authorities are relieved from the task of collecting the VAT at the time of importation on the low-value imported goods that are subject to VAT collection by the non-resident supplier or digital platform.

Jurisdictions can consider a fall-back role for customs authorities or intermediaries such as transporters to address non-compliance by non-resident suppliers of low-value goods, depending on the design of their regime. The effective use of the exchange of information and other forms of international administrative co-operation between tax authorities will further strengthen tax authorities' enforcement capacity and their compliance risk strategies.

Clear rules and procedures are required to co-ordinate the VAT obligations of the non-resident suppliers, digital platforms, customs authorities and the various other actors involved in the supplies of low-value imported goods to avoid double taxation or unintended non-taxation. To this effect, these rules and procedures should allow all relevant parties, especially customs authorities, to verify in an efficient manner whether another party has already collected the VAT due on a supply of low-value imported goods.

3.2.2. Reassigning responsibility for VAT collection on imports of low-value goods to non-resident suppliers and digital platforms

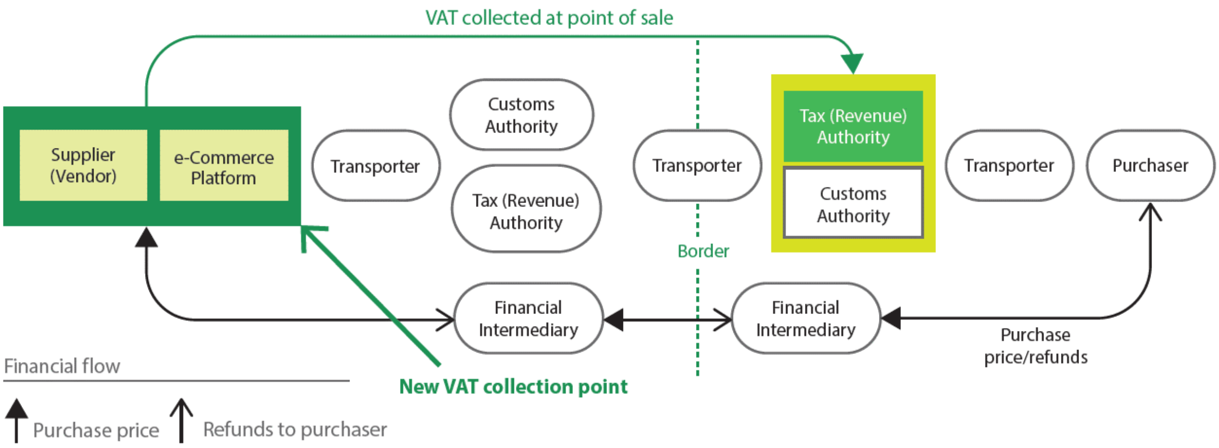
3.2.2.1. Overview

African jurisdictions that wish to respond to the growing pressure on their customs processes for the collection of VAT on imports of low-value goods purchased via the Internet by consumers from suppliers abroad are advised to consider reassigning the VAT collection responsibility for these supplies to these non-resident suppliers or to the digital platforms that facilitate them. This can be achieved by extending the vendor collection regime for supplies of services and intangibles by non-resident suppliers, presented in Section 2, to the supplies of low-value goods by non-resident suppliers. If implemented properly, such a vendor collection regime provides an efficient and effective way to collect VAT on low-value imported goods that are currently supplied free of VAT under a VAT low-value consignment relief or to improve the integrity of VAT collection on these consignments where such a relief does not exist.

The cornerstones for the effective collection of VAT under this vendor collection regime as illustrated in Figure 3.2 below are the following:

- To reassign the responsibility for VAT collection on imports of low-value goods to non-resident suppliers and digital platforms (subsection 3.2.2.3);
- To extend the simplified registration and collection regime for supplies of services and intangibles by non-resident suppliers to supplies of these low-value imported goods (subsection 3.2.2.4);
- To extend the full VAT liability regime for digital platforms to supplies of these goods (subsection 3.3.2).

Figure 3.2. Overview of VAT collection for imports of low-value goods under a vendor collection regime



Source: OECD analysis.

Under the vendor collection regime for low-value imported goods, the VAT on these goods that are supplied by non-resident suppliers to consumers in the jurisdiction of importation is collected at the point of sale by the non-resident supplier or by the digital platform that facilitates this supply (e.g. when a consumer purchases a good online) rather than at the border upon importation. Like a local sale of goods by a resident supplier, the customer is then charged the gross amount including VAT and the non-resident supplier or platform remits the VAT via a periodic declaration to the tax authorities. This means that in principle these goods arrive at the border with "VAT paid" and do not require VAT assessment by customs authorities. For goods with a higher value (i.e. usually above the customs duty relief threshold for low-value goods, where one exists), the traditional VAT collection system upon importation continues to apply.

This builds on the same foundations as the recommended approach for the collection of VAT on supplies of services and intangibles by non-resident suppliers. (see Section 2 of the Toolkit).

For all these types of supplies, tax authorities face a directly analogous challenge of collecting VAT due on sales to customers in their jurisdiction by non-resident suppliers that have no physical presence in their jurisdiction.[46] In all these cases, the optimal approach is to impose VAT collection obligations on the non-resident suppliers and digital platforms and to facilitate compliance for them by implementing a simplified registration and collection regime.

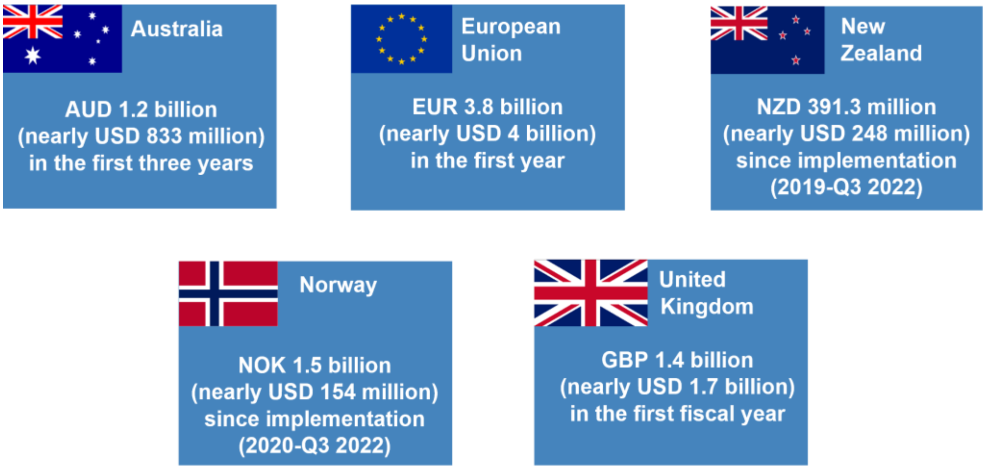
In Africa, a gradually increasing number of jurisdictions have carried out reform to implement a policy framework that relies on non-resident suppliers and digital platforms to collect the VAT on supplies of services and intangibles by non-resident suppliers, as discussed in Section 2. Jurisdictions around the world, such as Australia, the 27 Member States of the European Union, Norway, New Zealand and the United Kingdom have already extended their regimes for services and intangibles to cover low-value imported goods, with Singapore soon to join them in 2023.[47] Jurisdictions that have implemented the

[46] The references to circumstances "where the supplier is not located in the jurisdiction of taxation" is embodied in the official title of the "Collection Mechanisms Report" and is used in the Guidelines and other OECD guidance to refer to cases "where the jurisdiction of taxation may have limited or no authority effectively to enforce a collection obligation upon the supplier". See "Glossary of terms" in Collection Mechanisms Report.

[47] These jurisdictions' implementation of a vendor collection regime for supplies of low-value imported goods is further described in the relevant parts throughout subsection 3.2.2 and in Annex D.

recommended vendor collection regime for supplies of low-value imported goods report notable early revenue results and revenue estimates as shown in Figure 3.3 below.

Figure 3.3. Overview of revenue results for supplies of low-value imported goods



Note: Revenue figures for the European Union and the United Kingdom are based on their latest estimates.
Source: OECD research.

3.2.2.2. Rationale for adopting the vendor collection regime to cover low-value imported goods

The cost of border collection for imports of low-value goods can be high. Many jurisdictions therefore apply low-value consignment relief respectively for customs duties and import VAT on imported goods. This relief is provided through low-value relief thresholds below which no duty or import VAT is collected. These low-value consignment reliefs can save costs for governments by discharging customs authorities of the obligation of collecting customs duties and import VAT for goods below the threshold values. These low-value consignment reliefs may furthermore allow streamlined border clearance.

These features can generate economic benefits by refocusing government expenditure on more efficient revenue sources, reducing the costs borne by importers, and accelerating the delivery of imports. The World Trade Organization (WTO), the OECD, the WCO, and the International Chamber of Commerce (ICC) have all historically recommended the adoption of such low-value relief thresholds and the WCO Revised Kyoto Convention (RKC) also embraces this approach.

The level at which jurisdictions set these low-value relief thresholds varies greatly among jurisdictions. In Africa, there are many jurisdictions that have no low-value consignment relief for customs duties, import VAT or both. In these jurisdictions, even goods with an extremely low value could be subject to customs duty and/or import VAT. The following Table 3.1 shows the jurisdictions in Africa that have low-value relief thresholds other than zero.

Table 3.1. Low-value consignment relief thresholds (*de minimis*) in Africa

Jurisdiction	Customs duty *de minimis*	Customs duty *de minimis* (approximate USD equivalent)	VAT *de minimis*	VAT *de minimis* (approximate USD equivalent)
Algeria	DZD 50 000	USD 352	DZD 50 000	USD 352
Angola	USD 100	USD 100	USD 100	USD 100
Cape Verde	USD 100	USD 100	USD 100	USD 100
Chad	EUR 50	USD 53	EUR 50	USD 53
Central African Republic	USD 50	USD 50	USD 50	USD 50
Côte d'Ivoire	USD 93	USD 93	USD 348	USD 93
Democratic Republic of the Congo	USD 100	USD 100	USD 100	USD 100
Gabon	EUR 38	USD 40	EUR 38	USD 40
Ghana	USD 100	USD 100	USD 100	USD 100
Guinea	USD 80	USD 80	USD 80	USD 80
Lesotho	ZAR 249	USD 15	ZAR 499	USD 31
Malawi	USD 50	USD 50	USD 50	USD 50
Mauritius	MUR 500	USD 11	MUR 500	USD 11
Morocco	MAD 1 213	USD 119	MAD 1 213	USD 119
Mozambique	USD 12	USD 12	USD 12	USD 12
Rwanda	USD 120	USD 120	USD 120	USD 120
Seychelles	SCR 3 000	USD 210	-	-
South Africa	ZAR 100	USD 6	ZAR 100	USD 6
Sudan	USD 100	USD 100	USD 100	USD 100
Tanzania	USD 3	USD 3	USD 3	USD 3
Zambia	USD 2 000	USD 2 000	USD 50	USD 50
Zimbabwe	USD 10	USD 10	USD 10	USD 10

Note: The above table does not include those African jurisdictions with zero duty and VAT *de minimis* thresholds.
Source: OECD research based on Global Express Association (GEA)'s *Overview of de minimis value regimes worldwide* (Global Express Association, 2021[56]).

A low-value consignment relief for VAT on imports of low-value goods leads to those goods being imported free of VAT, in the absence of any alternative VAT collection measure. Consequently, they have become increasingly controversial in the context of the growing digital economy. At the time when most of these VAT exemptions were introduced, Internet shopping did not exist and the level of imports benefitting from the relief was relatively small. A growing number of jurisdictions have seen, and continue to see, a significant and rapid growth in the volume of imports of low-value goods on which VAT is not collected as a result of VAT low-value consignment relief. This results in increasingly significant VAT revenue losses and growing unfair competitive pressures on domestic retailers who are required to charge VAT on their sales to domestic consumers. It is no longer considered acceptable in an increasing number of jurisdictions that this continually growing volume of goods from online sales is supplied free of VAT as a consequence of the low-value consignment relief for imports of low-value goods.

However, where there is no VAT low-value consignment relief, tax and customs authorities increasingly face challenges in respect of the collection of VAT at importation. Customs authorities carry out many other critical functions including the facilitation of trade, the control of drugs and drug precursors, the control of intellectual property rights and importantly the safety of citizens in respect of the importation of dangerous goods and the threat of terrorism. Against this background, the WCO has observed that the growth of trade in goods from e-commerce is presenting significant challenges to customs and tax authorities, and it published a *Cross-Border E-Commerce Framework of Standards* in 2018, one of the core objectives of which is ensuring efficient revenue collection (World Customs Organization, 2018[57]).

The challenges faced by customs authorities where import VAT and customs duties must be collected, i.e. on imports above the respective VAT and/or customs duties low-value relief thresholds, indicate that a solution that simply removes the low-value exemption is not the answer. Such a solution without supporting measures is likely to be counterproductive, with customs authorities having to control significantly more consignments for VAT purposes thereby reducing their capacity to carry out their other critical border protection and trade facilitation functions.

The vendor collection regime for non-resident suppliers and digital platforms presented in this Toolkit reflects a wide international consensus on the most effective solution for a more efficient collection of VAT on the importation of low-value goods. It moves the collection of the VAT on imports of low-value goods away from the customs process at the border and requires the non-resident supplier or digital platform to collect the VAT at the point of sale of these goods and to remit it to the tax authorities in the jurisdiction of importation through a simplified registration and collection mechanism. This approach helps jurisdictions to significantly enhance the efficiency of VAT collection on supplies of low-value imported goods and to overcome the main challenges of the traditional customs-based system (see subsections 1.3.2 and 3.2.1.1). A summary of the perceived advantages of the vendor collection regime for non-resident suppliers and digital platforms is set out in Box 3.1.

Box 3.1. Advantages of the vendor collection regime for low-value imported goods

The vendor collection regime for the collection of VAT on imports of low-value goods has a number of advantages for revenue collection, neutrality, and administrative efficiency and compliance. These advantages include:

- Reducing the administrative costs of collection for governments and relieving customs authorities of the burden of the traditional customs-based collection framework for VAT on imports of low-value goods. This strategy allows customs authorities to focus on their critical border protection and trade facilitation tasks.
- Non-resident suppliers and digital platforms apply VAT to the price that a consumer pays for goods (including transport and insurance) rather than customs authorities applying the VAT to a declared customs value. This approach addresses much of the large-scale revenue loss attributable to the undervaluation of goods on customs declarations.[48]
- Shifting VAT collection responsibilities away from customs authorities (and lowering the associated costs of such collection) provides an opportunity for jurisdictions to:
    - Maximise the tax base by levying VAT on previously untaxed low-value consignments;
    - Maximise the effectiveness and administrative efficiency of VAT collection on supplies of low-value consignments.
- Increasing the efficiency of compliance risk strategies and enforcement actions. Tax authorities can focus on compliance by a relatively limited number of non-resident suppliers and digital platforms rather than having to police the collection of import VAT on thousands or potentially millions of imported parcels.

[48] Universal Postal Union (2019), *Convention Manual – Update 1*, International Bureau of the UPU, Berne, https://www.upu.int/UPU/media/upu/files/UPU/aboutUpu/acts/manualsInThreeVolumes/actInThreeVolumesManualOfConventionMaj1En.pdf. See Article 20 “Customs control. Customs duty and other fees”, pages 80 to 87.

- Administrative and operational synergies for both tax authorities and non-resident suppliers and digital platforms through utilisation of the same infrastructure for registering, reporting and paying VAT on supplies of low-value imported goods as for supplies of services and intangibles by non-resident suppliers.
- Elimination of the fees that transporters and other intermediaries charge when collecting VAT from consumers on behalf of customs authorities under the traditional collection framework.
- Consumers know and pay the VAT-inclusive price when they order goods rather than (often unexpectedly) having to pay import VAT upon reception or importation of the goods.
- Potential for a faster customs clearance and shorter delivery times.

Source: OECD analysis.

At the current time, other alternative options are unlikely to be reasonable or viable as the principal means to achieve the effective, accurate and timely collection of VAT on the importation of low-value goods (see subsection 3.2.1 for an evaluation of different options).

Jurisdictions that have implemented regimes that impose VAT collection obligations on non-resident businesses and digital platforms report that such businesses have readily complied, including for online sales of low-value imported goods. Large businesses with an appropriate internal culture of corporate governance and of compliance with VAT obligations often represent a high share of online sales of goods in terms of value, if not in volume. Many smaller and medium-sized businesses, representing the majority of sales in volume terms, sell primarily through established digital platforms. The operators of these digital platforms often operate on the basis of the same appropriate corporate governance principles as embraced by other large international businesses to ensure compliance with their VAT obligations and to enhance VAT compliance for the supplies made by the online suppliers that use their platforms.

The following subsections provide further detailed analysis of the vendor collection regime for the collection of VAT on supplies of low-value imported goods by non-resident suppliers.

Policymakers will have to carefully consider and take into account the specific circumstances in their jurisdiction when evaluating the implementation of this policy framework.[49] Subsection 3.2.3 highlights certain specific circumstances where a jurisdiction may find that this policy framework may not necessarily present the most appropriate solution at this moment.

3.2.2.3. First component of the vendor collection framework for imports of low-value goods: Transferring responsibility for VAT collection to non-resident suppliers and digital platforms

> Under the vendor collection regime for low-value imported goods purchased from suppliers abroad, a jurisdiction assigns the responsibility for collecting and remitting the VAT on these goods to the non-resident suppliers that sell them or to the digital platforms that facilitate these sales.

This means reassigning responsibility away from customs authorities in most circumstances. As is the case for domestic sales of goods, the non-resident supplier or the digital platform is then required to collect the VAT on the sales price from the customer at the point of sale and to remit it periodically to the tax

[49] By way of example, successful implementation will simultaneously demand that jurisdictions carefully calibrate the optimal utilisation of human resources going forward to avoid inefficient deployment. This situation could arise from staff in customs authorities having greater capacity to take on new work due to a large reduction in the time they must spend assessing goods for VAT and customs duty purposes. Related obstacles could also include political challenges to reorganising the structure and staffing of public authorities.

authority in the jurisdiction of importation. Jurisdictions must then ensure that VAT is not levied a second time at the time of importation. This will normally have an impact on existing customs and tax collection processes and systems, which renders the collaboration with customs authorities crucial for the proper implementation and operation of such a vendor collection regime. Enhanced international and inter-agency co-operation between customs and tax authorities will further be necessary to support tax authorities' compliance risk strategies. Subsection 5.2.11 describes the available administrative measures to avoid or address issues of double taxation and unintended non-taxation in more detail.

As with international supplies of services and intangibles, jurisdictions can significantly enhance the efficiency and effectiveness of VAT collection by assigning full VAT liability to digital platforms for the supplies of low-value imported goods that non-resident suppliers make through these platforms.

In such cases, the platform rather than the non-resident supplier has the responsibility to collect and remit the VAT due on the supplies of low-value imported goods that the platform facilitates. Subsection 3.3 provides further guidance on the design of such a full VAT liability regime for digital platforms in respect of low-value imported goods and on the other possible roles for digital platforms to enhance VAT collection in this context.

It is important to note, however, that any such reform that transfers the responsibility for VAT collection on imports of low-value goods away from customs authorities to non-resident suppliers and digital platforms must ensure the continuing operational independence of customs authorities to subject all goods to inspection, notably in respect of product restriction or prohibition, safety and security. The recommended framework presented in this Toolkit takes due account of the relevant standards and guidance issued by the WCO and the UPU, and Sections 3 and 5 refer to this guidance where appropriate. Importantly, this Toolkit:

- Does not seek to recommend whether and how jurisdictions should amend customs systems and processes, except insofar as to highlight how reforms to VAT collection may provide an opportunity for customs authorities to reduce operational costs and administrative burdens.
- Does not recommend that jurisdictions use a simplified compliance regime for the collection of customs duties, excise taxes, or any other taxes and associated import charges.

3.2.2.4. Second component of the vendor collection regime for imports of low-value goods: Extending the simplified registration and collection regime to imports of low-value goods

It is recommended that jurisdictions complement their vendor collection regime for low-value imported goods with a simplified compliance regime that facilitates compliance by non-resident suppliers and digital platforms with their obligation to collect and remit the VAT on these goods.

Subsections 2.2.2 and 5.2 provide detailed guidance for the policy design and administrative implementation covering all the components of an efficient and effective simplified compliance regime. Table 2.5 provides an overview of these main design features. This guidance applies in large part to the collection of VAT under a vendor collection regime in respect of both supplies of services and intangibles and supplies of low-value imported goods by non-resident suppliers. Policymakers considering the introduction of a simplified compliance regime for the collection of VAT on supplies of low-value imported goods should therefore consult these subsections. Specific guidance for the administrative implementation and operation of a simplified compliance regime for low-value imported goods is provided in particular in subsections 5.2.10 et seq. notably in relation to:

- The determination of whether a good is “low-value”, including alignment with customs valuation rules and the treatment of multiple (low-value) goods in a single consignment (see subsection 5.2.10);
- The critical role of data to determine the VAT-settlement status of low-value imported goods at importation, to minimise risks of double taxation and unintended non-taxation, including potential reporting tools and data flows as well as the interaction with customs processes (see subsection 5.2.11);
- Relief for taxpayers or consumers if double taxation occurs and the documentation that may be required to substantiate such VAT relief (see also subsection 5.2.2.2 and 5.2.9.4);
- The facilitation of fast-track customs clearing processes where VAT has already been collected at the point of sale (see subsection 5.2.12).

Jurisdictions that have implemented a simplified compliance regime for supplies of services and intangibles by non-resident suppliers, as recommended by this Toolkit, will be able to use most of the same administrative and operational infrastructure to extend its application to supplies of low-value imported goods by non-resident suppliers. This includes the “back-end” IT infrastructure such as registration, returns and reporting, and payments systems, as well as “front-end” infrastructure such as online registration and tax account management portals for suppliers. Harmonising administration and operations in this way may produce significant cost savings for tax authorities. In addition, it will normally allow non-resident suppliers and digital platforms to submit consolidated VAT returns and make consolidated payments covering all supplies that are subject to a VAT obligation under the simplified compliance regime.

Similar to services and intangibles, the regime will need to clearly define which imports are in scope of the simplified compliance regime. In principle, this will primarily involve the imports of low-value goods below the customs duty low-value relief threshold, which are sold by non-resident suppliers to private consumers in the jurisdiction of importation. VAT should then be imposed on the supplies of these imported items by non-resident suppliers, or by digital platforms under a full VAT liability regime, at the point of sale in the same way and at the same rate as for a domestic supply. Any import VAT due on the importation of goods above the customs duty low-value relief threshold continues to be collected by the customs authorities under the normal procedure, along with customs duties and other import duties (see the next subsection below).

3.2.2.5. Scope of importations for which VAT collection responsibility is not transferred to non-resident suppliers and digital platforms

The recommendation to reassign the responsibility for VAT collection on the importation of low-value goods to non-resident suppliers and digital platforms can in principle apply to the large majority of supplies of low-value imported goods by non-resident suppliers. However, it will generally be more efficient to continue using the existing customs-based processes for collecting the import VAT on low-value imported goods in a number of situations that are described in further detail in this subsection.

(i) Goods with a value above the customs duty low-value relief threshold

In general, it is recommended that jurisdictions continue to place responsibility on customs authorities for VAT collection on goods with a value above the applicable low-value relief threshold for customs duties. Where customs duties have to be collected, the additional cost of collecting VAT through the same process may be less significant. A jurisdiction may then decide to continue collecting the import VAT on these goods via the traditional customs authority-led process, as the cost/benefit ratio (especially cost of collection to VAT concerned) of such an approach is more likely to be positive.

The level at which the customs duty low-value relief threshold is set thus normally impacts the scope of the vendor collection regime for the collection of VAT on supplies of low-value goods by non-resident suppliers. Against this background, setting an appropriate customs duty low-value relief threshold will normally require modelling the effects of different threshold levels on tax revenues, on administrative processes, on workload for customs and tax authorities and on compliance costs, based on the available information on current and future volumes and values of low-value goods entering the jurisdictions' territory (see Box 3.2).

Box 3.2. Determining the customs duty low-value relief threshold

When carrying out the analysis for the determination of the customs duty low-value relief threshold in light of the operation of a VAT vendor collection regime for imports of low-value goods, jurisdictions are advised to consider the following aspects:

- Work with customs authorities and other relevant authorities to:
  - Review the customs data reported by cargo operators (including express carriers) and postal operators, to analyse the flow of goods by volume and value range (e.g. USD[1] 0-100, 101-200, 201–300, etc.). The analysis should split the data between imports by/for private consumers and businesses. Note that these data may contain only the value of whole consignments and not the individual goods within them.
  - Undertake sampling to determine the average declared customs value for goods in different value ranges. This may be more relevant in situations where suppliers and transporters do not routinely report through full customs declarations, e.g. imports through the post.
  - Review specific consignments as part of the analysis in order to test the accuracy of customs declarations within different value ranges and for particular types of products to reveal the scale of undervaluation fraud.
- Work with economic forecasters and/or third-party financial data providers to:
  - Identify current and historical average spending patterns among domestic consumers on goods purchased abroad.
  - Identify trends or predicted changes in consumers' spending patterns, particularly in light of digital trade growth (e.g. any trends indicating increasing consumer spending on higher-value goods). Setting a customs duty (and import VAT) low-value relief threshold based on historical and current spending patterns without assessing future trends may affect the longer-term efficiency of a policy framework and the revenues it generates.
  - Understand any significant inflationary trends for major trading partners where relevant.
- Work with the jurisdiction's central bank or other relevant financial authority to understand any trends and historical variability in the jurisdiction's currency against those of major trading partners.
- Engage with digital platforms and large online suppliers to understand what low-value consignment relief threshold level would be most effective and efficient for them from an operational perspective.
- Engage with intermediaries such as express carriers and transporters responsible for the customs clearance and eventual delivery of items to customers to understand what low-value relief threshold level would be most effective and efficient for them from an operational perspective.

1. USD used for indicative purposes only.

Table 3.2 summarises the policy choices in respect of low-value relief thresholds made by selected jurisdictions that have reassigned the VAT collection obligations to non-resident suppliers of low-value imported goods and to digital platforms under a full VAT liability regime.

Table 3.2. Import relief (*de minimis*) and full customs declaration relief thresholds in selected jurisdictions prior to and after the introduction of VAT reform for low-value imported goods

Jurisdiction	Type of low-value relief threshold or declaration	Before	After	Full VAT liability for digital platforms on low-value imported goods
Australia	Import VAT and customs duty	AUD 1 000	AUD 1 000	Yes
	Full customs declaration	above AUD 1 000	above AUD 1 000	
European Union	Import VAT	EUR 10 – 22	EUR 0 / 150[1]	Yes
	Customs duty	EUR 150	EUR 150	
	Full customs declaration	above EUR 150	above EUR 150	
New Zealand	Import VAT and customs duty	NZD 229 – 400[2]	NZD 1 000	Yes
	Full customs declaration	NZD 1000	NZD 1 000[3]	
Norway	Import VAT	NOK 350	NOK 0 / 3 000[4]	Yes
	Customs duty	NOK 350	NOK 3 000[5]	
	Full customs declaration	above NOK 350	above NOK 3 000[6]	
Singapore (proposed)	Import VAT	SGD 400	SGD 400	Yes
	Full customs declaration	above SGD 400	above SGD 400	

Notes:
1. Generally, there is no threshold but imports of a value up to EUR 150 are exempt from input VAT if VAT is collected through the simplified compliance regime.
2. New Zealand's previous *de minimis* (for both import GST and duty) was applied only when the total to be paid by the importer exceeded NZD 60, which meant that this could span a range of values depending on whether duty, VAT or both were applicable.
3. Inward Cargo Report requires a mandatory tariff code for each item in the consignment if the consignment value is greater than NZD 400, up to NZD 1 000.
4. Generally, there is no threshold but imports of goods with a value up to NOK 3 000 are exempt from import VAT if VAT is collected through the simplified compliance regime.
5. This threshold applies only to goods with "VAT-paid" status, i.e. that VAT has been collected under the vendor collection regime.
6. If VAT has not been collected under the vendor collection scheme, a full customs declaration must be lodged also for goods valued below NOK 3 000. However, a temporary customs declaration exemption is currently in place for goods with a value below NOK 350, except foodstuffs, goods subject to excise duties and restricted goods.
Source: OECD research.

The table includes the level at which importers must provide full customs reporting.[50] As the table shows, these jurisdictions generally require full customs declarations only for goods of a value either at or above the level of the customs duty low-value relief threshold. Subsections 5.2.11 and 5.2.12 consider optimal approaches to customs reporting and procedures to enable fast-track clearance of goods through simplified clearance procedures, in particular where non-resident suppliers or digital platforms have already collected VAT at the point of sale.

[50] Full customs reporting refers to the provision of the full set of information for formal import clearance of imported goods, including for the assessment of customs duty and VAT, by customs authorities, for which a processing fee normally applies. The document that declarants submit for this process is known as a "Customs Import Declaration" in the European Union, an "Import Entry" in the United States and an "Important Declaration" in other jurisdictions.

A customs duty low-value relief threshold that is set at a relatively low level is more likely to create complexity for compliance and administration under a VAT vendor collection regime for low-value imported goods, as consignments of multiple goods will more often exceed the threshold (and thus normally be subject to import VAT at the border) despite some of these goods having an individual value below that threshold (on which VAT may have already been collected the point of sale). Currency exchange rate fluctuations can create further challenges for determining the value of goods against a customs duty low-value relief threshold that is set a relatively low level, as more consignments will have a value close to that threshold. See section 5.2.11 for more details on these and other risks for double taxation and unintended non-taxation.

A jurisdiction could consider giving non-resident suppliers and digital platforms the option of also collecting the VAT on higher-value goods under the operation of its vendor collection regime for low-value imported goods, under certain circumstances. Box 3.3 describes an example of such a measure as implemented by New Zealand.

Box 3.3. Jurisdiction example: Option to charge VAT on higher-value imported goods

New Zealand has implemented the option for non-resident suppliers to also collect the GST on higher-value goods under the operation of the simplified compliance regime for imports of low-value goods, subject to the following specific requirements:

- Non-resident suppliers of low-value goods may elect to charge GST on goods valued above NZD 1 000 (USD 634) ("high-value goods") if those goods are supplied to consumers in New Zealand.
- The option is available if low-value goods are likely to comprise at least 75% of the total value of goods that a supplier makes to consumers in New Zealand.
- The reference period for this 75% test is the 12-month period starting on the date the supplier opts for collecting GST on higher-value goods.
- Alternatively, a supplier will be able to charge GST on its supplies of high-value goods to consumers if the Commissioner of Inland Revenue considers that allowing the supplier to do so will not result in a risk to the integrity of the tax system.

Source: New Zealand Inland Revenue Department, *GST on low-value imported goods: A special report*, https://taxpolicy.ird.govt.nz/publications/2019/2019-sr-gst-low-value-imported-goods

The motivation for this approach is to avoid the compliance costs for non-resident suppliers and digital platforms from having to distinguish between sales of low- and high-value goods at the point of sale. Suppliers can accordingly elect to collect VAT on high-value goods in situations where the compliance costs of distinguishing between low- and high-value goods would be disproportionate to any revenue risk from failing to distinguish between such goods. This would, for example, apply where the total value of the supplier's sales of high-value goods to consumers is relatively low, or where the supplier has a good tax compliance history.

Jurisdictions that have currently not implemented a customs duty low-value relief threshold may wish to consider introducing one, as this would allow them to implement a vendor collection regime for the collection of VAT on imported goods below that threshold and thus to benefit from the potentially significant gains in VAT revenue and efficiency that such a regime can generate (see subsection 3.2.3 for more details). The evaluation of VAT revenue gains that could be achieved through such a shift to a VAT vendor collection regime for low-value imported goods will require careful analysis. Research to estimate the volume of goods that are being imported in the jurisdiction without VAT or with insufficient VAT paid despite the absence of a low-value relief threshold (e.g. either by design or due to undetected mis-declaration, undervaluation or other types of fraud) will be important to inform such a policy decision.

(ii) Goods subject to excise duty, additional taxes or extra regulatory scrutiny

In practice, this category mainly includes goods subject to excise duty ("excisable goods"; often e.g. alcohol, tobacco, perfume and other types of products). Some jurisdictions also operate special rules and regulatory requirements for the customs treatment of other goods, such as medical products, animal products, and particular retail products. Such special rules and restrictions may apply only when consumers make a purchase above prescribed quantitative limits. Finally, for political or regulatory reasons, jurisdictions sometimes prohibit imports of particular products altogether, including those originating from specific geographic locations.

Jurisdictions normally levy excise duties on domestic suppliers at, or close to, the production stage, whereas customs authorities must collect the excise duties on imports at the time of importation. Excisable goods typically include alcohol, tobacco products and hydrocarbons but the list can be more extensive. Excise duties are primarily aimed at raising revenue but jurisdictions do also levy them to influence consumer behaviour, for example, for health and environmental reasons.

Excise duties usually function in tandem with VAT and can give rise to complex calculation rules, i.e. VAT will often apply to the price of the goods inclusive of excise duties. In the absence of specific arrangements to deal with these calculation complexities, jurisdictions can take a practical view and exclude excisable goods from the scope of a vendor collection regime for non-resident suppliers and digital platforms.

Some jurisdictions apply quantitative limits under which consumers can import small amounts of excisable goods without paying excise duty because the jurisdiction considers the goods to be of limited value as a source of revenue. If it presents no practical problems or compliance challenges for non-resident suppliers and digital platforms, these excisable goods could be included in the scope of a vendor collection regime for low-value imported goods. However, determining whether consignments fall below any such quantitative restrictions can create substantial administrative burden for non-resident suppliers and digital platforms. This may notably be the case for highly regulated goods such as alcohol, tobacco and perfumes for which both product-specific importation thresholds and specific excise duties can apply. In this situation, jurisdictions may choose to exclude these excisable goods from the scope of the VAT vendor collection regime altogether and continue assigning the collection obligation to customs authorities.

(iii) B2C vs. B2B supplies – Distinct collection mechanisms depending on customer status

The vendor collection regime is recommended in particular as a solution for addressing the challenge of collecting the VAT on the increasingly considerable volumes of online purchases of low-value imported goods by private consumers from suppliers abroad, i.e. on B2C supplies.

As a practical matter, for B2B transactions, many jurisdictions allow businesses to account for the VAT due on the imports they make through an account established with the customs authorities or by recording these transactions in their VAT return. This usually includes some form of "postponed accounting" (sometimes also referred to as import VAT deferral), allowing importing businesses to account in their periodic VAT return for the VAT that is payable and recoverable on the imports they have made, rather than having to pay the import VAT upfront at the point of importation. These VAT simplification measures are typically in place for the commercial importation of goods and aim at minimising cash-flow disruption and administrative burdens for businesses. They are often subject to eligibility and registration requirements. The operation of schemes of this nature reflects the reality that many business importations tend to be of higher value and that customs authorities require them to make full customs declarations, often with the involvement of customs brokers. It should be noted, however, that it may be challenging to operate such a postponed accounting scheme for import VAT on low-value goods if only simplified customs declarations exist and where identifying the correct importer of record is difficult, e.g. for international consignments through postal channels. Furthermore, it may be more difficult for smaller businesses to access a postponed accounting scheme.

Jurisdictions can also authorise business customers to use a "reverse charge" mechanism to account for the VAT on the imports of goods they make for business purposes, exactly as they can in most jurisdictions for international purchases of services and intangibles (see subsection 2.2.1). It is recognised, however, that a jurisdiction may wish to consider imposing registration and collection obligations on non-resident businesses for both B2B and B2C supplies of low-value imported goods, notably where, as is commonly the case in Africa, its VAT framework does not facilitate or permit distinction between B2C and B2B supplies. Research suggests that simplifications for commercial imports, such as deferral of import VAT or reduced/simplified invoicing requirements, are uncommon in Africa. Accordingly, African jurisdictions may find it more efficient to include both B2C and B2B imports within the scope of VAT regimes they implement for non-resident businesses for low-value imported goods.

Australia and New Zealand have opted to exclude B2B supplies of low-value imported goods by non-resident suppliers from the scope of their simplified VAT compliance regime (see Box 3.4). Singapore considers adopting a similar approach for its regime commencing in 2023.

Box 3.4. Jurisdiction examples: Exclusion of B2B supplies from vendor collection and simplified compliance regime

In **Australia** and **New Zealand** and as proposed by **Singapore**, B2B supplies are excluded from the scope of the vendor collection and simplified compliance regime for VAT on supplies of low-value imported goods by non-resident suppliers. Business customers are not required to apply a reverse charge to the transaction. VAT-registered businesses are generally required to perform a reverse charge only if they procure low-value goods from overseas suppliers and are not entitled to full input VAT credit.

This approach requires non-resident suppliers not to charge VAT on supplies of low-value goods made to VAT-registered customers that have provided their VAT registration numbers. Instead, where applicable, the VAT-registered customers will perform a reverse charge on these overseas purchases.

Source: Australian Taxation Office, *Reverse charge of GST on offshore goods and services purchases*, https://www.ato.gov.au/Business/GST/In-detail/Rules-for-specific-transactions/International-transactions/Reverse-charge-GST-on-offshore-goods-and-services-purchases/;
New Zealand Inland Revenue Department, *A special report on GST on low-value imported goods*, https://taxpolicy.ird.govt.nz/publications/2019/2019-sr-gst-low-value-imported-goods

Under a vendor collection regime that is restricted to B2C supplies of low-value imported goods, non-resident suppliers will need clear rules outlining the basis and any corresponding indicia on which they must determine whether a customer is a business or a private consumer. The guidance on the determination of the customer status given in subsection 2.1.1 in the context of supplies of services and intangibles by non-resident suppliers equally applies to supplies of low-value imported goods in such a case.

Similarly, if the VAT treatment of low-value goods imports at the border depends on the customer status, such as when B2B supplies are excluded from the operation of the vendor collection regime, customs authorities will need the information necessary to determine the correct treatment of the goods that are declared for importation to avoid double taxation or unintended non-taxation. Whichever approach a jurisdiction adopts, it should communicate responsibilities and obligations clearly to all parties involved, including domestic business importers, transporters and customs brokers.

(iv) Non-commercial goods (imports of own goods, gifts, private sales by consumers)

A vendor collection regime for supplies of low-value imported goods by non-resident suppliers and digital platforms is by definition limited to supplies of such imported goods against consideration. Where goods are imported not in the course of such a supply, e.g. in the case of gifts or imports of own goods, the traditional customs-based VAT collection mechanism at importation continues to apply. The same is usually valid for sales outside the scope of VAT (e.g. one-off sales by private individuals).

3.2.2.6. Registration threshold for non-resident suppliers and digital platforms

A jurisdiction that decides to implement a vendor collection regime for supplies of low-value imported goods by non-resident suppliers must normally consider whether it wishes to implement a VAT registration threshold below which non-resident suppliers and digital platforms will not be required to register and remit the VAT on their supplies of low-value imported goods into that jurisdiction. Such a VAT registration threshold would typically refer to the value of supplies made by the non-resident supplier or facilitated by the digital platform to customers in that jurisdiction. Subsection 2.2.2.4 discusses VAT registration thresholds in greater detail.

Relieving non-resident suppliers of the obligation to register in a jurisdiction where they have only minimal sales may not lead to substantial net VAT revenue losses, notably taking account of the associated costs of tax administration. The introduction of registration thresholds however deserves careful consideration. Jurisdictions need to strike a balance between, on the one hand, the desire to minimise administrative costs and compliance burdens for both tax authorities and non-resident suppliers and, on the other hand, the need to maintain an even playing field between domestic and non-resident businesses.

Jurisdictions that implement such a threshold are advised to implement a single VAT registration threshold that takes account of the aggregate value of all supplies that are within the scope of the vendor collection requirement, whether they are services, intangibles, or low-value imported goods. Supplies on which no VAT is due in any event because they are exempt or zero-rated, could be excluded from the threshold calculation. This aggregate approach will greatly facilitate the operation of the VAT registration threshold under a regime that applies to supplies of low-value imported goods in addition to supplies of services and intangibles. Many (if not most) non-resident suppliers that are subject to such a regime are likely to make a range of composite supplies. Consumers often purchase both low-value goods and services and intangibles from the same supplier, sometimes in a single transaction. In addition, some purchases of goods can also incur service charges at the point of sale. The operation of separate registration thresholds applied respectively to supplies of low-value imported goods and to supplies of services and intangibles would lead to unnecessary administrative complexity and possible loss of revenue.

There is a wide variety of approaches adopted by jurisdictions in respect of registration thresholds for vendor collection regimes for low-value imported goods, as illustrated in Box 3.5.[51]

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[51] For a full comparison of registration thresholds in OECD member countries, please see:
OECD (2020), *Consumption Tax Trends 2020: VAT/GST and Excise Rates, Trends and Policy Issues*, OECD Publishing, Paris, https://doi.org/10.1787/152def2d-en. Refer to "Annex Table 2.A.5. Annual turnover concessions for VAT registration and collection", in Chapter 2 "Value-added taxes - Main features and implementation issues", pages 90 to 94.

Box 3.5. Examples of approaches on registration thresholds under vendor collection regimes for low-value imported goods

The European Union applies no VAT registration threshold for online suppliers of low-value imported goods under the vendor collection regime. This means that there is a VAT liability for all supplies of low-value imported goods to customers in EU Member States unless the goods are specifically exempted. At the same time, the vendor collection regime combined with the simplified compliance regime is optional for non-resident suppliers and digital platforms. Consequently, traders with limited supplies to customers in the European Union are not obliged to register under the simplified compliance regime but alternatively can revert to the traditional VAT collection regime involving the customs authorities. Customs authorities, via transportation intermediaries, will collect the import VAT if the non-resident supplier or digital platform does not collect VAT at the time of supply. Where transportation intermediaries collect and remit VAT in the customs processes, they might charge a service fee to the consumer in addition to the VAT.

The United Kingdom similarly applies no VAT registration threshold under its vendor collection regime for non-resident suppliers making supplies of low-value imported goods to customers in the United Kingdom. VAT registration and collection is mandatory for all non-resident suppliers supplying goods (excluding excise goods) in low-value consignments from abroad to consumers in the United Kingdom and for the digital platforms that facilitate these supplies. Non-resident businesses that only make supplies to the United Kingdom through a digital platform do not need to register for VAT in the United Kingdom because that digital platform is treated as the deemed supplier under the United Kingdom's full VAT liability regime.

Australia (AUD 75 000/nearly USD 52 000) and **New Zealand** (NZD 60 000/nearly USD 38 000) have implemented registration thresholds under their vendor collection regimes that align with their respective domestic registration thresholds, with a view to relieve the tax and customs authorities of the costs of administering smaller non-resident suppliers or platforms that would provide minimal net revenue. In addition, a consignment-level relief threshold for import VAT on low-value imported goods is applied of AUD 1000 (nearly USD 694) in Australia and NZD 1 000 (nearly USD 634) in New Zealand. Customs authorities are not required to collect import VAT on goods with a value below this VAT low-value consignment relief threshold, even where a non-resident supplier or digital platform has not collected VAT at the time of supply because it had not exceeded the registration threshold.

Source: OECD research.

This variation in approaches will often reflect jurisdictions' existing VAT framework, their policy objectives (e.g. revenue collection and/or ensuring an even playing field between domestic and non-resident suppliers) and administrative capacity.

3.2.2.7. Treatment of imports for which VAT is not collected by non-resident suppliers or digital platforms

Jurisdictions have taken different approaches to the treatment of low-value imported goods where VAT is not collected by a non-resident supplier or digital platform at the point of sale under the vendor collection regime (e.g. because it has not exceeded a registration threshold as discussed in the previous subsection) or where there is lack of proof at the time of importation that VAT has been collected by the supplier or the digital platform at the point of sale.

Some jurisdictions apply the traditional VAT collection mechanism as a fall-back in such cases. This approach is typically aimed at maximising VAT revenues by trying to assure that VAT is levied on all low-value imported goods and at trying to comprehensively address competitive pressures on domestic suppliers by limiting the volume of low-value goods that can enter the jurisdiction free of VAT.

Other jurisdictions may find such an approach too costly because of the burdens it places on customs authorities and other stakeholders such as transporters to continue administering the VAT collection for all goods on which non-resident suppliers or digital platforms have not collected VAT at the point of sale. These jurisdictions may wish to focus on maximising administrative efficiency and the smooth flow of goods at the border in the operation of their vendor collection regime for low-value imported goods. They achieve this by relieving all low-value imported goods with a value below the customs duty low-value relief threshold from VAT at importation, on the basis that the majority of these items and corresponding revenue will be captured by the vendor collection regime for non-resident suppliers and digital platforms, thereby accepting that a proportion of consignments will in practice be imported free of VAT (e.g. supplies by a vendor that does not exceed the registration threshold and that are not facilitated by a platform). Control of compliance under this approach typically relies on post-import risk management.

Each jurisdiction will need to decide on the approach it wishes to adopt in light of its existing VAT and customs framework and its policy objectives. It is likely though that both approaches will provide significant improvements to the situation that jurisdictions face in both revenue collection and neutrality under the traditional customs-based collection mechanism.

The following paragraphs summarise the approaches that jurisdictions have adopted in this context.

(i) Traditional VAT collection mechanism at importation as fall-back

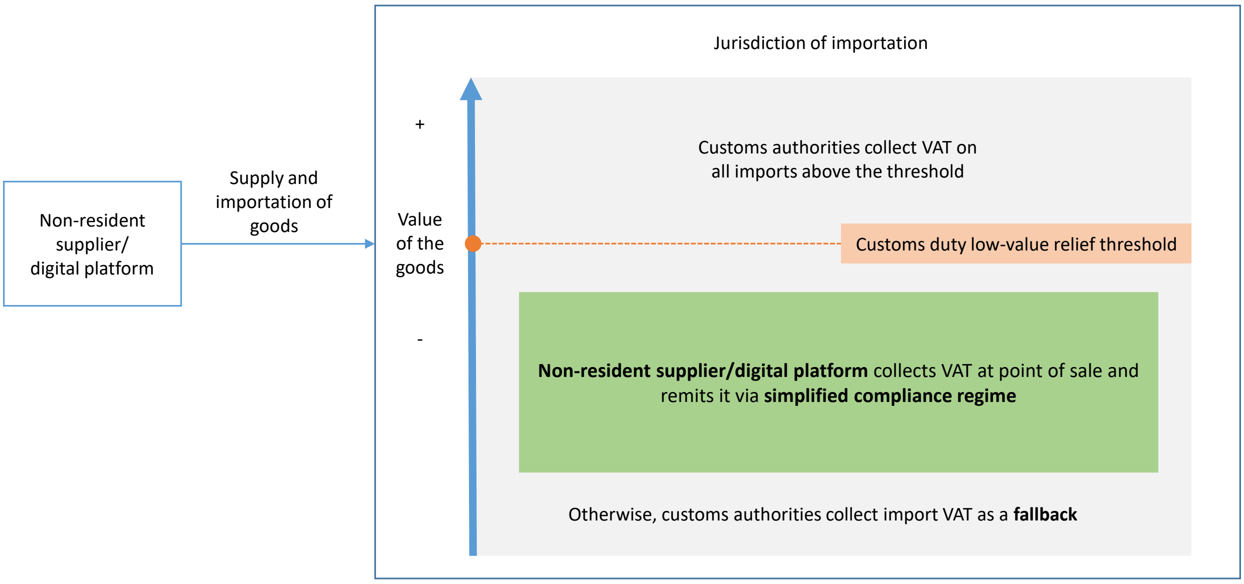
The following bullet points (along with the visual illustration in Figure 3.4) provide further detail on the approaches adopted by the **European Union** and **Norway**[52] in operating the traditional customs-based VAT collection mechanism at importation as a fall-back for their vendor collection regime for low-value goods imports, in case the non-resident supplier or digital platform has not collected the VAT at the point of sale:

- Under these approaches, customs authorities collect import VAT on all imports of goods above the customs duty low-value relief threshold.
- Non-resident suppliers have either a voluntary option (European Union) or compulsory obligation (Norway) to collect the VAT on the supplies of goods below the customs duty low-value relief threshold at the point of sale.
- Low-value imported goods supplied to private consumers for which the non-resident supplier or digital platform has not registered for VAT under the vendor collection regime or for which it has not collected VAT at the point of sale, will be subject to the normal customs-based process for the collection of the import VAT in the jurisdiction of importation. Under the EU regime, customs authorities will require express carriers and postal operators to collect the VAT from the private customers for goods supplied to them below the EU customs duty low-value relief threshold of EUR 150 (USD 158) if the relevant non-resident supplier or digital platform has not accounted for it.
- The European Union has maintained its customs duty low-value relief threshold at the existing level of EUR 150 following the entry into force of its vendor collection regime for low-value imported goods in July 2021. By contrast, the Norwegian government used the introduction of its vendor collection regime as an opportunity to significantly raise its customs duty low-value relief threshold almost ten-fold from NOK 350 (USD 36) to NOK 3 000 (USD 312) for goods that are subject to this

[52] Although Norway's law removed its import VAT low-value consignment relief, customs authorities will not check imports of goods with a value below NOK 350 for fiscal purposes during a transitional period, except where they are imports of foodstuffs, goods subject to excise duties and restricted goods. See Norwegian Tax Administration (N.D.), *Value Added tax on low value imported goods*, https://www.skatteetaten.no/en/business-and-organisation/vat-and-duties/vat/foreign/e-commerce-voec/low-value/

regime. This upward valuation of Norway's customs duty low-value relief threshold is aimed at reducing the administrative costs and burdens for non-resident suppliers, digital platforms and customs authorities of navigating complex customs duty regulations for relatively low-value consignments. This is expected to contribute to high levels of compliance by non-resident suppliers and digital platforms under the vendor collection regime and to maximise the VAT revenues that they will collect.

Figure 3.4. Traditional import VAT collection mechanism as a fall-back for vendor collection



Source: OECD analysis.

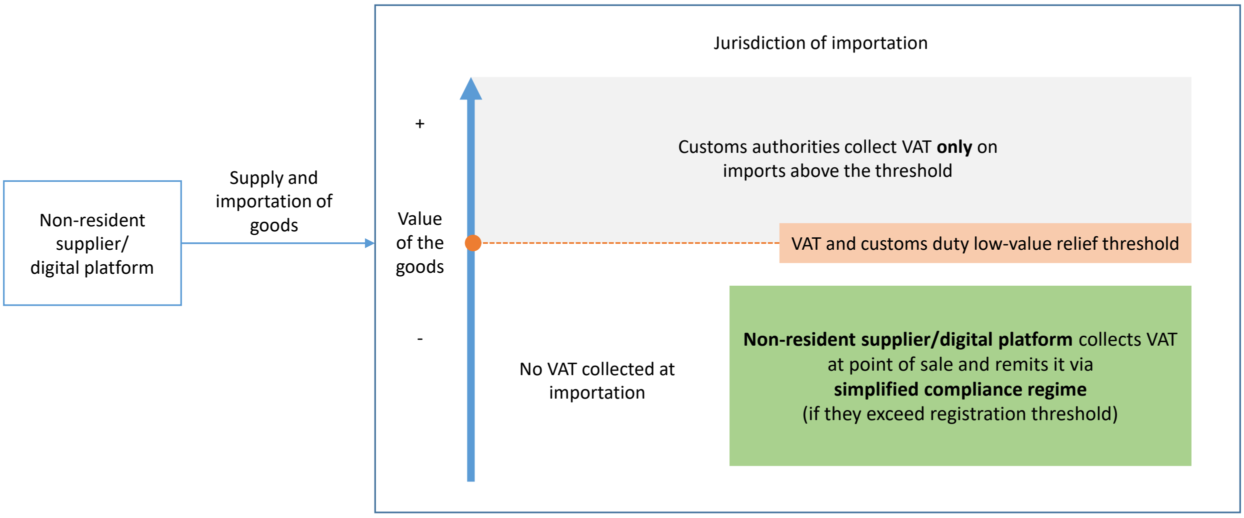
The advantage of this approach is that it results in all imported goods that consumers purchase from non-resident businesses being subject to VAT, at least in principle, no matter how low the value of these goods. In theory, it should lead to the highest level of potential VAT revenue generated and comprehensively address the concerns of domestic businesses about a lack of a level playing field and unfair competitive advantages for non-resident businesses.

A disadvantage of this approach is that it risks creating comparatively higher compliance costs and administrative burdens for smaller non-resident suppliers and digital platforms and for customs and tax authorities. Customs authorities must be able to determine for each individual consignment whether the supplier or digital platform has collected VAT at the point of sale, in order to avoid double taxation or unintended non-taxation. To do this, they will need to impose reporting requirements on non-resident suppliers and digital platforms at the level of the customs declaration and/or labelling of consignment packaging (see subsection 5.2.11).

(ii) Relieving all low-value imported goods below the customs duty low-value relief threshold from the collection of VAT at importation

Other jurisdictions have aimed to maximise administrative efficiency for their vendor collection regime for low-value imported goods, by relieving customs authorities from the responsibility for VAT collection on the importation of goods that have an item-level or consignment-level value below the customs duty low-value relief threshold. These jurisdictions rely on non-resident suppliers and digital platforms under the vendor collection regime to collect the VAT on the supplies of these low-value goods at the point of sale, on the basis that these represent the predominant share of imported goods with a value that is below the customs duty low-value relief threshold (see Figure 3.5 for a visual illustration).

Figure 3.5. Relieving all low-value imported goods below the customs duty low-value relief threshold from import VAT



Source: OECD analysis.

Advocates of this approach argue that the cost of collecting import VAT on every single consignment that is declared at the border is inefficient as it will often exceed the amount of revenue being collected. Annex C to this Toolkit contains an analysis by the Australian Government Productivity Commission on the costs of GST collection models for imports of low-value goods, which found that the cost of collection for zero or low threshold scenarios was significant and can be greater than the revenue collected (Australian Government Productivity Commission, 2017[58]).

Relieving all imports of goods with a value below the customs duty low-value relief threshold from VAT collection at importation removes the burden from customs authorities of assessing VAT on the large quantities of imported items and consignments below such a threshold. Customs authorities can clear all parcels below the customs duty low-value relief threshold for VAT purposes in the interest of facilitating the smooth flow of trade. The dominant position of large online vendors and digital platforms in global e-commerce and the VAT collection obligations they must comply with under these jurisdictions' vendor collection regimes, will normally ensure that the share of low-value goods that can be imported in these jurisdictions free of VAT will remain relatively limited.

The ease of compliance and administration that this approach offers for customs authorities and for non-resident suppliers and digital platforms is likely to enhance the efficiency of the collection of VAT on low-value imported goods and to overall compliance levels. This approach does provide *bona fide* small and micro-size non-resident businesses with a possibility to make VAT-free supplies of low-value imported goods into a jurisdiction where their revenues remain below the registration threshold. It is recognised that the ability of such small non-resident suppliers to legitimately make VAT-free supplies under this approach may create tensions with domestic suppliers and their advocates that feel aggrieved by the advantages enjoyed by these non-resident businesses. Opponents to this approach may furthermore assert that revenue is simply forgone and that it creates the potential for deliberate undervaluation of goods to remain below the customs duty low-value relief threshold.

For the operation of this regime, customs and tax authorities will normally co-operate in developing mechanisms to identify non-compliance, but tax authorities usually have overall responsibility for managing the associated compliance risks through post-customs compliance risk management. Customs authorities will generally stop parcels for VAT collection purposes only in cases where they suspect that suppliers have fraudulently under-declared the value of higher-value goods in order to evade import VAT and customs duties.

The following jurisdictions have adopted this approach:

- **Australia**: When implementing GST collection responsibilities for non-resident suppliers of low-value goods and digital platforms, Australia maintained its import GST and customs duty low-value relief threshold at AUD 1 000 (USD 694), which is also the threshold for full import declaration requirements. To further facilitate administrative efficiency and the smooth flow of goods at the border, Australia set a revenue-based registration threshold for non-resident suppliers at the same level as its domestic registration threshold (AUD 75 000/nearly USD 52 000).

  Under the Australian vendor collection regime for low-value imported goods, non-resident suppliers and digital platforms with taxable revenues above the registration threshold must GST register and collect GST on all B2C supplies of low-value imported goods to Australian consumers with a value at or below AUD 1 000. Customs authorities will not collect GST on any goods at or below AUD 1 000 except for certain exclusions from the vendor collection obligation such as goods to which excise duties apply.

  The presumption is that all imports of goods below AUD 1 000 originate from supplies by non-resident suppliers on which GST is collected at the point of sale or that are legitimately GST-free because the supplier or the digital platform has not exceeded the registration threshold. The tax authority takes appropriate risk assessment and enforcement measures to identify and address instances of non-compliance by non-resident suppliers of low-value goods and digital platforms that should have registered and/or accounted for the GST.
- **New Zealand:** New Zealand raised both GST and customs duty low-value relief thresholds significantly from a previous upper limit of NZD 400 (USD 254) to NZD 1 000 (USD 634). Like Australia, it also applies a revenue-based registration threshold to non-resident suppliers and digital platforms of NZD 60 000 (nearly USD 38 000). The model functions in largely the same way as Australia's and the rationale and benefits are similar.
- **Singapore** has recently announced its intention to adopt a similar approach as Australia and New Zealand for its vendor collection regime for low-value imported goods, which is expected to enter into effect on 1 January 2023.
- **United Kingdom**: The United Kingdom has maintained its previous import VAT and customs duty low-value relief thresholds at GBP 135 (USD 166). There is no registration threshold for non-resident suppliers or digital platforms. Thus, all non-resident suppliers of low-value imported goods are required to register under the United Kingdom's vendor collection regime as well as the digital platforms that facilitate such supplies.

(iii) Transport intermediaries as a fall-back

Jurisdictions that decide to use the traditional customs-based process to collect the VAT at importation as a fall-back when VAT was not collected by non-resident suppliers or digital platforms under the vendor collection regime, can implement a requirement for transport intermediaries such as express carriers to collect that import VAT on behalf of the customs authorities. These jurisdictions are advised to carefully consider the potential cost of compliance and administration, which may be significant, and the net revenue outcomes of such a regime. It is generally not recommended to rely on a collection obligation for transport intermediaries as the primary method for collecting VAT on low-value goods imports.

In 2017, the Australian Productivity Commission assessed the costs of such a “transporter-only” model for the collection of VAT (GST) on imports of low-value goods (Australian Government Productivity Commission, 2017[58]).[53] It compared these costs to the cost estimates of establishing a vendor collection model for non-resident suppliers and digital platforms combined with a simplified compliance regime and found that the costs of a transporter-based model were significantly higher than the costs under such a vendor collection regime. While this assessment is particular to Australia’s circumstances, it illustrates the importance of evaluating the costs of different models and the implications of each model for net VAT revenues, as distinct from absolute revenues.

For jurisdictions that consider a role for transport intermediaries to collect VAT on behalf of customs authorities as a fall-back regime, it may be useful to note that certain jurisdictions have allowed transporters to charge customs clearance fees to the final customers of the imported goods (typically the named recipients of these goods). One example is the Canada Border Services Agency’s “Courier Low Value Shipment Program”.[54] Those customs clearance charges can often be greater than the actual VAT due on a low-value imported consignment.

Other relevant aspects to consider when designing a role for transport intermediaries in collecting the VAT on low-value imported goods on behalf of customs authorities include:

- The need to clarify that the customer (or importer of record if different from the customer) remains liable for VAT on imports when a transporter is operating as a collection agent.
- The changes that the introduction of an import VAT collection role for transportation intermediaries might require to customs procedures, taking account of WCO standards and guidance including the Immediate Release Guidelines (IRG) to enable fast-track processing (World Customs Organization, 2018[59]).
- The practical limits on transporters’ ability to verify and assure the accuracy of the declared values of all high-volume, low-value consignments that they transport. As transporters are not normally involved in the sale of the goods they transport or in the payment of their sales price, they are information takers and not information makers. The same applies to information on the type good they transport, which may be relevant, for instance, to determine the applicable VAT rate.

3.2.2.8. Scope of the vendor collection regime: Supplies of low-value imported goods made by resident suppliers

> Jurisdictions may wish to adopt the vendor collection regime for supplies of low-value imported goods irrespective of the residence of the supplier of these goods.

Applying the vendor collection regime to supplies of low-value imported goods by resident suppliers can provide similar benefits as for supplies by non-resident suppliers, in terms of VAT revenue gains and greater efficiency of VAT collection as highlighted in subsection 3.2.2.2 above. It can further enhance the efficiency of the customs treatment of low-value imported goods at the border, by removing any need for customs authorities to ascertain the residence of the supplier to determine whether or not low-value goods that are declared for importation are subject to a vendor collection requirement. The application of a vendor collection regime for low-value imported goods to supplies by resident as well as non-resident businesses

[53] Please refer in particular to the table on page 99 of this Australian Productivity Commission report comparing the administrative and compliance costs of different models for the collection of VAT on low-value imported goods.

[54] See Canada Border Services Agency (2016), *Courier Low Value Shipment Program – Memorandum D17-4-0*, https://www.cbsa-asfc.gc.ca/publications/dm-md/d17/d17-4-0-eng.html

can further level the playing field between those businesses that are engaged in (online) sales of low-value imported goods.

It must be noted, however, that resident businesses should normally be able to declare and remit the VAT on their supplies of low-value imported goods under the standard VAT registration, contrary to non-resident businesses. They thus need not necessarily have access to a simplified compliance regime to fulfil their vendor collection obligations in respect of their supplies of low-value imported goods (as discussed in subsection 3.2.2.4).

3.2.2.9. Establishing the point of sale as taxing point (time of supply) for supplies of low-value imported goods under the vendor collection regime

Under a vendor collection regime for low-value imported goods, the supplier or the digital platform that has full VAT liability is in principle required to collect the VAT on the supply of these goods at the point of sale. The supplier or digital platform will then remit the VAT it has collected on the low-value imported goods at the time of their sale, to the tax authorities in the jurisdiction of their importation via a simplified compliance regime.

A jurisdiction that implements such a regime will normally have to adjust its VAT rules accordingly, so that they determine the taxing point (or "the time of supply") for the supply of low-value imported goods under its vendor collection regime as being at the time of sale of these goods, where this is compatible with the jurisdiction's VAT design (this is normally the case for accrual-based VAT regimes). The most practical approach to achieving this outcome in practice, is to define the taxing point (time of supply) at the time at which the payment for the sale of the low-value imported goods has been accepted or authorised by the supplier or by the digital platform that has facilitated the supply (see also subsection 2.3.3.5).

3.2.3. Circumstances where the recommendation for a vendor collection regime for low-value imported goods may not apply

> It is recognised that policymakers and administrators need to carefully evaluate the costs and benefits of VAT reform in respect of imports of low-value goods. Specific circumstances in a jurisdiction may influence the cost-benefit balance of such a reform and should therefore be considered with particular care.

Certain circumstances may reduce the effectiveness or benefits gained from implementing the recommended approach of reassigning the responsibility for the collection of VAT on low-value imported goods to non-resident suppliers and digital platforms. These circumstances are briefly discussed below.

Jurisdictions without a VAT. The recommendations in this Toolkit are restricted to VATs and VAT-like consumption taxes that embody the basic features of a value added tax. While the reason behind the recommendations may still be valid, the recommendations do not automatically apply to other types of taxes. As a consequence, the recommendations generally may not apply to jurisdictions that have not implemented a VAT.

Economies with a relatively small population and low volume of imported parcels. The size of an economy and the size of its population are likely to have a direct influence on the volume of imported parcels. Where the number of imported parcels remains low and entry into the jurisdiction takes place at a limited number of ports of entry, the challenge of levying VAT on low-value imported goods may remain reasonably manageable. At the same time the costs of implementing and administering a vendor collection regime for low-value imported goods (e.g. implementing the necessary IT infrastructure, communication strategy, risk management) compared to its benefits may be less conducive to reform than in other jurisdictions.

Geographical particularities (e.g. island jurisdictions). Geographical particularities may have an influence on the efficiency of the traditional VAT collection mechanism for imports of low-value goods and hence on policy decisions concerning the potential need for reform. The collection of VAT on the importation of goods by an island economy that takes place via a limited number of ports of entry may remain reasonably efficient under the traditional customs-based process, especially when parcel volumes remain within manageable parameters. In contrast, jurisdictions with a large number of points of entry (such as jurisdictions with a large number of islands where entry into the territory is possible) may face significant challenges of ensuring the proper VAT collection on low-value imported goods under the traditional customs-based regime. A vendor collection regime for non-resident suppliers and digital platforms may be particularly attractive for these jurisdictions, as such a regime moves VAT collection and compliance risk management away from these multiple ports of entry to a relatively limited number of non-resident suppliers and digital platforms that have been largely found to comply with their VAT collection obligations.

Jurisdictions with no relief threshold for customs duty on low-value goods. As discussed in more detail in subsection 3.2.2.5.i above, the existence and level of a customs duty low-value relief threshold impacts the potential efficiency gains from the introduction of a vendor collection regime for the collection of VAT on low-value imported goods. Such a regime will normally only achieve appropriate efficiency gains if it relieves customs authorities from the task of collecting VAT on the importation of goods that have a value below a customs duty low-value relief threshold. Jurisdictions with no customs duty low-value relief threshold will thus in principle not achieve appropriate efficiency gains from implementing a vendor collection regime for low-value goods imports, as customs authorities will still need to clear these goods for customs duties and other import duties. Whether VAT revenue gains could still be achieved would require careful analysis. These jurisdictions may wish to consider the possible introduction of a customs duty low-value relief threshold in light of the significantly rising volumes of low-value goods that their customs authorities may have to process on a daily basis, which may become increasingly unsustainable. This would allow these jurisdictions to significantly enhance the efficiency of VAT collection on goods imports below such a customs duty low-value relief threshold through the implementation of a vendor collection regime, the benefits of which may largely outweigh the cost of revenues forgone from the introduction of a customs duty low-value relief threshold. These jurisdictions may wish to carefully analyse the possible impact of such a reform on overall revenue from VAT and import duties and compliance levels, taking into account the current and anticipated volumes of low-value goods imports and the current levels of net revenues collected compared to the VAT revenues that could be collected if a vendor collection regime were to be implemented.

Sub-national VAT systems. In jurisdictions with a federal state structure that only apply a VAT at sub-federal level, the vendor collection approach as presented in this Toolkit does not address the possible complexities of goods having to move through multiple taxation points as part of their delivery to the final consumer.

Jurisdictions with financial intermediary or similar withholding regimes for VAT collection. Jurisdictions that rely exclusively on a requirement for financial intermediaries to withhold VAT on payments to non-resident suppliers for the collection of VAT on international supplies of services and intangibles will face significant challenges when trying to extend such a regime to the collection of VAT on low-value imported goods. This is discussed in detail in subsection 6.7.6. While recognising that such a withholding regime could serve as a possible fall-back option under a vendor collection regime as a targeted enforcement tool in case of non-compliance, it is not recommended to implement such a withholding regime as the primary model for the effective collection of VAT on imports of low-value goods.

Jurisdictions that require fiscal and taxation representatives. As discussed in more detail in subsections 2.2.2.6 and 5.2.8.3, this requirement can be a deterrent to voluntary registration under a vendor collection regime and therefore impede attempts to enhance compliance through simple rules and a simplified registration and collection process.

3.3. Establishing a central role for digital platforms in the collection of VAT on supplies of low-value imported goods

Guide to subsection 3.3

The introduction to this Toolkit noted that Africa is among the fast-growing e-commerce markets in the world with a huge potential ahead. Sales involving digital platforms increasingly account for a significant share of the region's e-commerce activity. In particular, most of these sales is attributable to online sales of goods, including continuously rising volume of low-value goods sales. This central role of digital platforms in digital trade, particularly in online shopping by private consumers, creates significant opportunities to enhance the efficiency and effectiveness of VAT collection on these online sales by introducing a VAT collection obligation for these platforms and/or a range of other possible roles for these platforms to support VAT compliance on the online sales that they facilitate.

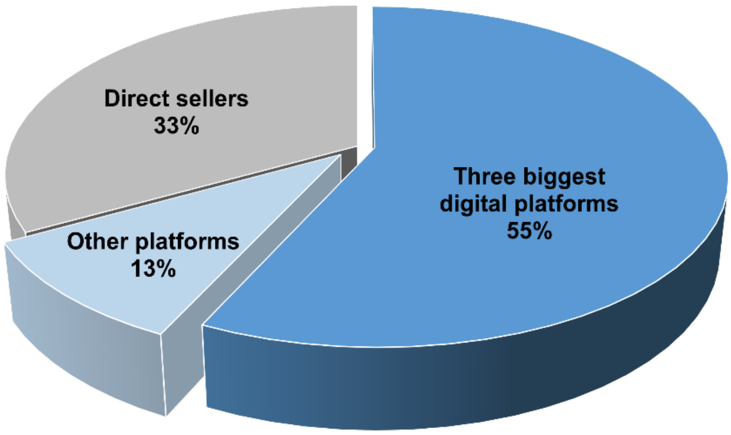
3.3.1. The role of digital platforms in the online trade in goods

A relatively small group of large businesses and digital platforms dominate the global online trade in goods. Research has estimated that two in every three cross-border e-commerce supplies of goods globally are made through digital platforms, with 57% of these cross-border e-commerce supplies being made through the three largest platforms (see Figure 3.6) (International Post Corporation, 2021[60]). Digital platforms also play a central role in e-commerce growth on the African continent. For instance, research by International Trade Centre illustrates that in 2019, the top ten Africa-based online marketplaces for goods generated 64% of all online traffic on the continent (International Trade Centre, 2020[61]). A small number of popular Africa-based platforms dominate the e-commerce market in some of the largest jurisdictions in the region and their activity is heavily concentrated in Africa (e.g. 58% of URLs belong to national and intracontinental marketplaces, while 42% to global marketplaces) (International Trade Centre, 2020[61]).

These digital platforms are uniquely placed to exercise a strong degree of control over the suppliers that sell through these platforms, including in situations where tax authorities may have limited capacity to enforce VAT obligations on suppliers when these have no physical presence in their jurisdiction.

By enlisting these digital platforms in the operation of a vendor collection regime for the collection of VAT on low-value imported goods, and by making the engagement with digital platforms a priority in the planning and reform process, jurisdictions can ensure that the majority of low-value imported consignments will in practice enter their territory with the VAT assessment and collection already completed.

Figure 3.6. Percentage of cross-border sales of goods made through platforms and other channels



Note: The total of the percentages for the component channels in the pie chart exceed 100% due to rounding.
Source: OECD analysis based on the *Cross-Border E-Commerce Shopper Survey 2021* by International Post Corporation (IPC) (International Post Corporation, 2021[60]).

The roles that digital platforms can play in the collection of VAT on supplies of services and intangibles by non-resident suppliers are summarised in subsection 2.3.4 of this Toolkit. These roles can apply equally to the collection of VAT on low-value imported goods. They encompass:

- Full VAT liability;
- Joint and several liability for digital platforms and other key intermediaries such as fulfilment houses;
- Digital platforms acting as a voluntary intermediary for VAT collection;
- Formal agreements between tax authorities and digital platforms based on the co-operative compliance concept;
- Obligations and encouragement to educate underlying suppliers;
- Information reporting or sharing obligations.

As with supplies of services and intangibles by non-resident suppliers and for similar reasons (see subsection 2.3.3), the full VAT liability regime for digital platforms forms an essential part of the recommended policy framework for the collection of VAT on low-value imported goods. This framework recommends that the responsibility for collecting the VAT on low-value imported goods from online sales is reassigned to the non-resident suppliers of these goods and to the digital platforms that facilitate these supplies. This Section further focuses on the design and implementation of a full liability regime for digital platforms in the collection of VAT on low-value imported goods.

3.3.2. Full VAT liability for digital platforms facilitating supplies of low-value imported goods by non-resident suppliers

3.3.2.1. Extending the scope from services and intangibles to low-value imported goods

Jurisdictions that implement a vendor collection regime to collect the VAT on supplies of low-value imported goods by non-resident suppliers are recommended to complement such measures with a full VAT liability regime for the digital platforms that facilitate the supplies of these goods.

A comprehensive analysis of the full VAT liability regime for digital platforms in the collection of VAT on supplies of services and intangibles by non-resident suppliers is provided in subsection 2.3.3 above. It includes detailed discussion of the rationale, mechanics and scope of such a regime. This discussion equally applies to low-value goods and is therefore not repeated here. This subsection assumes that readers are familiar with the recommended policy framework for the application of a full VAT liability regime for digital platforms in the collection of VAT on internationally traded services and intangibles. The focus of this subsection lies on aspects of the regime that are specific to the collection of VAT on low-value imported goods.

All jurisdictions that have implemented a vendor collection regime for the collection of VAT on low-value imported goods have combined it with a full VAT liability regime for digital platforms. Notably Australia, New Zealand and Norway have implemented regimes that extend VAT registration and collection requirements for non-resident suppliers of low-value imported goods to include full VAT liability for digital platforms. The early results in numbers of registrations and the revenue that these regimes generate have been very positive (see Figure 3.3). The United Kingdom has applied this approach as of 1 January 2021, and the European Union since 1 July 2021 (see Box 3.6). Singapore has announced that it will do so from 1 January 2023.

Box 3.6. Example of a full VAT liability regime for digital platforms on international supplies of low-value goods – The European Union model

The EU's full VAT liability regime for digital platforms in respect of low-value imported goods entered into effect on 1 July 2021. Under this regime, the platform is treated as the deemed supplier for VAT purposes when it facilitates:

- Supplies of low-value imported goods by any supplier (including by suppliers established in the European Union); or
- Supplies of goods by non-resident suppliers when the goods are already located within the European Union at the time of sale (e.g. when suppliers store goods in a fulfilment house in the European Union prior to the sale).

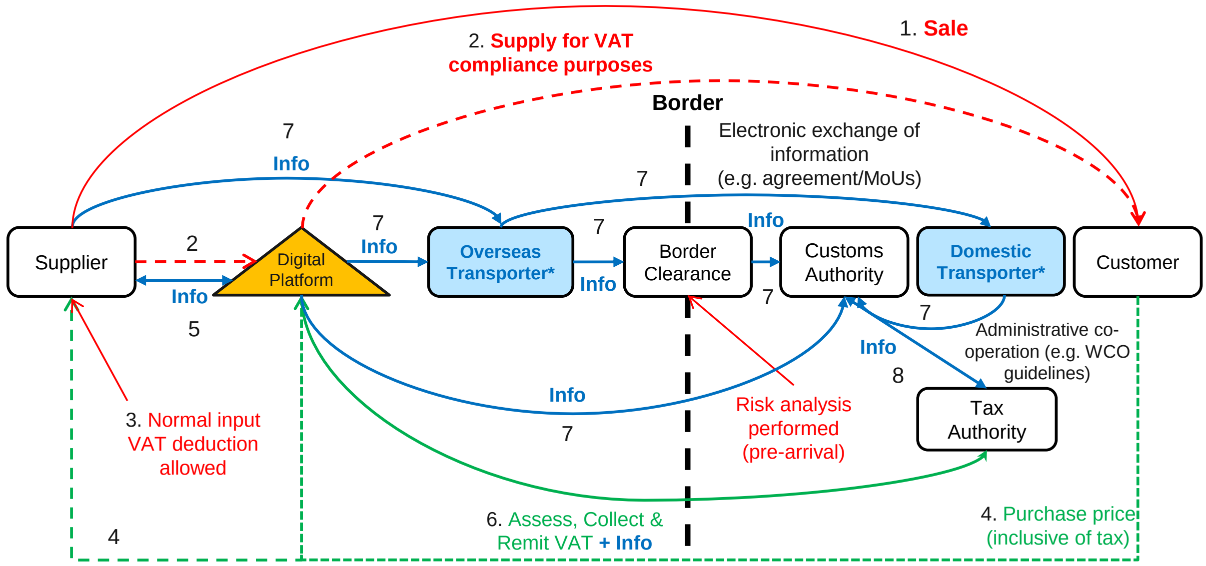
This regime applies to the importation of goods below the customs duty low-value relief threshold of EUR 150 (USD 158). Customs authorities will generally not subject the imports declared by the digital platforms to assessment for import VAT provided that the platform communicates that it has already collected VAT at the time of supply under its full VAT liability obligations. This is done in practice by reporting the digital platform's simplified registration identification number in its customs declaration. For goods imports with a value above the customs duty low-value relief threshold, customs authorities will continue to collect the VAT at importation, via transportation intermediaries. A full customs declaration is then required.

For goods stored within the European Union at the time of their sale by a non-resident supplier, no item- or consignment-level value threshold is applied for the application of the digital platform's full VAT liability. The digital platform that facilitates these supplies must account for and collect VAT on these supplies irrespective of the value of these goods under its full VAT liability requirement (see subsection 3.3.2.3 and Figure 3.8 below for more detail).

Source: European Union (2017), *Council Directive (EU) 2017/2455*, https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32017L2455&from=EN

Tax and customs authorities must work together to ensure the operational compatibility of customs processes with a full liability regime for digital platforms in the collection of VAT on low-value imported goods. Digital platforms and suppliers must be made fully aware of their customs reporting obligations to minimise the necessity for customs authorities to intervene in the VAT collection of goods imports that are covered by the full VAT liability regime for low-value imported goods. Figure 3.7 illustrates the flow of information and the transactional processes that characterise the operation of the full liability regime for digital platforms in the collection of VAT on supplies of low-value imported goods under a vendor collection regime (see Annex E for a further detail).

Figure 3.7. Full VAT liability regime for digital platforms – Operation for imports below the customs duty low-value relief threshold



The actual information flow could differ (e.g. supplier can directly provide information to overseas transporters or the digital platforms can provide information received from the supplier to overseas transporters). Digital platforms could be also asked to provide information directly to the customs authority.

The actual flow of payment could differ according to the arrangements in place between the underlying supplier and the digital platform.

**Overseas/domestic transporters include postal operators and express carriers.*

Note: The sequence of numbers assigned in the figure is for identification only; it does not indicate the timing of a specific step in chronological order. For a more detailed explanation of the illustration above, please see Annex E.
Source: OECD (2019), The Platforms Report (OECD, 2019[5]).

If digital platforms and suppliers do not successfully co-ordinate and execute their respective responsibilities for customs reporting, then customs authorities may have to hold goods up at the border and subject them to traditional import VAT assessment, creating a risk of double taxation, administrative burdens, delays and additional costs for consumers (see also subsection 5.2.11).

Australia, New Zealand and Norway all require suppliers that supply low-value imported goods via a digital platform, to ensure that the digital platform's VAT registration number is included in the information reported to the customs authorities (e.g. through package labelling) where that platform has full liability for the collection of VAT on these goods. This indicates to customs authorities that the platform is VAT-registered and has collected the VAT due on the consignment at the point of sale. Annex D describes these approaches to customs reporting in detail. Customs and tax authorities can verify the *bona fide* nature of the information provided by the digital platform at any time and can subject a digital platform to audit procedures if they consider it can pose a compliance risk under the operation of a full VAT liability regime.

3.3.2.2. Situations in which more than one digital platform facilitates a supply

Jurisdictions should consider the circumstances where more than one digital platform participates in facilitating a supply of low-value imported goods and establish a hierarchy for determining which entity has responsibility for VAT collection under a full VAT liability regime.

The rules for the application of the full liability regime in these situations could be designed according to the following principles:[55]

- Only one digital platform should in principle be responsible for VAT on a supply involving more than one platform under a full VAT liability regime.
- Digital platform operators may agree among themselves through a written agreement which operator will assume VAT liability under the full VAT liability regime.
- When there is no agreement between the different platform operators, default rules can apply whereby the first of the platform operators to authorise the charging of the consideration for the supply or to receive its payment becomes liable for the VAT on the supply.
- In the event that none of the operators meets this criterion, the first digital platform that authorises delivery of the supply is liable for the VAT.[56]

3.3.2.3. Scope of the full VAT liability regime for digital platforms – The "Fulfilment House" model

The recommendations in this Toolkit focus primarily on the operation of the full liability regime for digital platforms in the collection of VAT on the low-value goods that are imported following the online sale of these goods by non-resident suppliers.

> A jurisdiction may consider extending the full liability regime for digital platforms to the collection of VAT on supplies by non-resident suppliers of goods that are already physically within this jurisdiction's territory at the time of sale, such as when a non-resident supplier uses a local fulfilment house to carry out its supplies in that jurisdiction.

Historically, the principal model that non-resident online suppliers followed in making supplies into a jurisdiction was direct shipment of goods from an offshore location to the customer. Over the last few years, new models have emerged to further enhance the speed of delivery. These represent an increasing share of international e-commerce. The most prominent of these involves non-resident suppliers using a form of warehousing facility within the jurisdiction of their customer, which are commonly referred to as "fulfilment houses". Digital platforms can maintain their own fulfilment house business in a jurisdiction and offer their fulfilment services to non-resident suppliers. In other instances, non-resident suppliers use independent fulfilment house businesses.

A fulfilment house business provides non-resident suppliers with the means to import goods in bulk into a jurisdiction and store them in domestic warehouses prior to sale. When a consumer makes an order, the fulfilment house operator or the supplier can then arrange for rapid dispatch of the goods according to a delivery schedule that is as fast as, if not faster than, what a domestic business would be able to provide. The fulfilment house services provider will often arrange for postage or couriering of the goods from the fulfilment house to the consumer's home address. Typically, these are not the same as "bonded warehouses", which are often subject to specific customs clearance processes.

Jurisdictions have been confronted with VAT fraud by non-resident businesses that use the services of fulfilment houses to store goods in a jurisdiction, where they sell these goods to consumers without

[55] See for instance Australian Taxation Office (2018), *Law Companion Ruling - LCR 2018/2: GST on supplies made through electronic distribution platforms*, https://www.ato.gov.au/law/view/document?docid=COG/LCR20182/NAT/ATO/00001

[56] Similar to Australia's approach, New Zealand's rules on prioritisation of GST collection responsibilities provide that the first digital platform that authorises a charge or receives payment for the supply will be responsible. If none of the platforms involved meets this requirement, the first operator that authorises delivery would have responsibility.

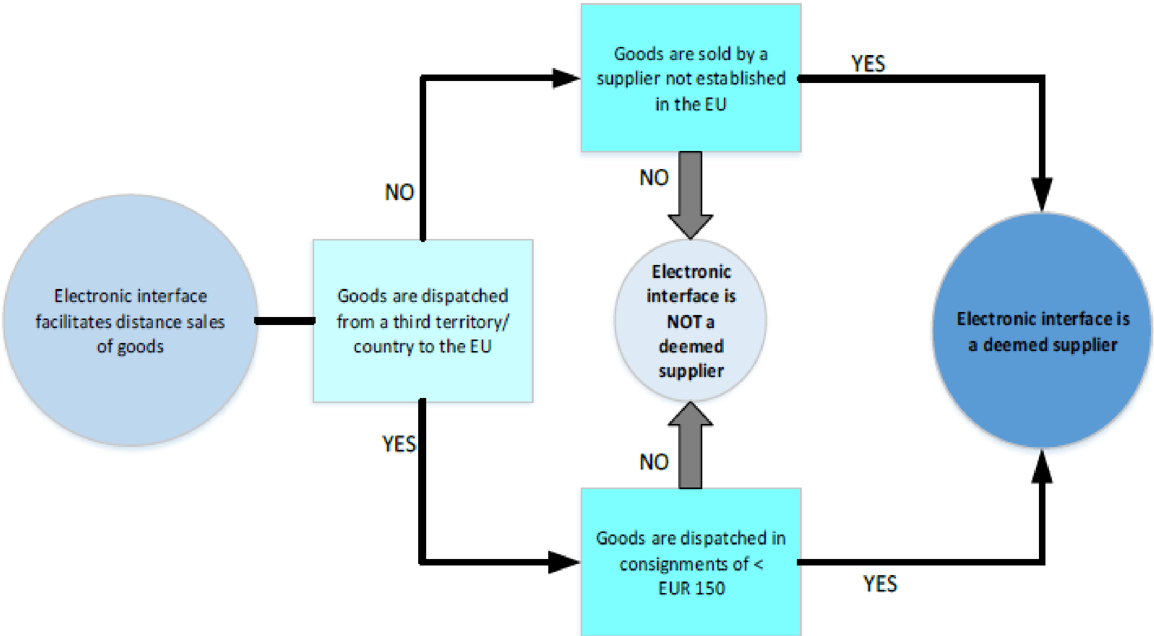
accounting for the VAT. Non-resident suppliers that make sales through fulfilment houses often meet the criteria for the obligation to register for VAT under the standard VAT registration requirements in the jurisdiction where they make these sales. In practice, unfortunately, these suppliers may not comply with that registration obligation. They may also practice undervaluation of their stock at importation to evade import VAT. This non-compliance and fraud can lead to very significant losses of VAT revenue for jurisdictions.

The fulfilment house model came under particular scrutiny in certain jurisdictions in recent years due to evidence of widespread VAT fraud and undervaluation of imports by suppliers that use fulfilment houses, e.g. in the United Kingdom.[57] Jurisdictions such as the United Kingdom[58,59] have therefore taken targeted measures to impose stronger sanctions and penalties on non-compliant, non-resident suppliers and/or on the fulfilment house businesses that facilitate their supplies.

The full VAT liability regime for digital platforms provides a powerful tool to address these fraud schemes. At least for supplies that digital platforms facilitate, the scope of a jurisdiction's full VAT liability regime for digital platforms can be designed to include all supplies of low-value goods that a digital platform facilitates for non-resident suppliers to consumers in that jurisdiction, irrespective of whether these goods are imported following the supply or whether they are already in the jurisdiction at the time of supply. The European Union has adopted this approach as of 1 July 2021 (see Figure 3.8 for an illustration of the EU model, which is also described in Box 3.6 above) and the United Kingdom introduced the same approach as of 1 January 2021.[60]

[57] See the UK National Audit Office's 2017 report *Investigation into overseas sellers failing to charge VAT on online sales*, https://www.nao.org.uk/report/investigation-into-overseas-sellers-failing-to-charge-vat-on-online-sales/
[58] HM Revenue & Customs (2017), *Apply for the Fulfilment House Due Diligence Scheme*, https://www.gov.uk/guidance/fulfilment-house-due-diligence-scheme
[59] HM Revenue & Customs (2018), *Tackling online VAT fraud and error – the role of online marketplaces in co-operating with HMRC (The agreement)*, https://www.gov.uk/government/publications/hmrc-and-online-marketplaces-agreement-to-promote-vat-compliance/tackling-online-vat-fraud-and-error-the-role-of-online-marketplaces-in-co-operating-with-hmrc-the-agreement
[60] HM Revenue & Customs (2020), *Changes to VAT treatment of overseas goods sold to customers from 1 January 2021*, https://www.gov.uk/government/publications/changes-to-vat-treatment-of-overseas-goods-sold-to-customers-from-1-january-2021/changes-to-vat-treatment-of-overseas-goods-sold-to-customers-from-1-january-2021

Figure 3.8. European Union: Determining platform full liability for supplies of goods



Note: In this diagram, the term "electronic interface" is interchangeable with the term "digital platform".
Source: European Commission (2020), *Explanatory Notes on VAT e-commerce rules, Council Directive (EU) 2017/2455, Council Directive (EU) 2019/1995, Council Implementing Regulation (EU) 2019/2026* (European Commission, 2020[62]).

These approaches in the European Union and the United Kingdom broadly align with the approach in New Zealand, where rules for full GST liability for digital platforms treat the platforms as the supplier for all supplies of low-value goods that they facilitate for non-resident suppliers. Full liability applies regardless of whether the underlying supplier stores the goods in New Zealand or in a foreign jurisdiction at the time of supply. Full liability applies to all goods with a value of NZD 1 000 (USD 634) or less that a non-resident supplier supplies through a digital platform to a New Zealand delivery address.

Of course, expanding the scope of the full liability regime for digital platforms will not address non-compliance and fraud by non-resident suppliers that use domestic fulfilment houses to make direct sales to consumers through their own proprietary websites and social media accounts. Therefore, jurisdictions can combine these measures for platforms with educational activity to promote greater awareness of VAT obligations among both fulfilment house operators and non-resident suppliers. Jurisdictions may also leverage their enforcement power over domestic fulfilment houses by imposing robust record-keeping and/or information reporting obligations, possibly as a condition of licensing them to trade. The United Kingdom, for instance, adopted a "Fulfilment House Due Diligence Scheme" (FHDDS) that came into force on 1 April 2018 and incorporates record-keeping and information reporting obligations, with potentially high penalties, for fulfilment houses that serve clients that are non-compliant with UK VAT laws.[61] Jurisdictions could also empower tax authorities to hold the fulfilment houses jointly and severally liable for the unpaid VAT of non-resident suppliers that use their services.

[61] See HM Revenue & Customs (2016), *Policy paper: Fulfilment House Due Diligence Scheme*, https://www.gov.uk/government/publications/fulfilment-house-due-diligence-scheme/fulfilment-house-due-diligence-scheme

3.3.2.4. Extending full VAT liability to "redeliverers"

Australia and New Zealand have implemented rules that assign VAT liability for B2C supplies of low-value imported goods by non-resident suppliers to so-called "redelivery" businesses in certain specific circumstances.

Consumers can use the services of a "redeliverer" to buy goods that they may struggle to buy locally or through online channels that serve their jurisdiction. These consumers can purchase these goods from a non-resident (online) supplier and ask this supplier to deliver the purchased items at a delivery address that is the collection point of a "redelivery business" in a jurisdiction that is served by that (online) supplier. This business then organises the delivery of these goods to the consumer.

Subject to certain conditions, such a "redeliverer" is treated as fully liable for the VAT on the low-value goods it delivers to final consumers under Australia's and New Zealand's respective vendor collection regimes for supplies of low-value goods by non-resident suppliers. This applies only as a fall-back rule when neither the supplier nor a digital platform or any other party acting on their behalf (e.g. a transporter) transports or assists in transporting the goods to the jurisdiction.

"Redeliverers" are defined under these rules as businesses that offer an "offshore or foreign mailbox service" or a "shopping service".

- An offshore/foreign mailbox service is a business that provides customers with an address in a foreign jurisdiction to which the customer can send orders of goods. The "redeliverer" will then arrange for the delivery of the goods to the address at which the customer would like to receive them.
- A shopping service is a service in which a business purchases, or assists in purchasing, goods from a foreign jurisdiction for a customer, effectively acting as an agent of the customer.

Under this type of regime, a "redeliverer" is only fully liable for the VAT on the supply of low-value goods to final consumers when it acts at the instruction of the customer. When a "redeliverer" acts on the instruction of a supplier or a digital platform, then the supplier or the platform remains liable for the VAT under the normal rules of the vendor collection regime. In practice, the following hierarchy applies for determining the responsibility to collect and remit VAT on B2C supplies of low-value goods by a non-resident supplier under a vendor collection regime:

- Where a digital platform meets the criteria for full VAT liability (and has no right to transfer it to the underlying non-resident supplier), it will have responsibility for the VAT on the supply.
- Where full VAT-liability for a digital platform does not apply (e.g. a non-resident supplier that supplies directly to its customers without the intervention of a digital platform), the non-resident supplier will have responsibility for the VAT on the supply if this supplier meets the criteria for VAT-liability under the vendor collection regime.
- "Redeliverers" can be responsible for the VAT on the supply only when the two preceding conditions do not apply.

"Redeliverers" that have VAT-liability under these rules are normally able to register and collect VAT under the same simplified compliance regime as non-resident suppliers and digital platforms. The liability of "redeliverers" is restricted to B2C supplies by non-resident suppliers only. Transporters are not generally considered as "redeliverers" in practice, because they normally act as agents of a supplier or digital platform and not of customers. They also generally do not provide offshore mailbox or shopping services, although some may explicitly and separately also provide these services thereby meeting the definition of a "redeliverer".

3.4. Common features of vendor collection regimes for the collection of VAT on low-value imported goods that have already been implemented

Several jurisdictions have made non-resident suppliers and digital platforms responsible for the collection of VAT on imports of low-value goods in recent years, implementing a simplified compliance regime to facilitate compliance with this obligation. As first movers, Australia, European Union, New Zealand, the United Kingdom and Norway have adopted a range of common features, including:

- First and foremost, they have moved the VAT collection away from the traditional process of customs authorities assessing low-value goods on the basis of a customs declaration value. Instead, these jurisdictions have imposed the obligation (or the option in case of the European Union) for non-resident suppliers and digital platforms to collect the VAT on the supply of these goods at the point of sale.
- To date, all jurisdictions that have implemented this policy framework for low-value goods have restricted it to goods with a customs value at or below the jurisdictions' low-value consignment relief threshold for customs duty (i.e. the customs duty *de minimis*; for particular exceptions under the New Zealand regime, see subsection 3.2.2.5). Customs authorities continue to collect VAT, customs duties and other charges for goods above the customs duty low-value relief threshold.
- All goods below the customs duty low-value relief threshold are in scope of the obligation to register for and collect VAT under these jurisdictions' vendor collection regimes (except where the supplier's revenues remain below the VAT registration threshold in Australia and New Zealand; the EU regime is optional). Exceptions include excisable goods which continue to be taxed at importation.
- The VAT due must be determined by the supplier or the digital platform at the point of sale based on the sales price of the goods plus transport and insurance costs.[62] This is equivalent to the "Cost Insurance and Freight" or "CIF Incoterms" value. The overall effect is to greatly mitigate the revenue loss and distortions resulting from systematic undervaluation of these low-value goods on customs declarations.
- All these jurisdictions have adopted a simplified registration and collection regime for non-resident suppliers to comply with their obligation to remit the VAT on their supplies of low-value imported goods to private consumers in the jurisdiction of importation (B2C supplies). Many of these jurisdictions combine this model for B2C supplies with a postponed accounting, reverse charge, and/or a VAT exclusion approach for supplies of low-value imported goods to business customers in the jurisdiction of importation (B2B supplies).
- These jurisdictions have extended the application of the simplified compliance infrastructure, which they had previously adopted for the collection of VAT on B2C supplies of services and intangibles by non-resident suppliers, to supplies of low-value imported goods.
- These vendor collection regimes for supplies of low-value imported goods by non-resident suppliers are complemented with a full VAT liability regime for digital platforms that facilitate these supplies, under specific circumstances. In practice, those digital platforms generally account for a significant share of the VAT collected under these vendor collection regimes for low-value imported goods.

[62] It should be pointed out that while this applies to the calculation of the VAT due, it need not necessarily apply to the determination of whether a consignment falls under the low-value consignment relief threshold and the simplified compliance regime. This is the case, for instance, in the European Union: See EU Commission (2020), *Explanatory Notes on VAT e-commerce rules*, https://ec.europa.eu/taxation_customs/system/files/2020-12/vatecommerceexplanatory_28102020_en.pdf, pages 68 to 71.

- These jurisdictions have ensured that customs compliance processes are as simple as possible, turning to information used by suppliers, digital platforms and transporters in the supply chain for customs clearance purposes. In some cases, these jurisdictions have also implemented an invoicing requirement to minimise risks of double taxation.
- These jurisdictions have allowed non-resident suppliers and digital platforms to register under the standard VAT regime or to use a specific input VAT refund regime, where they have a need to recover input VAT in the jurisdiction of importation. For example, a non-resident supplier may make a commercial decision to charge and collect VAT at the point of sale for all goods, including goods with a value above the customs duty low-value relief threshold (high-value goods). In doing so, this non-resident supplier assumes liability for the import VAT at importation as the importer of record and is thus subject to a standard VAT registration requirement. Similarly, non-resident suppliers may store goods in bulk in domestic fulfilment warehouses prior to sale, in which case they would also be the importer of record at the time of importation.
- All these jurisdictions have developed and communicated clear rules to enable suppliers and digital platforms to acquire a clear understanding of what goods are in scope, when they must register, when they must charge VAT and how they should treat refunds and returns.

For the different approaches to the treatment of imports for which VAT has not been collected through the vendor collection regime in these jurisdictions, see subsection 3.2.2.7.

4 Addressing the VAT implications of the sharing and gig economy – The potential roles for digital platforms

Section 4 of the VAT Digital Toolkit for Africa provides an analysis of the core components of a comprehensive policy strategy for the collection of VAT on supplies in the sharing and gig economy. It notably includes guidance on the possible role of digital platforms in facilitating and enhancing VAT compliance in the sharing and gig economy.

4.1. Sharing and gig economy growth can create challenges for VAT policy and administration… but also important opportunities

The rise of the so-called sharing and gig economy[63] (also known as the "collaborative economy") in recent years has been remarkable at both global and regional level. It has been powered by the growing capacity of digital platforms to connect millions of economic actors with customers worldwide. The sharing and gig economy involves large numbers of new economic operators, often private individuals, who monetise underutilised goods and services by making them available for temporary ("shared") use to primarily private consumers, via digital platforms.

The growth of sharing and gig economy activity has created a new commercial reality in a number of industries, particularly in the sectors of transportation (with the emergence of "ride-sourcing") and accommodation (particularly in short-term rentals) and is also progressively transforming the professional services and finance sectors. It has triggered the entry into the market of considerable, and still growing, numbers of new economic actors carrying out activities in often new ways and with a non-standard employment or work status.

Similar to other regions in the world, Africa has experienced significant sharing and gig economy development and growth. Africa's context is distinct in the sense that, even before global sharing and gig economy platforms appeared, local initiatives and ventures have existed through which people shared a wide range of resources from food, accommodation, transportation to more sophisticated forms of sharing such as financial pooling. With a large informal economy - approximately 86% of the region's employment is informal - people in Africa have long relied on collaborative social networks to meet their needs (United Nations Economic Commission for Africa, 2021[22]). What has recently changed is the entry of digital platforms, which presents opportunities to formalise the sector.

Available data are limited to measure the exact size of the sharing and gig economy on the continent, but some studies have sought to make estimates. In Kenya, for example, the sharing and gig economy (both online and offline activities) is estimated to have accounted for approximately 26.3% of the country's GDP in 2019 (Wasilwa, S. and G. Maangi, 2020[63]). In terms of main service categories, the majority of digital platforms are reported to operate in the areas of transport, accommodation, food delivery, professional/artisanal and general work and agriculture (Wasilwa, S. and G. Maangi, 2020[63]). Tapping into the billion-person opportunity in the region, large global sharing and gig economy platforms have entered the market while locally dominant Africa-based platforms have also emerged offering innovative solutions to meet regional needs such as education services connecting students with tutors and healthcare services connecting people in rural areas to remote access medical consultations (Groux, 2017[64]). In fact, research indicates that across eight African countries that include Ghana, Kenya, Nigeria, Rwanda, South Africa, Tanzania, Uganda and Zambia, approximately 81% of digital platforms that operated in these markets in 2018 were Africa-based platforms while 8.8% were from the United States and 6% from Europe (Wasilwa, S. and G. Maangi, 2020[63]). African-origin platforms utilise their local

[63] Consistent with the OECD Sharing and Gig Economy Report, a broad (working) description is used to refer to the "sharing and gig economy" as:

… an accessibility-based socio economy model, typically enabled or facilitated via advanced technological solutions and trust-building tools, whereby human or physical resources and/or assets are accessible (for temporary use)/shared – to a large extent – among individuals for either monetary or non-monetary benefits or a combination of both.

In general, "sharing" economy activities involve the temporary substitution of ownership of (sometimes) underutilised assets or resources as opposed to the transfer of ownership. "Gig" activities are in principle aimed at providing opportunities to a (high or low) skilled labour force to provide labour or professional services in the context of a labour market characterised by the prevalence of short-term and often non-standard contracts or freelance work as opposed to permanent jobs and standard labour contracts.

knowledge and expertise to provide more regionally tailored services such as a Kenya-based transportation platform partnering with one of the region's dominant mobile money service providers and a South Africa-based accommodation platform providing more diverse and cheaper options for local listings benefitting from local contacts (Global Risk Insights, 2017[65]). As digitalisation accelerates on the continent, particularly through the continuously improving digital access via mobile devices (see subsection 1.2.2.1), and as the region's young and urbanised population quickly adopts digital technologies, the sharing and gig economy in Africa has the potential to grow and diversify further in the years to come.

The "new ways of doing things" in the sharing and gig economy have raised questions whether existing VAT frameworks are sufficiently equipped to capture this new economic reality efficiently, notably to protect VAT revenues and minimise economic distortions between sharing and gig economy operators and traditional businesses. It also raises the question whether this new phenomenon, not least the role of sharing and gig economy platforms, creates new opportunities to enhance compliance and administration, and in particular, to help reduce the size of the informal economy.

This Section provides an overview of the core components of a comprehensive VAT policy strategy for tax authorities to consider in response to the growth of the sharing and gig economy. It notably includes detailed guidance on the considerable role that sharing and gig economy platforms can play in facilitating compliance in the sharing and gig economy, including in formalising informal economic activity. Of course, the sharing and gig economy gives rise to a variety of economic, social, tax, legal and regulatory questions beyond the area of VAT administration and compliance that require further consideration as part of a more holistic "whole-of-government" response to sharing and gig economy growth.

This Section builds on the analysis and guidance provided in the OECD report on *The Impact of the Growth of the Sharing and Gig Economy on VAT/GST Policy and Administration* ("Sharing and Gig Economy Report"). Readers of the Toolkit are encouraged to consult this OECD report for further detailed analysis and guidance on this issue.

Box 4.1. OECD Report on The Impact of the Growth of the Sharing and Gig Economy on VAT Policy and Administration

This report provides a comprehensive analysis of the VAT implications of the growth of the sharing and gig economy and sets out the core components of a VAT policy strategy for tax authorities to consider in response. It analyses the key features of the sharing and gig economy and its main business models; identifies the associated VAT challenges and opportunities; and presents a range of possible measures and approaches to support an effective policy response. This includes detailed guidance on the possible role of digital platforms in facilitating and enhancing VAT compliance in the sharing and gig economy. The report is complemented by an in-depth analysis of the business models in the currently dominant sharing and gig economy sectors of accommodation and transportation. It has been developed by the OECD through intense consultation with representatives from OECD member countries and from a considerable number of non-OECD economies as well as the representatives of key sharing and gig economy actors and academia involved in the regular OECD discussions.

Source: OECD (2021), *The Impact of the Growth of the Sharing and Gig Economy on VAT/GST Policy and Administration* (OECD, 2021[6]).

4.2. Developing a comprehensive strategy to address the VAT implications of the sharing and gig economy: Possible steps for needs assessment and policy action

The sharing and gig economy presents specific features that can exacerbate existing challenges and opportunities for VAT policy and administration and create new ones. These specific features are notably related to:

- The characteristics of sharing and gig economy service providers, which are often large numbers of new economic actors or non-standard workers with limited knowledge or capacity to comply with VAT requirements.
- The activities of these sharing and gig economy service providers, which often have a relatively low value but are provided at relatively high volumes.

One of the key challenges for VAT policy and administration is that sharing and gig economy growth may result in considerable shares of activity in certain sectors shifting from established and generally compliant large operators (e.g. hotel chains, transportation firms) to large numbers of sharing economy operators or "gig workers" that may often be less compliant. Even where they are able or willing to comply, they may not be subject to VAT obligations if their activities remain below a jurisdiction's VAT registration threshold. On the other hand, administrating these large numbers of new and often small sharing and gig economy operators could create significant pressure on tax authorities, particularly in jurisdictions with relatively limited tax administration capacity.

Sharing and gig economy growth, however, also creates opportunities for tax authorities. In particular, the role of sharing and gig economy platforms in facilitating and centralising sharing and gig economy activities and the critical role of data in these platforms' business models, creates significant opportunities to formalise informal economic activity through data-sharing or VAT-collection requirements for these platforms in respect of the sharing and gig economy activities that they facilitate.

The key policy motivations for the development of a VAT strategy in response to the challenges and opportunities associated with the sharing and gig economy growth are likely to differ across jurisdictions. These differences will depend on a number of factors, including the regulatory framework, the size and growth of (a sector of) the sharing and gig economy in a given jurisdiction, its possible impact on the VAT base and revenues, the competitive pressure it creates for the economic equivalent sector(s) and the opportunities it creates for formalising informal economy activity. Determining policy objectives in this area may turn out to be a moving target, notably as the growth of the sharing and gig economy is still in its relatively early stages and continues to change and evolve, although it has already fundamentally transformed a number of industries.

Table 4.1 below sets out the main components of a comprehensive strategy for jurisdictions to consider when designing their VAT policy and administrative response to sharing and gig economy growth. The OECD's recent Sharing and Gig Economy Report provides further detailed analysis and guidance for the design and implementation of the components of this strategic VAT policy and administrative response to sharing and gig economy growth.

Table 4.1. Key components of a VAT strategy in response to sharing and gig economy growth

Step 1	Acquire a good understanding of the size and growth of sharing and gig economy activity
Key Policy Considerations	• To support evidence-based decision-making, jurisdictions need a comprehensive and up-to-date understanding of the size and of the growth perspectives of the sharing and gig economy and its sectors at national level. • Jurisdictions can develop a framework for collecting statistical data on the sharing and gig economy activities. Imposing data reporting obligations on actors involved in the sharing and gig economy supply chain, notably the sharing and gig economy platforms, can allow jurisdictions to make quick progress in improving the measurement of the sharing and gig economy and therefore to acquire a better understanding of its size and growth. • Recognising that monitoring and measuring the sharing and gig economy obviously has a relevance beyond VAT policy, it is advisable that jurisdictions adopt a co-ordinated, whole-of-government approach in monitoring and measuring the sharing and gig economy to support a consistent, fact-based, effective and targeted policy strategy and implementation.
Step 2	**Assessing the VAT policy needs and opportunities and determining the objectives of VAT policy responses (addressing the "why" question)**
Key Policy Considerations	• A jurisdiction's policy priority may not necessarily be to impose VAT on all sharing and gig economy activities. It may for instance first wish to acquire an appropriate understanding of the sharing and gig economy development and monitor potential risks of VAT base erosion or opportunities to address informal activity in particular sectors of the economy. • A clear understanding of the objective(s) of VAT policy is critical for identifying the most appropriate policy response and for determining the design of this response. For example, if the objective is to purely monitor sharing and gig economy activity then the introduction of data reporting requirements on platforms is likely to be a core component of the policy response. The design of such a reporting requirement is, however, likely to be different when it would, for instance, be aimed at supporting VAT collection and compliance by pre-populating VAT returns of gig economy workers or to detect non-compliance through risk analysis. • Jurisdictions may opt for a sequenced strategy, focusing their policy action first on the dominant sharing and gig economy sectors that may create the most immediate risks to VAT revenue and/or competitive neutrality, and the most significant opportunities for reducing informal economy activity, while continuing to monitor the other (emerging) sectors to ensure early identification of further needs and opportunities for policy action.
Step 3	**Determining and implementing the appropriate VAT policy and administration responses (the "how" question)**

Key Policy Considerations	• The preferred policy response is one that is consistent with the general rules and principles of the jurisdiction's existing VAT system and limits the introduction of new exceptions or special regimes. This will ensure an equal treatment of various distribution channels in a given market, be they traditional or digital, notably as there is a growing convergence of business models between the sharing and gig economy and the broader economy.
	• Tax authorities will often face the difficult trade-off between the need to protect revenue and minimise competitive distortion, and the need to safeguard the efficiency of tax administration and to avoid undue compliance burden. The latter may point to an approach that minimises the entry of high numbers of new sharing and gig economy actors into the VAT system that may have limited compliance capacity and knowledge of their tax obligations. However, that approach may have adverse revenue and competitive consequences, when activity shifts from a limited number of established and largely VAT compliant traditional operators to a large number of small sharing and gig economy operators that may remain outside the scope of VAT (e.g. hotel activity vs. short-term vacation rentals). Bringing all these new sharing and gig economy operators into the VAT system, on the other hand, may create undue pressure for tax authorities, in jurisdictions with limited administrative capacity.
	• To achieve a balanced response to this challenge, jurisdictions can consider a number of possible non-mutually exclusive measures aimed at managing the number of new economic actors entering the VAT system, and at simplifying compliance obligations for sharing and gig economy service providers. These include: setting an appropriate VAT registration or collection threshold; operating presumptive schemes (e.g. flat rate schemes) for determining the VAT liability of sharing and gig economy providers; accounting and reporting simplifications; split payment/withholding mechanisms for VAT collection; the use of technology to facilitate VAT administration and compliance; third-party reporting obligations; taxpayer education and other awareness raising activities. Detailed guidance on each of those policy responses is provided in Chapter 3, Section 2 of the Sharing and Gig Economy Report.
	• Jurisdictions are particularly advised to consider the significant opportunities created by the central role of digital platforms in the sharing and gig economy, to facilitate VAT administration and compliance. These platforms are well positioned to provide greater visibility and traceability of sharing and gig economy activity, thus providing significant opportunities for the formalisation of previously informal economic activity (see further discussion in subsection 4.3 below). Jurisdictions can consider in particular,
	  ○ The implementation of data reporting obligations for sharing and gig economy platforms, based on the OECD Model Reporting Rules for Digital Platforms[64] (see Annex B); and
	  ○ The introduction of a VAT collection obligation for sharing and gig economy platforms on the sharing and gig economy supplies that they facilitate.
	• Sharing and gig economy platforms can further play an important role in educating sharing and gig economy service providers on their VAT obligations and in assisting these operators in complying with their tax obligations (see Chapter 3, Section 3 of the Sharing and Gig Economy Report for further detailed guidance).
	• Compliance levels will be enhanced by ensuring early and proper communication of policy measures and providing adequate lead-time for their implementation along with clear guidance for all the sharing and gig economy actors involved. Jurisdictions are also encouraged to complement their VAT policy response to sharing and gig economy growth with targeted risk management strategies, including the extensive use of

[64] OECD Model Reporting Rules for Digital Platforms refer to the 2020 OECD publication on *Model Rules for Reporting by Platform Operators with respect to Sellers in the Sharing and Gig Economy*, https://www.oecd.org/tax/exchange-of-tax-information/model-rules-for-reporting-by-platform-operators-with-respect-to-sellers-in-the-sharing-and-gig-economy.htm
The OECD's subsequent 2021 publication on *Model Reporting Rules for Digital Platforms: International Exchange Framework and Optional Module for Sale of Goods* complements the original Model Reporting Rules, https://www.oecd.org/tax/exchange-of-tax-information/model-reporting-rules-for-digital-platforms-international-exchange-framework-and-optional-module-for-sale-of-goods.pdf

third-party data to assist compliance monitoring and data analysis; with measures to deter non-compliance; and with international administrative co-operation as appropriate. Further detailed guidance on these issues is provided in Chapter 4 of the Sharing and Gig Economy Report and in Section 6 of this Toolkit.

- The sharing and gig economy is characterised by constant change. Developments including in the regulatory domain (e.g. labour-law related developments that could reshape the relations between the platforms and sharing and gig economy service providers) and in the technological landscape will continue to influence the character, scope and scale of the sharing and gig economy at national, regional and global levels. There is thus a need to continue monitoring developments and evaluating the efficiency of policies and the needs or opportunities for policy action.
- The design of policy responses needs to build on a good understanding of the sharing and gig economy actors, their ecosystems and trends to ensure their efficiency and effectiveness in practice. It is therefore important that tax authorities consult with the stakeholders involved, including the sharing and gig economy platforms, sharing and gig economy service providers, traditional economic operators and other third-party stakeholders such as technology developers and accounting and tax compliance service providers.

Source: OECD (2021), *The Impact of the Growth of the Sharing and Gig Economy on VAT/GST Policy and Administration* (OECD, 2021[6]).

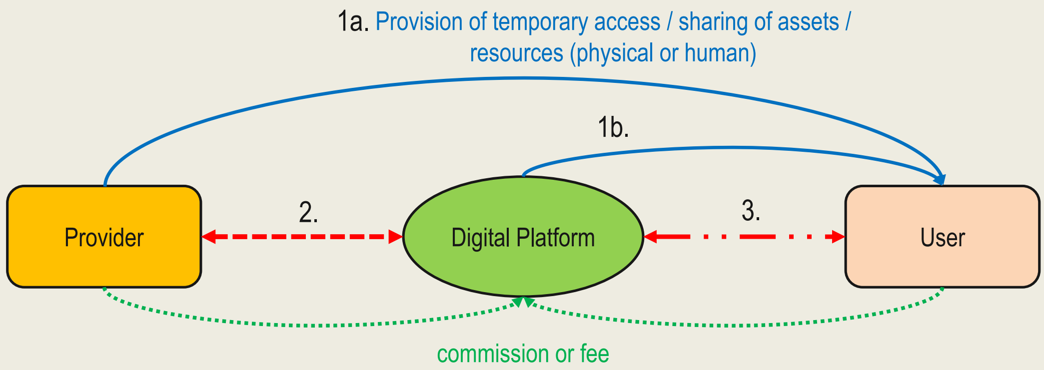
4.3. Digital platforms can play a significant role in facilitating VAT compliance in the sharing and gig economy

Digital platforms play a central role in sharing and gig economy supply chains. A large diversity of business models can be observed among platforms, even within sharing and gig economy sectors. These differences may include:

- The type of the services that are provided or facilitated (e.g. ride-sharing vs. ride-sourcing);
- The control that the platform exercises over the suppliers and users (e.g. in setting terms and conditions; safeguarding quality and safety, etc.);
- The VAT-relevant information that is collected by the platform (noting, however, that sharing and gig economy platforms generally collect considerable amounts of data on operators, customers and the activities that they facilitate);
- The payment flows and solutions (e.g. credit card or online payment, which is the default approach, vs. cash payment, which still exists in certain jurisdictions).

Further detailed analysis of the key sharing and gig economy business models, as operated particularly in the accommodation and transportation sectors, is provided in the Sharing and Gig Economy Report (see Annex D of the Report). Box 4.2 below provides a basic illustration of the role of a digital platform in a sharing and gig economy supply chain.

Box 4.2. A basic sharing and gig economy supply chain: Role of digital platforms



Possible interactions among the parties may include:

1a. Provision of temporary access/sharing of assets/resources (physical or human) by the provider to the user

1b. Provision of temporary access/sharing of assets/resources (physical or human) by the digital platform to the user

2. Interaction between the provider and the digital platform

3. Interaction between the digital platform and the user

Although there are many different sectors in which sharing and gig economy platforms operate, and their business models vary, a sharing and gig economy transaction will typically involve the following different groups of actors/participants, which may not necessarily be located in the same jurisdiction:

- The provider (often a private individual) who shares assets, resources, time and/or skills in exchange for a consideration/fee (monetary).
- The user of these assets, resources, time and/or skills. The user is most often a private individual, although users with a business status cannot be excluded particularly in certain sectors (e.g. accommodation and on-demand services).
- The sharing and gig economy platform that connects sharing and gig economy providers with customers/users and enables the provision of sharing and gig economy services, directly or indirectly, to such users. Several terms may be used at national level to denominate these actors, including: “platforms”, “(online) marketplaces”, “electronic interfaces” or “intermediaries”.

With respect to the role of the digital platform in the supply chain, two main broad scenarios can be distinguished:

- Under a first scenario (illustrated with arrow 1a on the diagram), the sharing and gig economy platform directly connects the provider(s) and the user(s) with respect to a sharing and gig economy supply. In return, the digital platform may receive a consideration/fee from either the provider or the user or both (**the “agent role”**).
- Under a second scenario (illustrated with arrow 1b on the diagram), the platform first acquires the sharing and gig economy supply from the underlying sharing and gig economy service provider and provides it in its own name to its user(s). Under this scenario, the platform is typically regarded by national legislation as the supplier of the service (**the “principal role”**). Often, these platforms contract with the individual underlying provider and they act as the contracting party to provide the service.

National labour law may have an impact on the determination of the exact role/status of the digital platform and of the underlying providers for VAT purposes. This is particularly the case where the platform is considered to have a legal or *de facto* employment relationship with the (underlying) provider under national labour law. Under such circumstances, the platform may be considered as having provided the supply in its own name and on its own behalf (i.e. acting as principal) and the underlying provider may be considered as an employee.

Other actors can also be involved in the sharing and gig economy supply chain, with direct or indirect connection to the digital platform and/or the provider and/or the user. For example, in food (meal) delivery activities, different providers may be involved in the preparation of the meal and subsequently in the delivery of the meal to the customer. In the accommodation sector, an agent may directly interact with a platform with respect to the listing of apartments that may belong to different owners who are not necessarily known to the platform.

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

Source: OECD (2021), *The Impact of the Growth of the Sharing and Gig Economy on VAT/GST Policy and Administration* (OECD, 2021[6]).

As highlighted in Table 4.1 above, digital platforms that facilitate sharing and gig economy activity are likely to be given a central role in jurisdictions' VAT policy responses to sharing and gig economy growth. These main possible roles for sharing and gig economy platforms, which are non-mutually exclusive, include:

- Assuming a type of liability for the collection of the VAT on the sharing and gig economy supplies that they facilitate. Sharing and gig economy platforms that act as suppliers of the sharing and gig economy activity (under the "principal role" as illustrated in Box 4.2 above) are normally themselves subject to VAT obligations in respect of these activities in accordance with the jurisdiction's normal VAT rules. Where sharing and gig economy platforms act as agents ("agent role" as illustrated in Box 4.2 above), specific measures could be implemented to make these sharing and gig economy platforms liable for the VAT on the sharing and gig economy activities that they facilitate, for example by treating them as the "deemed suppliers" of these sharing and gig economy services.
- Data reporting to the tax authorities. These data can be used by tax authorities to monitor sharing and gig economy activity, to facilitate compliance (e.g. by pre-filling VAT returns) and/or to minimise non-compliance by sharing and gig economy service providers. The internationally agreed basis for the design of data reporting requirements for sharing and gig economy platforms is in the OECD Model Reporting Rules for Digital Platforms (see further in Annex B).
- Educating sharing and gig economy service providers on their VAT obligations.

Subsections 2.3.3 and 2.3.4 of this Toolkit provide more detailed guidance on the roles for digital platforms in the collection of VAT on online sales of services and digital products (such as streaming of music and movies, software application, etc.). This guidance is also relevant for sharing and gig economy activities. The sharing and gig economy however presents a number of specific features that may require further consideration when designing and implementing roles for digital platforms. Table 4.2 below outlines the main similarities and specificities of the sharing and gig economy in comparison to the broader platform economy.

Table 4.2. Sharing and gig economy vs. the broader platform economy

Similarities	Specificities of the sharing and gig economy
• Digital platforms play a critical role in facilitating the supplies via the use of advanced technology. • The underlying supplies are not new but the means through which they are carried out are. • The platforms have a relation with both the underlying provider and the consumer. They are "multi-sided" platforms in that they enable the direct interaction between two or more customers or participant groups (typically users/customers and providers) whereby each group of participants ("side") are customers of the multi-sided platform in some meaningful way. • Digital platforms have access to VAT-relevant information in the course of their normal business activity. • Digital platforms generally do not have a physical presence in the jurisdiction of taxation. • An increasing number of jurisdictions have already enacted legislation involving digital platforms in the collection of VAT on online sales or are in the process of doing so.	• Sharing and gig economy suppliers may often be individuals or small businesses that generate relatively small turnover from their sharing and gig economy activities. • Sharing and gig economy activity may often involve high volumes of low-value transactions (for instance in the transportation sector). • The underlying sharing and gig economy providers often have a (type of) presence in the jurisdiction of taxation and are less likely to provide their services in multiple jurisdictions. • The sharing and gig economy supplies often involve physical assets/capital of a certain value in the jurisdiction of taxation (e.g. a vehicle or an immovable property in the currently dominant sectors of transportation and accommodation). • The underlying sharing and gig economy providers often use assets for both their sharing and gig economy activities and private purposes. • A wide(r) range of VAT policy objectives may be pursued by the tax authorities in respect of the sharing and gig economy other than purely levying VAT on these activities (e.g. monitoring market evolutions).

A careful balancing of a number of considerations is required before implementing a VAT liability role for digital platforms in the sharing and gig economy. Sharing and gig economy platforms are often not located in the jurisdiction in which these sharing and gig activities are carried out. The sharing and gig economy service providers, on the other hand, are often themselves located in the jurisdiction of taxation and may already be registered there for VAT purposes. This is different from the broader platform economy, particularly online sales of goods, services and digital products, which often involve online sellers that sell into markets without being located there. Where the sharing and gig economy platform is not located in the jurisdiction of taxation, the tax authorities may wish to carefully weigh the risks and benefits from shifting the VAT collection or liability from the individual sharing and gig economy service providers that are resident in its jurisdiction onto a platform that is not resident in that jurisdiction.

Similarly, to minimise the administrative burden and compliance risks from input VAT deduction claims by sharing and gig economy providers operating via a digital platform, careful consideration could be given to complementing a full VAT liability regime with a simplification measure for the underlying providers such as a flat rate tax scheme or an input VAT credit scheme through the provider's income tax return (see further guidance in Section 3.2.2. of the Sharing and Gig Economy Report).

Overall, recognising that there is no one-size-fits-all solution, taxing jurisdictions are encouraged to ensure an equal treatment of various distribution channels in a given market, be they traditional or digital. Jurisdictions are encouraged to take into account the overarching VAT policy design principles outlined under Section 2 when designing potential role(s) for digital platforms in enhancing VAT compliance and administration in the sharing and gig economy as well as implementing a number of supporting measures for the efficient and effective operation of these policy options as outlined in Section 6 of this Toolkit.

5 Administrative and operational implementation of the simplified registration and collection regime

Section 5 of the VAT Digital Toolkit for Africa provides practical advice on the development of an administrative, operational, and IT infrastructure to support the recommended VAT policy framework. This includes concrete guidance on the implementation of a simplified registration and collection regime for VAT on online trade in services, intangibles, and low-value goods.

In Brief

Section 5 of the Toolkit provides guidance on the administrative and operational implementation of the policy framework presented in Sections 2 and 3, focusing in particular on the simplified registration and collection regime. The core components of this guidance and its core recommendations are outlined below.

- **Project governance and management**. The administrative and operational implementation of the recommended policy framework for the collection of VAT on supplies of services and intangibles and on supplies of low-value imported goods by non-resident suppliers requires sound project management. This includes the following aspects:
  - **Project plan and team**. Define the scope of a project plan to implement the policy framework. This includes identifying deliverables, costs, and the necessary implementation lead-time. Establish a project team with clear responsibilities to manage and deliver the legislative design and guidance, the reform of administrative processes, the necessary IT infrastructure, a communications strategy, a risk and compliance management strategy, etc.
  - **Sequencing reform and realistic timeframes**. Jurisdictions that have implemented the policy framework as recommended in this Toolkit have done so in a sequenced manner. They have first focused on services and intangibles and later extended the regime to low-value imported goods. Having an appropriate lead-time for the introduction or the later extension of a vendor collection regime supported by a simplified compliance regime for non-resident suppliers and digital platforms is important for both tax (and customs) authorities and non-resident suppliers and digital platforms. A lead-time of 6-12 months between adoption of the reform and entry into force is considered appropriate for the implementation of such a regime for supplies of services and intangibles. A lead-time of 12-18 months is generally considered appropriate for its extension to low-value imported goods.
  - **Consultation**. From the policy development phase onwards, tax policymakers and administrators may greatly benefit from consulting with the businesses that are likely to be affected by the reform, with international and regional multilateral organisations such as OECD, WBG and ATAF, and with jurisdictions that have experience in the implementation and administration of the recommended policy framework.
- **Design, implementation and administration of a simplified VAT compliance regime**. Simplified VAT registration and collection should enhance and facilitate compliance for non-resident suppliers and digital platforms under a vendor collection regime by limiting the information that these businesses must provide to what is strictly necessary for the effective collection of the tax and reducing administrative burdens to a necessary minimum. This typically includes the following considerations:
  - **Online registration and compliance portal**. It is recommended that online registration and compliance be made available for non-resident suppliers and digital platforms under a simplified compliance regime.
  - **Simplified VAT registration**. It is recommended to limit the information required for registration under a simplified compliance regime to what is functionally necessary to ensure the proper collection of the VAT from non-resident suppliers and digital platforms. Tax authorities should seek to eliminate operational, security and fraud risks as far as possible when designing the registration process.

- **Registration threshold for non-resident suppliers**. The possible application of a revenue-based registration threshold for non-resident suppliers and digital platforms deserves careful consideration. Relieving non-resident suppliers or digital platforms of the obligation to register in a jurisdiction where they only make or facilitate minimal sales can be beneficial to both suppliers and tax authorities, as it reduces the risk of disproportionate compliance costs for relatively small businesses and the risk of potentially significant administrative burdens for a tax authority of having to administer large numbers of suppliers that are likely to generate relatively limited VAT revenues.
- **Invoicing requirements**. Jurisdictions are encouraged to consider eliminating invoicing requirements for B2C supplies of services and intangibles under a simplified compliance regime for non-resident suppliers and digital platforms. In the case of imports of low-value goods, there are reasons why a jurisdiction may wish to continue imposing a requirement on suppliers to issue some form of invoice, notably to support the refunding of incorrectly collected VAT, though not necessarily a full VAT invoice. Where jurisdictions require invoicing, the Toolkit encourages them to take a pragmatic approach to provide flexibility, for instance as regards format, content and/or language.
- **VAT returns**. It is recommended that jurisdictions allow non-resident suppliers and digital platforms to file simplified VAT returns under a simplified compliance regime. These will generally require less information and supporting evidence than what would normally be required for a standard VAT return.
- **Record-keeping**. Non-resident suppliers and digital platforms should keep reliable and verifiable records of the supplies they make or facilitate to customers in the taxing jurisdiction, preferably in an electronic format. Tax authorities are encouraged to limit the transactional data that suppliers and platforms must record to what is necessary to ensure that VAT has been charged and accounted for correctly on each supply.
- **Input VAT recovery**. It is reasonable for a jurisdiction to operate a simplified compliance regime as a “pay-only” regime, i.e. limiting the scope of the regime only to the collection of VAT without making the recovery of input VAT available to the non-resident supplier or digital platform. Such an approach may ensure a proper balance between simplification and the needs of tax authorities to safeguard revenue. Input VAT recovery could remain available for non-resident suppliers and digital platforms under the jurisdiction’s normal VAT refund procedure or under the standard VAT registration regime. It is desirable that non-resident suppliers and digital platforms have the option of registering and claiming input VAT credits on expenditure that they incur in the jurisdiction of consumption. Such non-resident suppliers and platforms will do so based on an assessment of whether the level of input VAT recovery at stake outweighs the potentially much greater administrative burden that comes from registration, accounting and payment obligations under the standard VAT regime in comparison to a simplified VAT compliance regime.
- **Foreign currency conversion**. Tax authorities should communicate how non-resident suppliers and digital platforms should convert the value of their sales for determining their VAT liability, for VAT reporting and for payment of the VAT due, in cases where supplies are made in a currency that is different from the currency in which VAT must be paid to the tax authorities in the jurisdiction of taxation.
- **Settlement of VAT due**. The use of electronic payment methods is recommended to facilitate the payment process and reduce associated costs and risks for non-resident suppliers and digital platforms and for tax authorities under a simplified compliance regime.
- **Tax agents**. Compliance for non-resident suppliers and digital platforms could be further facilitated by allowing these businesses to appoint a third-party service provider to act on their behalf in carrying out certain procedures, such as submitting returns. It is not

recommended, however, that jurisdictions require the appointment of a local fiscal representative under a simplified compliance regime.

- **Intermediaries other than digital platforms**. Although not recommended as the primary collection mechanism, jurisdictions could consider a financial intermediary-led VAT withholding mechanism as a backstop solution in cases of persistent non-compliance, whereby the VAT due is withheld from payments to non-compliant non-resident suppliers and digital platforms. This can also act as a disincentive to non-compliance. Some jurisdictions foresee obligations for "redeliverers" of low-value imported goods as a fall-back measure under certain circumstances.
- **Minimising risks of double taxation and unintended non-taxation of imports of low-value goods**. The role of timely and correct information is critical for tax and customs authorities' processes to minimise risks of double taxation, and of under-taxation and unintended non-taxation, under a simplified compliance regime for imports of low-value goods. The early involvement of customs authorities in the design and implementation of the information collection and data sharing arrangements that are necessary to meet these information needs is particularly important, as well as the timely consultation with other key stakeholders such as postal operators and express carriers.

- **Operational and IT infrastructure for a simplified VAT compliance regime**. When designing, implementing and administering the operational and IT infrastructure to support a simplified VAT compliance regime, the following aspects must normally be considered:
  - **Core functionalities of the online portal for a simplified compliance regime**. The online portal for a simplified VAT compliance regime for non-resident suppliers should at a minimum include the following functionalities:
    - Simplified registration by non-resident suppliers and digital platforms;
    - Filing of VAT returns through secure online forms and facility for the secure uploading of supporting information;
    - Payment of VAT due via the online portal or a robust process for managing external payments;
    - Updating and amending registrants' key registration and account details.
  - **Additional elements to consider in the development and the operation of an effective and secure online portal:**
    - Using secure channels for hosting the online portal and facilitating communications;
    - Configuring the portal to enable all activity and functions also in English and in the languages of the jurisdiction's main trading partners;
    - Facilitating the use of Application Programming Interfaces (APIs), which enable the direct and automatic communication between the supplier's accounting and record-keeping system and the tax authority's systems to support compliance under the simplified compliance regime (e.g. to calculate VAT liability);
    - Data storage capacity to permit file uploads and storage;
    - Integration of payment service providers' "payment gateways" into the online portal to support card or e-wallet payments;
    - Early and regular consultation with the business community to improve the portal's user-friendliness.

    Integrating the IT systems for a simplified compliance regime with tax authorities' existing IT systems. There are considerable advantages to integrating the online portal for a simplified compliance regime, wherever possible, with the tax authority's existing IT systems. However, in practice this may prove challenging due to differences in information requirements and software compatibility.

- **Tax authorities will normally have a number of options to choose from when deciding on the approach for the development of the online portal for the simplified VAT compliance regime for non-resident suppliers**. These broadly include: constructing the online portal using in-house IT expertise; outsourcing the project; or selecting a commercial off-the-shelf (COTS) solution. The decision will ultimately depend on a range of circumstances, including the functionality of the tax authority's existing IT system, the capability of in-house IT staff, the time available for the implementation of the system, and the funding available.

Guide to Section 5

The policy framework for the application of VAT to digital trade presented in this Toolkit sets out recommended approaches for jurisdictions to assert the right to impose VAT on online sales made by non-resident suppliers to customers in their jurisdiction. It presents recommended rules and mechanisms for imposing VAT collection obligations on non-resident suppliers making online supplies and on the digital platforms that facilitate these supplies by implementing a full VAT liability regime for such platforms. It advises jurisdictions to optimise levels of compliance by providing these non-resident suppliers and digital platforms access to a simplified VAT registration and collection regime to fulfil their obligations. These recommendations are set out in detail in Sections 2 and 3 of this Toolkit, first with regard to online sales of services and intangibles and subsequently with regard to online sales of low-value imported goods. Section 5 of the Toolkit provides guidance on the administrative and operational implementation of this recommended policy framework. It provides guidance on:

- Project management and on key aspects of the administrative implementation of the recommended policy approaches;
- Design and implementation of the administrative requirements for a simplified VAT registration and collection regime (which is a core element of the recommended policy framework, see subsections 2.2 and 3.2);
- The development of the operational and IT infrastructure to support the operation of a simplified VAT compliance regime for non-resident suppliers and digital platforms (particularly the online portal).

5.1. Roadmap for successful administrative and operational implementation

Guide to subsection 5.1.

5.1.1. Robust project governance and management

Guide to subsection 5.1.1.

Implementing the recommended policy framework for VAT collection on digital trade is a significant undertaking that requires robust project governance and project management, based on a detailed and realistic planning of the approach for undertaking all the main elements of policy design and implementation ("roadmap"). Recommendations for the establishment of a robust project governance and management framework are outlined in Box 5.1. It is also recommended that the simplified registration and collection regime for non-resident suppliers and digital platforms be developed in conjunction with, rather than after or in isolation from, the design and enactment of key legislation. When taking policy decisions, jurisdictions should always consider the administrative and operational feasibility and effects of these decisions.

Box 5.1. Overview of main recommendations for project governance and management

- Define the scope of a project plan to implement the recommended policy framework for VAT collection on international supplies of services and intangibles or of low-value imported goods.
  - Identify deliverables, approximate costs and establish an appropriate implementation lead-time for tax authorities and businesses to implement changes to systems and supporting frameworks.
  - A lead-time of 6-12 months between the government adoption of the VAT reform to introduce a vendor collection regime supported by simplified compliance processes and its entry into force is considered appropriate for reform directed at online sales of services and intangibles. A lead-time of 12-18 months is generally considered appropriate for its extension to supplies of low-value imported goods. Close alignment with the OECD recommended policy framework can considerably shorten these lead-times, as online businesses and tax authorities can leverage solutions and technology that has already been implemented in jurisdictions that have adopted a similar approach.
- Establish a project team with clear responsibilities to manage and deliver:
  - The design, building and testing of a simplified registration, reporting and payment portal;
  - The development of law and guidance;
  - The development and delivery of an effective communications strategy;
  - An effective risk and compliance management strategy;
  - Changes required to existing processes.

5.1.1.1. Establishing a project management structure for the implementation of the recommended policy framework

A jurisdiction that wishes to implement the recommended reform to levy VAT on services and intangibles or on low-value imported goods that consumers purchase via the Internet from suppliers abroad, should consider establishing an appropriate management structure to oversee the reform project, including the development of a simplified compliance regime to support compliance by non-resident suppliers and digital platforms with their obligation to remit the VAT on these supplies to the tax authorities. For reform targeted at low-value imported goods, the appropriate collaboration between tax authorities and customs authorities is of critical importance.

Such a structure should clearly establish a governance framework, project scope and a project lead as early as possible. The project lead must be able to call on a team with direct responsibility for managing the project's implementation. The project team may include representatives of other government agencies. Establishing the project management structure and approach should preferably commence during the policy development phase, prior to the adoption of the reform. The project lead should be responsible for reporting on implementation issues to the tax authorities' senior officers as well as to a wider group of government officials.

For the implementation of the recommended policy framework targeted at supplies of low-value imported goods by non-resident suppliers, the participation of customs officials in the project team should be ensured and the project plan should foresee close co-operation between tax and customs authorities. The involvement of customs authorities should start at an early stage of the policy, legislation and administrative and operational design process. These authorities have a critical role to play in the clearance of imports, a role that includes checking for evidence of whether non-resident suppliers or digital platforms have accounted for VAT on imports of low-value goods under the recommended vendor collection regime. This role becomes even more important where jurisdictions use traditional VAT collection methods for imports of low-value goods in the absence of proof that the non-resident supplier or digital platform has collected the VAT at the point of sale under the recommended vendor collection regime.

The creation of a detailed project plan should include the design and delivery of the following components:

- **Policy, legislation and taxpayer guidance**: This envisions a policy framework that makes non-resident suppliers and digital platforms liable for the VAT on supplies of services and intangibles or of low-value imported goods to customers in the jurisdiction of taxation. This is generally described as a “vendor collection regime” for non-resident suppliers, with a full VAT liability regime for the digital platforms that facilitate such supplies of services and intangibles or low-value imported goods to customers in the jurisdiction of taxation. This framework should include a simplified compliance regime that facilitates compliance for non-resident suppliers and digital platforms with their VAT obligations under the vendor collection regime in the jurisdiction of taxation. VAT legislation and supporting regulations should clearly set out the registration process and compliance requirements. Further elements include the provision of clear and easily accessible (online) guidance on the operation of the regime, the implementation of processes to manage technical enquiries, the management of disputes and the possible granting of concessions relating to the application of penalties during a transitional phase following the entry into force of the regime.
- **Simplified registration, reporting and payment portal**: This means the development of a separate business case for the development of the digital portal, detailed technical design plans, development costs, and construction, testing and deployment schedules. See subsection 5.3 for further details.
- **Communications strategy**: This contemplates effective strategies and material to communicate with non-resident businesses that are likely to be in scope of the reform, including platforms, intermediaries and other stakeholders such as consumers and domestic businesses. It also includes help-channels and statements of compliance expectations (see subsection 6.4 for more details; see also subsections 5.1.3 and 5.1.4 on consultation).
- **Risk and compliance**: This embraces analysis and modelling to identify businesses that are potentially in scope of the vendor collection regime, strategies and processes to address non-compliance through audits and other actions, and communication of these procedures so that non-resident suppliers and digital platforms understand the consequences of non-compliance. See Section 6 for further details.
- **Changes required to existing processes**: This includes plans to update and change existing administrative and customs processes and systems relating to account management, such as processing of returns and payments, application of penalties, debt management and other procedures, where appropriate.
- **Human resource considerations**: Related to changes to existing administration, including customs, processes, these considerations include determining the optimal organisation and deployment of staff following implementation of the recommended policy framework. Certain staff may have greater capacity to take on new responsibilities because of efficiencies that the policy framework generates.

Figure 5.1 at the end of this subsection provides an indicative high-level project implementation timeline for all stakeholders, which illustrates how the project elements described above can be concurrently implemented. By way of reminder, subsection 5.1.5 below further provides an overview of the core policy design aspects that will need to be considered from the outset when implementing a vendor collection regime for non-resident suppliers and digital platforms and the core decisions that will need to be taken during the policy design phase. It includes cross-references to the detailed guidance that this Toolkit provides on each of these aspects.

IT systems changes and development. Tax authorities may already have established protocols and project management methodologies to govern the implementation of new tax measures and related IT systems changes. However, the process of developing a simplified compliance regime for non-resident suppliers and digital platforms may present new challenges given the international nature of such a regime, particularly in respect of the creation of a new online registration and compliance portal. For jurisdictions seeking additional guidance regarding management of digital government projects, the OECD Digital Government Toolkit website [65] outlines key principles and best practice examples to support the development and implementation of digital government strategies. The Observatory of Public Sector Innovation website[66] similarly provides access via its “Toolkit Navigator” to toolkits and useful guidance on a wider range of subjects in the fields of public sector innovation and transformation, including on “Digital and Technology Transformation”.

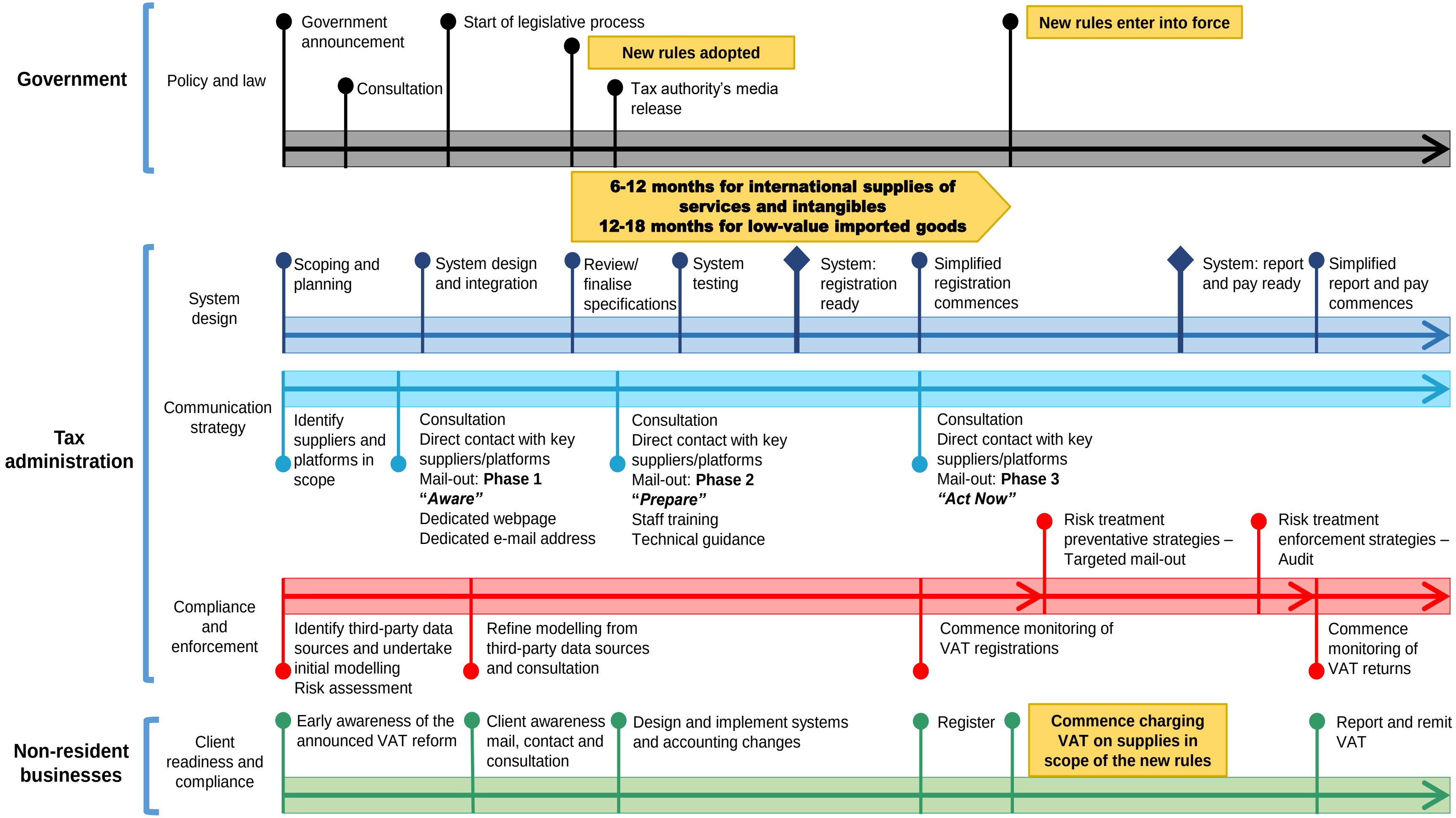
Critically, an assessment of IT requirements to deliver a simplified compliance regime is needed at a very early stage in order to identify:

- Whether an entirely new system, modification to existing systems, or outsourcing is the best approach for delivering a functional registration, reporting and payment system for non-resident suppliers;
- The timeframe required to design, test and deploy the necessary changes, noting that this will determine the entry into force of obligations for non-resident suppliers and digital platforms under a simplified compliance regime;
- The funding required to undertake necessary information technology changes.

This Toolkit provides more specific guidance on sound project governance and management for the development of the IT infrastructure for a simplified registration and collection regime in subsection 5.3.1.

[65] OECD Digital Government Toolkit, https://www.oecd.org/governance/digital-government/toolkit/
[66] OECD Observatory of Public Sector Innovation (OPSI), Toolkit Navigator, https://oecd-opsi.org/toolkit-navigator/

Figure 5.1. Indicative project implementation timeline



Source: OECD analysis.

5.1.1.2. Sequencing reform: Focus on services and intangibles before extension to goods

> Jurisdictions that have implemented the recommended policy framework for the collection of VAT on international digital trade have done so in a sequenced manner.

First, they introduced the recommended vendor collection regime for the collection of VAT on internationally supplied services and intangibles (including digital services and digital products) from non-resident suppliers and digital platforms. This included the implementation of a simplified compliance regime to facilitate compliance for non-resident suppliers and digital platforms. Several of those jurisdictions have subsequently, in a second step, extended (or are planning to extend) the scope of that vendor collection regime and of the simplified compliance regime to supplies of low-value imported goods. These jurisdictions include Australia, the 27 EU Member States, New Zealand, Norway, Singapore and the United Kingdom.

VAT reform for imports of goods from online sales is more complex, particularly due to the connection with customs processes, and therefore requires more lead-time. In a sequenced reform, the implementation for imports of goods can largely benefit from the experience gained in the area of services and intangibles. Jurisdictions that have, as a first step, implemented a simplified compliance regime for supplies of services and intangibles by non-resident suppliers, as recommended by this Toolkit, will be able to use most of the same administration and operational infrastructure to implement the policy framework for low-value imported goods. This includes “back-end” IT infrastructure such as registration, returns and reporting, and payments systems, as well as “front-end” infrastructure such as online registration and tax account management portals for suppliers. Harmonising administration and operations in this way may produce significant costs savings. When a jurisdiction decides to adopt such a sequenced approach, it should therefore ensure from the outset that the administrative and operational infrastructure it builds to support its VAT reform targeted at international supplies of services and intangibles is adaptable and scalable for VAT collection under a vendor collection regime for low-value imported goods, and perhaps even in areas beyond that.

5.1.1.3. Realistic timeframes for implementation

> Ensuring that an appropriate lead-time is available for the introduction of a vendor collection regime for non-resident suppliers and digital platforms, and for the possible extension of its scope (e.g. to supplies of low-value imported goods), is important for tax (and customs) authorities as well as for the affected businesses. A lead-time of 6-12 months between the government adoption of the reform and its entry into force is considered appropriate for the introduction of a vendor collection regime for international supplies of services and intangibles. A lead-time of 12-18 months is generally considered appropriate for its extension to supplies of low-value imported goods.

Close alignment with the OECD recommended policy framework can considerably shorten these lead-times, as online businesses and tax authorities can then leverage solutions and technology that have already been implemented in jurisdictions that have adopted a similar approach. A longer period may be necessary, on the other hand, if tax authorities are not able to publish guidance on how they will practically administer the new measures at the time of their adoption.

Tax authorities, and customs authorities in case of reform targeted at low-value imported goods, will need an appropriate lead-time not only to design, build and implement the necessary administrative processes and supporting infrastructure but also to ensure the proper and comprehensive communication of the new compliance obligations and the underlying compliance processes to non-resident suppliers, digital platforms and other stakeholders such as postal services and express couriers.

Non-resident suppliers and digital platforms require an appropriate lead-time to prepare their compliance systems and commercial processes. They will typically need detailed information on the IT requirements and specifications for compliance under the new regime. This should allow these businesses (and developers of tax compliance systems) to adjust their compliance systems and commercial processes to the compliance requirements of the new regime and to test them to ensure their timely and correct operation at the date of entry into force. Digital platforms will need to communicate the changes to their underlying suppliers so that all participants in the supply chain understand their obligations in supporting compliance by the platform. In respect of low-value imported goods, this will notably help to ensure that processes are adjusted to allow customs authorities to properly identify the "VAT-paid" status of low-value goods at the time of their importation and thus enhance the customs clearance process of these goods. Suppliers and transporters, such as express carriers and postal authorities, may all need to amend their customs reporting procedures to allow customs authorities to identify consignments on which suppliers or digital platforms have already collected VAT at the point of sale under the vendor collection regime, as this will be vital to facilitating fast-track clearance of consignments and to prevent double taxation.

Some jurisdictions have adopted a vendor collection regime for B2C supplies of services and intangibles by non-resident suppliers but without a simplified compliance regime. In subsequently seeking to build a simplified compliance regime to facilitate higher compliance levels, these jurisdictions are advised to recognise the importance of an appropriate transition period that non-resident suppliers and digital platforms will need in order to adjust their business and compliance systems.

The importance of realistic timeframes for implementation, particularly for low-value imported goods, is evidenced by the fact that every jurisdiction that has thus far adopted a vendor collection regime for low-value imported goods has had to delay its implementation or to introduce special transitional provisions. Such transitional provisions have been aimed at reducing negative effects for businesses where they have insufficient time or guidance to adapt their pre-existing long-term contracts and their business systems and processes, or to secure funding and resources to design, test, and implement the necessary changes to their compliance systems. By way of illustration, examples of jurisdictions that have had to delay the implementation of a vendor collection regime for low-value imported goods or that have implemented transitional provisions include:

- Australia: Start date moved from 1 July 2017 to 1 July 2018;
- New Zealand: Start date moved from 1 October 2019 to 1 December 2019;
- Norway: Start date of 1 April 2020, with recognition that the short time between enactment and commencement of the relevant laws necessitated transitional provisions;
- European Union: Start date moved from 1 January 2021 to 1 July 2021.
- Nigeria: Start date moved from 1 January 2021 to 1 January 2024.

5.1.1.4. Assuring sufficient funding and adequate resources

Early on in the policy development and decision-making process, a reliable and realistic estimation is required of the resource needs for the implementation of the new regime. The necessary funding must be ensured for the design and implementation of the new regime and for its future operation. In assessing these funding needs, a wide range of aspects will need to be considered, including any requirements for the design and adoption of new IT solutions and their integration in the tax authority's existing IT systems; the need for changes to administrative tasks and processes; the need for a communication strategy to ensure that the affected non-resident businesses are properly informed of the VAT obligations under the new regime; the design and delivery of technical guidance and advice; and the implementation of an adjusted risk management and compliance strategy.

The operation and administration of a vendor collection regime and a simplified compliance regime will require not only technical resources but also sufficiently skilled and trained staff. In particular, tax authorities with limited experience in dealing with non-resident taxpayers may have to plan for the creation or development of the necessary human resource capacity, ensuring that the necessary time and funding are available to build this capacity. Language skills, experience in engaging with foreign taxpayers, understanding of digital business models as well as knowledge of and experience with administrative co-operation are some examples of desirable competences. In the initial post-implementation period at least, a tax authority could consider establishing a dedicated contact point for businesses that may be affected by the reform, notably to provide information and to assist in addressing questions and compliance issues that may arise during the early phase of implementation.

5.1.1.5. Forecasting and measuring VAT registration and revenue results

A jurisdiction will normally wish to estimate the potential VAT revenue that it can expect to generate from the introduction of a vendor collection regime for non-resident suppliers and digital platforms. Subsection 6.5.5 of this Toolkit identifies potential data sources for this purpose. By way of example, Box 5.2 describes the approach taken by New Zealand to estimate the GST revenue potential of its vendor collection regime for low-value imported goods.

Box 5.2. Jurisdiction example: New Zealand's fiscal impact estimates

New Zealand modelled the fiscal impact estimates for its GST vendor collection regime for supplies of low-value imported goods using retail banking data for the 2017/18 fiscal year, supplied by Datamine[1]. Online transactions were identified using a range of methods, including by identifying whether a credit card was used for a transaction and isolating transactions with known e-commerce only retailers. To exclude services and intangibles and other items that are out of scope of the regime, only transactions with merchant category codes clearly related to goods were included for revenue estimation purposes.

Note:
1. Datamine is a commercial data and analytics consultancy and product developer.
Source: OECD research.

5.1.1.6. Evaluation of the reform and implementation results

Tax authorities should consider how they will measure the results of the implementation of their vendor collection regime for supplies of services and intangibles or low-value imported goods by non-resident businesses.

This includes close monitoring of the number of registrants and revenue outcomes, and an assessment of the effectiveness of the tax authority's communication with non-resident suppliers and digital platforms in ensuring that an appropriate level of compliance is reached (incl. evaluating whether the rules and supporting guidance are sufficiently clear and fit for purpose; whether there is a need for clarification or fine-tuning of certain requirements; etc.). The publication of regular updates on the performance of the regime may notably provide assurance to compliant non-resident suppliers and digital platforms that the new regime is achieving the intended outcomes and that the tax authority works to maximise compliance levels so as to ensure an even playing field among non-resident suppliers and digital platforms. Domestic businesses and consumers may also have an interest in the effectiveness of the reform.

Measuring compliance levels and revenues can be more challenging where a jurisdiction provides the possibility to non-resident suppliers and digital platforms to choose between a standard registration regime and a simplified compliance regime to comply with their VAT obligations under a vendor collection regime. Two sources of data will then have to be consulted to evaluate the registration and revenue results. Whilst it will be easy to identify and analyse non-resident businesses using a simplified compliance regime, the data for entities that have registered under the standard VAT regime will need to be further analysed to distinguish between supplies of services and intangibles or low-value imported goods that were within the scope of the simplified compliance regime and any other types of supplies that these businesses have made.

Similarly, where a jurisdiction applies a simplified compliance regime to supplies of services and intangibles as well as to low-value imported goods, it is advisable to ensure early on that filing data can be segregated between both types of supplies. This will facilitate the monitoring of compliance levels later on. In Australia, for instance, non-resident businesses are asked in the online registration process to indicate which type of supplies they make. In the European Union, the VAT return under the simplified compliance regime contains separate data fields for services and low-value imported goods. In jurisdictions where it has not been possible to establish such separation of data, it may be possible to construct a representation of the volume and composition of such supplies through analysis of supplies via the record-keeping obligations that apply to vendors. For example, Ghana, Kenya, Nigeria and South Africa impose record-keeping obligations that could serve as a basis in future for distinguishing between supplies of services and intangibles, on the one hand, and low-value imported goods, on the other hand.

Box 5.3. Jurisdiction example: Estimating revenue results from the reform of VAT collection on digital trade in Australia

Australia calculates its revenue results and publishes these on a periodic basis[1] using a combination of two methods:

- For the non-resident suppliers and digital platforms registered under its simplified registration and compliance regime, the Australian tax administration uses the liability amount reported on the simplified GST return. This liability is attributed respectively to the regime targeted at services and intangibles or to the regime targeted at low-value imported goods on the basis of the supply type indicator selected by the non-resident at time of registration. If an entity has nominated that it is making supplies of both, then an apportionment method is used to allocate the GST liability reported by this entity (based on analysis or intelligence data).
- For standard GST registrants, the Australian tax administration uses "Net GST liability" from these registrants' GST return (Business Activity Statement). If an entity was registered before the new regime entered into effect, the previous Net GST liability is taken into account to estimate its GST cross-border liability. The tax administration uses internal intelligence data to determine this population.

Note:
1. Australia's GST administration annual performance report is available at https://www.ato.gov.au/About-ATO/Commitments-and-reporting/In-detail/GST-administration/GST-administration-annual-performance-report-2020-21/
Source: OECD research.

5.1.2. Adhering to principles of good tax policymaking and administration

The *Ottawa Taxation Framework Conditions* provide an overarching set of principles that aim to guide jurisdictions on how they should design regimes for the taxation of international trade, especially for digital trade (OECD, 2001[66]). These Framework Conditions set out the fundamental principles for carrying out tax reform, including reform to implement the policy framework for VAT collection on international digital trade that is recommended in this Toolkit.

Box 5.4. The Ottawa Taxation Framework Conditions – Principles

Neutrality

Taxation should seek to be neutral and equitable between forms of electronic commerce and between conventional and electronic forms of commerce. Business decisions should be motivated by economic rather than tax considerations. Taxpayers in similar situations carrying out similar transactions should be subject to similar levels of taxation.

Efficiency

Compliance costs for taxpayers and administrative costs for the tax authorities should be minimised as far as possible.

Certainty and simplicity

The tax rules should be clear and simple to understand so that taxpayers can anticipate the tax consequences in advance of a transaction, including knowing when, where and how the tax is to be accounted for.

Effectiveness and fairness

Taxation should produce the right amount of tax at the right time. The potential for tax evasion and avoidance should be minimised while keeping counter-acting measures proportionate to the risks involved.

Flexibility

The systems for taxation should be flexible and dynamic to ensure that they keep pace with technological and commercial developments.

Source: OECD (2001), *Taxation and Electronic Commerce: Implementing the Ottawa Taxation Framework Conditions* (OECD, 2001[66]).

In addition, the Forum on Strategic Management approved the following General Administrative Principles in 2001. This guidance is useful to consider when implementing the recommended policy framework for VAT on international digital trade at an administrative and operational level, notably in engaging with businesses.

Box 5.5. Relations with taxpayers

Revenue authorities are encouraged to:

- Apply tax laws in a fair, reliable and transparent manner;
- Outline and communicate to taxpayers their rights and obligations as well as the available complaint procedures and redress mechanisms;
- Consistently deliver quality information and treat inquiries, requests and appeals from taxpayers in an accurate and timely fashion;
- Provide an accessible and dependable information service on taxpayers' rights and obligations with respect to the law;
- Ensure that compliance costs are kept at the minimum level necessary to achieve compliance with the tax laws;
- Where appropriate, give taxpayers opportunities to comment on changes to administrative policies and procedures;
- Use taxpayer information only to the extent permitted by law;
- Develop and maintain good working relationships with client groups and the wider community.

Source: OECD (2001), *General Administrative Principles* (OECD, 2001[67]).

5.1.3. Consultation with businesses

From the policy development phase onwards, tax policymakers and administrators can considerably benefit from regular consultations with the businesses that are likely to be affected by the reform.

Early engagement with the business community on the future reform will facilitate subsequent rounds of consultation and dialogue with the businesses that will be affected by the reform. Key stakeholders and representatives to consider in organising these business consultations include: the "Business at OECD" advisory group,[67] non-resident suppliers, digital platforms, accounting and legal professionals, VAT compliance technology developers and VAT compliance service providers, transporters and customs brokers, and international and national industry representatives including jurisdictions' domestic chambers of commerce and business federations. Such consultation has proven to be effective in enhancing the effectiveness of policies, legislation and administrative and technical design by identifying opportunities and constraints in relation to businesses' practices, resources and capacities. Businesses that are subject to a jurisdiction's simplified compliance regime will generally be subject to similar regimes in other jurisdictions. They will thus often be able to share their experiences with design features of existing regimes that are easy to comply with and that have already achieved high compliance levels.

Best practice implementation has seen tax authorities engage with businesses to develop detailed technical guidance notes explaining how tax authorities will administer the policy framework and the legislation that implements it along with the obligations it creates for businesses, including examples of good practices as well as details of any safeguards for businesses acting in good faith. Examples of this

[67] "Business at OECD" is an international business network with a global membership. Through its 55 national federations and 45 associate expert groups networks, Business at OECD currently works with over 7 million companies of all sizes in virtually all industries and sectors. This network conveys business perspectives and expertise to policymakers, at the OECD and beyond, on a broad range of economic, policy and regulatory matters, including VAT.

guidance include the notes published by jurisdictions like: Australia, New Zealand, Norway and the European Union.[68] South Africa has published an informative set of frequently asked questions for those making supplies of 'electronic services' which was drafted "to assist foreign electronic services suppliers, intermediaries, vendors and the public at large to obtain clarity and to ensure consistency on certain practical and technical aspects relating to the Updated Regulations and amendments [to the law]".[69] Kenya has a simple guide setting out how a non-resident supplier should record and remit VAT on supplies of digital services and products.[70] Nigeria has technical legal guidelines suitable for tax professionals setting out the expectations of 'non-resident suppliers (NRS)', their obligations, and the basis thereof.[71]

Tax authorities are advised to make all or, at the least, the essential parts of this guidance material accessible to non-resident suppliers in one or more global languages, and in English in particular as this is the standard language used by developers of the VAT compliance technology that is generally used by businesses to comply with their obligations under vendor collection regimes worldwide. Business consultation has proven to be helpful in fine-tuning design elements of the simplified compliance regimes to improve the compliance process where appropriate. These adjustments have encompassed adjustments to registration, reporting and payment systems, taking account of national VAT design and circumstances.

It is also important to recognise and take account of the lead-time that businesses generally require to update their business and compliance systems and internal processes to comply with new VAT collection obligations. In the case of digital platforms that are subject to full VAT liability, this includes the process changes necessary to take on the VAT obligations for the platforms' underlying non-resident suppliers. The majority of large international businesses can be expected, and have in practice been found, to engage directly with the tax authorities in the jurisdictions that have implemented a vendor collection regime, to ensure their timely compliance with their VAT obligation under this regime. However, their governance procedures, the available funding and resources for implementing the necessary systems and process changes may place limitations on how rapidly they can begin complying in practice.

The general announcement of new obligations as such often will not provide sufficient certainty or detail for businesses to implement the necessary changes to their business and VAT compliance systems. Jurisdictions may sometimes substantially amend policies and administrative procedures during the design

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[68] See the following guidance that the EU has produced to support businesses in complying with its regimes for non-resident businesses to register for and collect VAT on sales to customers located in the EU:

- European Commission (2020), *Explanatory notes on VAT e-commerce rules*, https://ec.europa.eu/taxation_customs/system/files/2020-12/vatecommerceexplanatory_28102020_en.pdf
- European Commission (2021), *Guide to the VAT One Stop Shop*, https://ec.europa.eu/taxation_customs/system/files/2021-03/oss_guidelines_en_0.pdf
- European Commission (2020), *Importation and exportation of low value consignments – VAT E-Commerce Package: "Guidance for MSs and Trade"*, https://ec.europa.eu/taxation_customs/system/files/2020-12/guidance_on_import_and_export_of_low_value_consignments_final.pdf
- Further information and guidance are accessible on the information portal of the European Commission: European Commission (N.D.), *Modernising VAT for cross-border e-commerce*, https://vat-one-stop-shop.ec.europa.eu/index_en

[69] South African Revenue Service (2019), *Legal Counsel: Value-Added Tax – Frequently Asked Questions: Supplies of Electronic Services* [3rd issue], https://www.sars.gov.za/wp-content/uploads/Ops/Guides/LAPD-VAT-G16-VAT-FAQs-Supplies-of-electronic-services.pdf

[70] Kenya Revenue Authority (N.D.), *User Guide on Filing and Payment of VAT on Digital Market Supply for Non-residents*, https://kra.go.ke/images/publications/USER-GUIDE-FOR-PAYMENT-AND-FILING-OF-THE-SIMPLIFIED-RETURN-FOR-VAT-ON-DIGITAL-MARKETPLACE-SUPPLY-1-converted.pdf

[71] See Nigerian FIRS (2021), *Guidelines on Simplified Compliance Regime for Value Added Tax (VAT) for Non-Resident Suppliers, No. 2021/19*, https://www.firs.gov.ng/wp-content/uploads/2021/10/Guidelines-on-Simplified-Compliance-Regime-of-VAT-for-Non-Resident-Suppliers-15102021.pdf

phase, which may have a significant impact on businesses' compliance systems design. Most businesses will therefore wait until the formal and final adoption of the new regime and the associated compliance obligations, before authorising investments in major systems changes to comply with the new rules. Jurisdictions must therefore provide appropriate lead-time between the date that new measures are enacted into law and the date they come into force (see subsection 5.1.1.3). This is critical to securing a high level of compliance from the start. The lead-time necessary for businesses to prepare for compliance will most probably also reflect the lead-time needed by the tax (and customs) authorities to implement the necessary changes to their internal systems and procedures. A reasonable lead-time will finally also allow the appropriate communication and consultation with the affected non-resident businesses as these changes are designed and implemented.

Specifically for the implementation of a vendor collection regime for low-value imported goods, experience suggests that businesses (and their associations) involved in the supply chain logistics for internationally traded goods will provide excellent advice and feedback on best practices for design and operation of such a regime. These businesses and their national and international associations, including transporters, cargo and postal service providers as well as payment processing businesses and digital platforms, generally have a global focus that gives them exposure to vendor collection regimes that jurisdictions have already implemented to collect the VAT on low-value imported goods from non-resident suppliers and digital platforms.

5.1.4. Consultation with international bodies

International and regional multilateral organisations, including the Organisation for Economic Co-operation and Development (OECD), World Bank Group (WBG), International Monetary Fund (IMF) and the African Tax Administration Forum (ATAF), can play an important role in assisting jurisdictions' reform for the collection of VAT on international digital trade.

These organisations have longstanding experience in supporting reform, for instance, through guidance, technical assistance and facilitation of communication with key stakeholders such as businesses and other jurisdictions. It is beneficial to consult and co-operate with jurisdictions that have successfully implemented reform to learn from their experience on both implementation and ongoing administration. Consultation is also critical to improve consistency in approaches.

For African jurisdictions, ATAF fulfils an important role. Its mission is to improve tax systems in Africa through exchanges, knowledge dissemination, capacity development and active contribution to the regional and global tax agenda. Through this it aims to improve tax systems and thus increase the accountability of states to their citizens, while enhancing domestic resource mobilisation and thus fostering inclusive economic growth.

ATAF endeavours to achieve several key objectives, including to:

- Improve the capacity of African tax administrations to achieve their revenue objectives.
- Advance the role of taxation in African governance and state building.
- Produce and disseminate knowledge on tax matters to inform policy and formulation of legislation, as well as foster transparency and accountability, and improved revenue collection.
- Provide a voice for African countries on regional and global platforms and influence the international tax debate.
- Develop and support partnerships between African countries and development partners.

ATAF's strategic objectives for 2021 to 2025 include: enhancing the capacity of current and future tax officials; technical assistance to jurisdictions; the provision of data and knowledge concerning African tax matters; and being a voice in the taxation sphere that informs and influences African and global policy.

ATAF has notably provided technical assistance to jurisdictions through at least 20 country programmes, especially on cross-border taxation.

The partnership with OECD and WBG for the development of this Toolkit is a key initiative for ATAF in pursuing an effective African response to the tax challenges of digitalisation.

The World Bank Group (WBG) strives to support African countries to achieve the Sustainable Development Goals (SDGs) through enhanced domestic revenue mobilisation (DRM). To achieve this goal, WBG is following a strategy aimed to provide countries with a stable, predictable and sustainable fiscal environment, and promote fairness, equity and inclusive growth to build trust. This strategy rests upon three main pillars:

- An integrated policy and administration approach on the design of tax reform support operations at the country level.
- Cutting-edge research and tools for better informed policy decisions.
- Partnership for scaled-up country work and global presence through international collaboration and co-ordination.

The development of this Toolkit is an example of the activities delivered under the latter pillar. Broadly, supporting the digital transformation of tax systems across countries is a priority for WBG. Analytic work and lending operations include digital-related components of tax reforms in 66 countries across regions, particularly focused in those from the Sub-Saharan African region.

5.1.5. Critical decisions and actions during the policy design phase

5.1.5.1. General considerations

Tax policymakers and administrators will make many key decisions at the policy design stage, which will affect the effectiveness and efficiency of a simplified compliance regime. All relevant parties to the development of a simplified compliance regime should collaborate from the outset in working through key decisions affecting the scope and design of a jurisdiction's regime. This includes both the Ministry of Finance and the tax administration. The process of collaboration should also address the investment and running costs for tax authorities.

The main policy decisions affecting the scope and design of a simplified compliance regime to facilitate compliance by non-resident suppliers and digital platforms with their VAT obligations under a vendor collection regime have been discussed in the Toolkit. These are:

- Indicia and evidence for determining the place of taxation (see subsections 2.1.3 and 3.1.2);
- Supplies in scope of the regime (see subsections 2.2.2.4 and 3.2.2.5);
- Determining customer status (see subsections 2.1.2.1 and 3.2.2.5);
- For B2B supplies, when and how to adopt a reverse charge mechanism for domestic business customers (see subsections 2.2.1 and 3.2.2.5);
- Registration thresholds (see subsection 2.2.2.5, 3.2.2.6 and 5.2.1.2);
- Permitting or denying access to input tax credits (see subsection 2.2.2.2 and in more detail 5.2.5);
- The role of the traditional registration regime (see subsection 2.2.2.2 and in more detail 5.2.1.3);
- The role of digital platforms (see subsections 2.3.2 and 3.3.1);
- The role of tax agents and fiscal representatives (see subsection 2.2.2.6 and 5.2.8).

For a more comprehensive analysis, please refer to subsections 2.2.2 and 3.2.2.

5.1.5.2. Special considerations concerning the implementation of the vendor collection regime for the collection of VAT on low-value imported goods

As previously noted, jurisdictions are strongly advised to align the operation of their vendor collection regime for supplies of low-value imported goods by non-resident suppliers with the regime for the collection of VAT on services and intangibles supplied by non-resident suppliers. However, there are several critical elements in developing a framework for low-value imported goods that require specific attention. These include:

- Determining the level of various relevant thresholds (see subsections 3.2.2.5 to 3.2.2.7), if any, in particular:
  - A customs duty low-value relief threshold, below which the responsibility to collect the VAT on imported goods is reassigned from the customs authorities to non-resident suppliers and digital platforms;
  - A VAT registration threshold, below which non-resident suppliers and digital platforms have no obligation to register and remit VAT under a vendor collection regime.
- Customs clearance processes to determine the VAT settlement status of imports. This is necessary both to protect consumers from double taxation and to prevent fraud and abuse of the regime. See subsection 5.2.11.
- Cargo and postal reporting requirements to support customs clearance processes. See subsection 5.2.11.
- Rules for the treatment of bundles of low-value goods in a single consignment that collectively exceed the customs duty low-value relief threshold (and that is therefore, in principle, subject to VAT collection under the normal customs procedure). Similarly, rules for the treatment of a consignment that includes a bundle of low-value goods and high-value goods. See subsection 5.2.10.
- Currency conversion rules for suppliers to determine the value of a good at the time of supply. See subsection 5.2.6.

5.2. Designing and implementing the administration for a simplified VAT registration and collection regime

Simplified VAT registration and collection should facilitate compliance for non-resident suppliers and digital platforms under a vendor collection regime by limiting their obligations to what is strictly necessary for the effective collection of the VAT. Jurisdictions that have sought to align with this recommendation have noted that the ease with which a business can register, report, and settle payment of its VAT obligations under a vendor collection regime has been critical in achieving high compliance levels.

Guide to subsection 5.2

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5.2.1. Simplified VAT registration

Guide to subsection 5.2.1.

5.2.1.1. Simplified registration via online portal

It is recommended that online registration be made available for non-resident suppliers and digital platforms under a simplified compliance regime. Section 5.3 of this Toolkit provides detailed guidance on the design and on the key elements of the architecture of a simplified VAT registration and collection online portal. It is suggested that jurisdictions consider limiting the registration process under a simplified compliance regime to the information that is functionally necessary to ensure the proper collection of the VAT from non-resident suppliers and digital platforms under the vendor collection regime.

Relieving businesses of the time and cost of providing unnecessary or excessive documentation to verify their identity is warranted, especially in cases where they do not need to recover input VAT in the jurisdiction of taxation. Such a minimalist approach to business identification for VAT registration under a simplified registration and collection regime could limit the required information to the following elements:

- The name of the business;
- The trading name of the business;
- Postal and/or registered address of the business and its contact person(s). Even where registration is electronic, a physical mailing address is useful in the event of a system outage;
- The VAT and/or tax identification number (TIN) of the business in its jurisdiction of establishment, where applicable;
- Names of responsible contact persons, including the title of the authorised person (e.g. “Indirect Tax Manager”) to support continuity in case of any subsequent changes within the registered business.

It is suggested that businesses provide information on multiple contact channels where possible:

- Telephone numbers of contact persons;
- Email addresses of contact persons;
- The website URL(s) of the business, through which it engages with consumers in the jurisdiction of registration.

An optional feature could allow suppliers to communicate during the registration process which types of supplies they intend to make – for instance by ticking a box next to the applicable categories. For example:

- Services and intangibles;
- Online sales of goods.

Tax authorities should ensure that access to the registration portal under a simplified compliance regime, and any applicable process to establish a digital credential permitting such access, be as easy as possible and be supported by clear and readily available guidance including on the tax authority’s website. It is preferable that guidance on registration is available in English as well as in the language of the jurisdiction. Jurisdictions can further consider making the information available in the language(s) of their main trading partners. To support businesses that encounter problems with the registration, jurisdictions may wish to set up a central contact point or dedicated helpdesk (e.g. a hotline).

Section 5.3 of the Toolkit provides further detailed guidance on the design and implementation of the operational infrastructure, especially IT systems and software requirements, for a simplified VAT registration and collection portal, as well as on the generation of digital credentials and other related issues.

Some jurisdictions may lack the necessary administrative or technological capacity to implement and operate an online registration process. In such cases, they may consider implementing a registration process through a secure e-mail exchange, facilitated by a dedicated e-mail gateway address for all communications, registration applications and other processes (see subsection 5.3.6). An example of an email-based VAT registration process is that employed by the South African Revenue Service (SARS), which requires the downloading of a registration form from the SARS website, its completion in English, the attachment of certain supporting documents (in English or translated into English) and the emailing of the form to a dedicated email address at SARS.[72] Tax authorities have noted that the risks associated with this approach, such as phishing, are increasing. Extremely careful e-mail correspondence management is thus strongly advised. Where e-mails are not an option, jurisdictions could consider international post channels for registration and filing of returns. However, international post will result in time delays and can present other operational, security and fraud risks and create barriers to compliance.

Finally, tax authorities should clearly set out the process by which a business can cancel its registration, e.g. if its turnover falls below a registration threshold (see also "Changing registration types and cancelling VAT registration" under 5.2.9 below).

5.2.1.2. Registration threshold

A VAT registration threshold in this context refers to a threshold that a jurisdiction can adopt, typically by reference to the value of all supplies made to customers in that jurisdiction, below which a non-resident supplier or digital platform has no obligation to register for VAT and to collect and remit VAT on these supplies in that jurisdiction. VAT registration thresholds are discussed extensively in subsections 2.2.2.5 and 3.2.2.6 of this Toolkit.

Jurisdictions that adopt a registration threshold for non-resident suppliers and digital platforms should provide clear guidance on how an affected business should calculate the threshold and on how the tax authority will administer it. They are advised to make this information accessible in English and in the languages of the jurisdiction's main trading partners in addition to the jurisdiction's national language(s).

Jurisdictions with a volatile currency that adopt a sales or revenue-based threshold may wish to establish and express the threshold for non-resident suppliers and digital platforms in a global reserve currency (e.g. USD or EUR). In Africa, Nigeria takes this approach for expressing a threshold, doing so in USD (i.e. USD 25 000 or its equivalent for other currencies, over a 12-month period) for non-resident businesses, while the threshold for domestic businesses is expressed in local currency of NGN 25 million.[73] They could subject this to periodic review (e.g. annually or over another timeframe) to ensure alignment with any domestic registration thresholds.

Non-resident suppliers and digital platforms will further need clear guidance on the time limits for registration when they exceed the registration threshold and, on any penalties, and penalty concessions that may apply for late registration. Most tax authorities allow non-resident suppliers and digital platforms to self-assess whether they have reached or surpassed the registration threshold. A jurisdiction could instruct non-resident suppliers and digital platforms to periodically (e.g. monthly or quarterly) assess their activities both retrospectively against the previous 12 months and prospectively using forecasts for the next 12 months. If either historical activities have exceeded, or future activities will likely exceed, the threshold under these measurements, then it could require the supplier to register.

[72] South African Revenue Service (2022), *External guide: Foreign suppliers of electronic services*, https://www.sars.gov.za/wp-content/uploads/Ops/Guides/VAT-REG-02-G02-Foreign-Suppliers-of-Electronic-Services-External-Guide.pdf

[73] Nigerian FIRS (2021), *Guidelines on Simplified Compliance Regime for Value Added Tax (VAT) for Non-Resident Suppliers, No. 2021/19*, https://www.firs.gov.ng/wp-content/uploads/2021/10/Guidelines-on-Simplified-Compliance-Regime-of-VAT-for-Non-Resident-Suppliers-15102021.pdf

5.2.1.3. Retaining the standard VAT registration as an alternative for non-resident suppliers and digital platforms

A jurisdiction may wish to evaluate the operation of its standard VAT registration procedure with a view to making it accessible as an option for non-resident suppliers and digital platforms to comply with their VAT obligations under the jurisdiction's vendor collection regime.

There are circumstances where non-resident suppliers and digital platforms may find it more appropriate to access the standard VAT registration regime to comply with their VAT obligations under a jurisdiction's vendor collection regime. This may arise for instance because of VAT obligations that such a business may have in that jurisdiction in respect of other activities, because of direct tax obligations (e.g. those related to the presence of a "permanent establishment"), or because it wishes to recover input VAT on business costs incurred in the jurisdiction. For example, a non-resident supplier may incur expenses related to marketing or advertising its products within the jurisdiction of consumption. Non-resident suppliers should therefore have the possibility to recover input VAT it incurs on such expenses by registering under the standard VAT regime as an alternative to a simplified VAT compliance regime. A non-resident supplier may also wish to register under the standard regime to be able to account for VAT on all imports of goods, including high-value goods. A supplier may, for example, wish to market the handling of all VAT and customs duty formalities as part of its customer service offering, and improve and streamline its own internal systems for managing multi-jurisdictional VAT returns. The supplier would then take responsibility for the importation process and the associated costs as the importer of record, paying any applicable VAT, customs duties and other customs charges. This supplier would generally be able to recover VAT on these importation costs only if it has a registration under the standard VAT regime.

Some jurisdictions have made registration under the standard VAT regime a legal obligation under their vendor collection regime for non-resident suppliers and digital platforms, with simplified compliance representing an optional alternative for the obligation to register under the standard regime, e.g. Australia. South Africa adopts a hybrid approach that combines some simplifications in the registration process for non-resident businesses with obligations for them to file periodic VAT returns on largely the same basis as resident VAT-registered businesses. Importantly, South Africa provides non-resident businesses with the right to recover input VAT as a corollary of the relatively high standard of proof such businesses must provide to register for VAT on supplies of electronic services.[74]

In practice, most non-resident suppliers and digital platforms selling into a jurisdiction are likely to prefer the simplified compliance approach. For example, in Australia the total number of GST registrations by such businesses under its vendor collection regime for making supplies of services and intangibles to Australian consumers was 705 as of 30 June 2022, comprising 660 registered under the simplified compliance regime and only 45 under the standard regime.

The complexity of a requirement to appoint local, and sometimes fiscally liable, representatives for non-resident businesses is discussed in subsection 5.2.8.3. It is recommended that jurisdictions do not implement a requirement for the appointment of a fiscal representative for non-resident suppliers and digital platforms that comply with their VAT obligations under the jurisdiction's simplified compliance regime.

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[74] South African Revenue Service (2022), *External guide: Foreign suppliers of electronic services*, https://www.sars.gov.za/wp-content/uploads/Ops/Guides/VAT-REG-02-G02-Foreign-Suppliers-of-Electronic-Services-External-Guide.pdf. See pages 13 to 16 in particular.

5.2.1.4. Considering the broader context

Jurisdictions should carefully review their national legal and regulatory framework before proceeding with implementation of the approach to registration under a simplified compliance regime, to ensure that the policy and administrative design of this regime conforms to other relevant rules and regulations. These include general rules regarding tax administration, which will encompass rules regarding security, use of electronic communications and taxpayer privacy and confidentiality. These rules are likely to affect the permissible design of a simplified compliance regime, e.g. with respect to such matters as publication of registrants' identities and authorised methods of communication between tax authorities and taxpayers.

5.2.2. Invoicing requirements

Guide to subsection 5.2.2.

VAT invoicing requirements are generally among the most burdensome VAT compliance obligations. The elimination of invoicing requirements for B2C supplies under a simplified VAT registration and collection regime will normally provide significant administrative relief to non-resident suppliers and digital platforms and entail limited risks because consumers generally have no entitlement to recover the VAT they pay on such supplies.

This subsection considers possible approaches to invoicing under a simplified compliance regime for non-resident suppliers and digital platforms in some further detail for B2C supplies of services and intangibles and of low-value imported goods as well as for B2B supplies.

5.2.2.1. Invoicing for B2C supplies of services and intangibles under a simplified compliance regime

Because simplified VAT compliance regimes for non-resident businesses generally work best on the basis of only permitting output tax declarations ("pay only" regimes), jurisdictions can consider simplifying and minimising invoicing requirements for B2C supplies of services and intangibles under such regimes, or even consider eliminating invoicing requirements altogether.

However, it may be that wider tax legislation or other trade or customer protection rules in some jurisdictions may require suppliers to produce tax invoices in some form or other. Where this is the case, jurisdictions are encouraged to take a pragmatic approach to provide flexibility and help reduce the costs that invoicing requirements can involve for non-resident suppliers and digital platforms under the simplified compliance regime. In such a case, jurisdictions are encouraged to allow non-resident suppliers and digital platforms to use an electronic invoicing format. These businesses normally rely almost exclusively on digital technology to sell and deliver their services and intangibles electronically to their customers worldwide, which should normally allow them to comply with an electronic invoicing approach more easily than with a paper-based process. Few leading economies in Africa, which have implemented regimes for VAT collection on international digital trade, appear to have also implemented simplifications to invoicing for B2C supplies. Certain jurisdictions do have simplified B2C invoicing rules which could be extended to supplies made under a non-resident vendor collection regime if one were introduced. Ghana, Kenya, Nigeria and South Africa allow non-resident suppliers to use electronic invoices on an optional basis.

The possible use of a jurisdiction's existing e-invoicing framework under a simplified compliance regime for non-resident suppliers and digital platforms will depend heavily on the design and operation of that e-invoicing regime. Experience suggests that integrating a jurisdiction's existing e-invoicing process into a VAT compliance system can be particularly challenging for a non-resident business. Compliance challenges for non-resident businesses with a jurisdiction's e-invoicing framework may include:

- The process for receiving authorisation to issue e-invoices, which may include the completion of specific application forms, the submission of records and certificates, and file format testing;
- The invoice format, with XML as the most widely used language;
- The use of "tax control codes", via a mechanism that inserts an electronic code into each invoice to make it valid for tax purposes;
- Different e-signature systems to ensure the integrity and authenticity of invoices;
- The requirement that e-invoices be issued through an "authorised provider" in the jurisdiction.

Compliance by non-resident businesses with the legal, administrative and technical requirements under an existing e-invoicing regime will often require the services of a specialised local service provider. This may involve considerable compliance costs for non-resident businesses and heavily impact the ease of compliance and overall compliance levels under a simplified compliance regime for non-resident suppliers and digital platforms. Jurisdictions could therefore consider simplifying a number of e-invoicing requirements to facilitate compliance for non-resident businesses under a simplified compliance regime, including allowing the possible use of any available standard e-invoicing solutions that would not require the intervention of a specialised local service provider.

Alternatively, or in addition, jurisdictions could also consider acceptance of the following:

- Invoices that suppliers issue in accordance with the rules of their home jurisdiction;
- Commercial documentation that suppliers issue for purposes other than VAT, e.g. electronic receipts;
- Invoices in the languages of the taxing jurisdiction's main trading partners;
- Flexible rules on invoice delivery, e.g. allowing customer self-printing.

5.2.2.2. Invoicing for B2C supplies of low-value imported goods under a simplified compliance regime

Although the guidance in the previous subsection advised that jurisdictions could permit non-resident suppliers to dispense with VAT invoicing for B2C supplies of services and intangibles, there are additional practical issues to consider for supplies of low-value imported goods under a simplified compliance regime. This is because:

- Double taxation may occur, in particular where, due to a lack of co-ordination between suppliers, transporters and/or the customs authorities, a customer is charged import VAT by the customs authorities even though this customer has already been charged VAT by the supplier at the time of sale.

- Consumers may have a right to a refund for the VAT paid on the supply when they return goods or because the supplier incorrectly charged VAT at the time of sale.

Supporting documentation will normally be required to correct the treatment of low-value imported goods that has led to double taxation or to support a VAT refund request. This does not necessarily mean that suppliers should be required to produce full VAT invoices. It would normally be sufficient to provide the customer with some electronic or paper documentation, which states whether the supplier charged VAT at the point of sale and, if so, how much.

It is recommended, however, that non-resident suppliers and digital platforms are not required to disclose their VAT registration number on any invoices they must issue in respect of low-value imported goods under a simplified compliance regime, where this number serves as an indicator for the "VAT-paid" status of the goods upon importation. This will help prevent the fraudulent appropriation of VAT numbers by fraudulent operators and reduce risks of non-taxation of imported low-value goods. Subsection 5.2.11 discusses these risks in further detail, with Annex D presenting further detailed examples from a selection of jurisdictions. The European Union is one example of a jurisdiction that relieves non-resident suppliers and digital platforms from the requirement of including their VAT registration number under the simplified compliance regime on invoices for low-value imported goods.

5.2.2.3. Invoicing for international B2B supplies

Jurisdictions globally take a variety of approaches to invoicing requirements for non-resident businesses making supplies to business customers in their jurisdiction, notably where it requires these local business customers to perform a reverse charge or where it treats such supplies as free of VAT (see examples in Box 5.6).

Box 5.6. Jurisdiction examples: Invoicing for international B2B supplies

For example, Australia,[1] Chile,[2] New Zealand[3] and Singapore[4] do not require full VAT invoices for B2B supplies by a non-resident business to a local business. Other jurisdictions, however, have established special invoicing requirements including India[5] and Mexico.[6]

Notes:
1. Australian Taxation Office, *GST cross-border transactions between businesses*, https://www.ato.gov.au/Business/International-tax-for-business/In-detail/Doing-business-in-Australia/GST-cross-border-transactions-between-businesses/
2. Chilean VAT Law, Article 35C, https://www.bcn.cl/leychile/navegar?idNorma=6369
3. New Zealand Inland Revenue Department, *GST for overseas businesses: Supplying remote services into New Zealand*, https://www.ird.govt.nz/gst/gst-for-overseas-businesses/supplying-remote-services-into-new-zealand
4. Inland Revenue Authority of Singapore, *IRAS e-Tax Guide: GST: Taxing imported services by way of an overseas vendor registration regime (second edition)*, https://www.iras.gov.sg/media/docs/default-source/e-tax/etaxguide_gst_taxing-imported-services-by-way-of-an-overseas-vendor-registration-regime.pdf?sfvrsn=7b9b52a7_0
5. See Global VAT Compliance, *India: Key features of mandatory GST e-invoicing as from 1 October 2020 clarified*, https://www.globalvatcompliance.com/globalvatnews/india-key-features-of-mandatory-gst-e-invoicing-as-from-1-october-2020-clarified/
6. See Taxamo, *Digital VAT/GST rules around the world*, https://cdn2.hubspot.net/hubfs/2759176/Marketing/Taxamo%20booklet%20digital%20tax%20rules%20around%20the%20world.pdf; BIZLatin Hub, *Understanding Mexico's digital services tax for businesses*, https://www.bizlatinhub.com/understanding-mexicos-digital-services-tax-for-businesses/
Source: OECD research.

In general, domestic businesses should be able to rely on an invoice that a non-resident business issues as long as it contains the relevant information, such as:

- The name and address of the supplier;
- Invoice number and date;

- A description of the supplied items;
- The value of the supply, i.e. consideration that the customer must pay for the supply.

Non-resident businesses could be required to provide supplementary information upon request if they are unable to provide the necessary information under the standard invoicing regime. For example:

- If a supplier issues an invoice in a foreign language, the jurisdiction could direct the business to translate it.
- Requesting copies of contracts and other supporting documentation to be submitted (ideally in an electronic format) where it is necessary to provide additional explanation of the supplies that a non-resident supplier is making.
- Any alternate documentation that would provide relevant information when an invoice is not available.

Jurisdictions that operate an e-invoicing system for domestic suppliers may consider allowing its application to non-resident suppliers making supplies to local businesses, notably to facilitate the input VAT recovery for these local business customers. Note, however, that the extension of an existing e-invoicing requirement to non-resident businesses may lead to compliance complexity for these businesses, as discussed in subsection 5.2.2.1 above.

5.2.2.4. VAT-inclusive pricing

A jurisdiction's VAT, trade or consumer protection rules may require VAT-inclusive pricing of B2C supplies. It is important to note in this context that a non-resident (online) supplier or digital platform will normally be able to display a VAT-inclusive price only when it can determine the place of taxation of the supply and its VAT treatment. This will require knowing the customer's status (when a VAT regime distinguishes between B2B and B2C supplies) and the jurisdiction of the customer's usual residence for B2C supplies of services and intangibles or the location to which a consignment should be delivered in the case of B2C supplies of low-value imported goods. In practice, a non-resident supplier or digital platform will typically be able to make that determination only when the consumer reaches the "virtual checkout" on the supplier's or the platform's website and confirms its location.

In light of this, within the framework of consumer protection rules, jurisdictions may wish to carefully consider the possibility of applying an exception to normal rules and require suppliers and platforms to display VAT-inclusive pricing only after the customer has confirmed its status and its usual residence (for services and intangibles) or the consignment delivery destination (for goods). Suppliers and digital platforms should in any case clearly communicate to consumers in advance of a sale that taxes could apply at the checkout stage depending on the details of the supply and the customer.

Jurisdictions might also consider whether there is any need to state the currency in which suppliers and digital platforms should display prices and VAT due to customers.

5.2.3. VAT returns

> Most jurisdictions with a simplified compliance regime for non-resident suppliers and digital platforms have implemented a simplified electronic return filing procedure. These returns require minimal VAT information. While requirements vary, most jurisdictions require returns to be filed on a quarterly basis.

Satisfying obligations to file VAT returns can be a complex process for non-resident suppliers and digital platforms, resulting in considerable compliance burdens for such businesses that typically face obligations in multiple jurisdictions. It is therefore recommended to consider authorising non-resident suppliers and digital platforms to file simplified returns under a simplified compliance regime, which would be less detailed than returns required for businesses that are entitled to input VAT deduction in the taxing jurisdiction. The required information on a VAT return under a simplified compliance regime could remain limited to:

- The supplier's or digital platform's VAT registration number, which the tax authority could pre-populate from the supplier's or digital platform's online taxpayer account;
- The return period;
- If suppliers and digital platforms can submit returns in foreign currencies, then the currency and, where relevant, the exchange rate the supplier or platform has employed;
- Total sales;
- VAT payable at the standard rate;
- VAT payable at reduced rate(s), if any;
- Total VAT payable.

Tax authorities are encouraged to allow the application of reasonable and coherent methods of rounding the amounts in the VAT return to the nearest whole number or appropriate decimal point, in line with what suppliers and platforms use for internal accounting purposes.

Tax authorities that operate a website which includes an online portal through which non-resident suppliers and digital platforms can register and comply with their VAT obligations under a simplified compliance regime are advised to provide a central location on their website for suppliers and platforms to easily access the online portal for filing VAT returns and making VAT payments to the tax authority.

Tax authorities should provide clear instructions on their website for completing and submitting VAT returns under the simplified compliance regime, including on the information that is required for each of the informational fields on the VAT return. To further facilitate compliance, online VAT returns could also provide a possibility to select the jurisdiction's VAT rate(s). The tax authority may also include links to additional guidance material, such as currency conversion rules. This information could be further complemented with information on any penalties that may apply to late filing of returns, including the circumstances under which tax authorities may waive or reimburse them (e.g. in case of disruption of business systems due to natural disaster).

Jurisdictions that do not apply a registration threshold (see subsections 2.2.2.5 and 3.2.2.6) could consider releasing non-resident suppliers and digital platforms from the obligation to submit a return for a period if the total VAT payable remains below a negligible amount as specified by the tax authority. Instead, the supplier or platform could include any residual VAT payable in a future filing period. It must be recognised, however, that such an approach could be difficult to reconcile with a tax authority's taxpayer account management system, which may be configured to automatically flag non-submission of returns and to send a reminder to non-resident suppliers and digital platforms to make a submission.

Section 5.3 of the Toolkit provides further technical analysis of the design features for the IT and operational systems for electronic VAT return filing by non-resident suppliers and digital platforms, including features related to account access, security, and confirmation notifications for suppliers and platforms.

5.2.4. Record-keeping and data storage

Non-resident suppliers and digital platforms should keep reliable and verifiable records of the supplies for which they have VAT obligations under the jurisdiction's vendor collection regime, preferably in electronic format. This is particularly important for jurisdictions' audit verification processes.

Jurisdictions are encouraged to allow non-resident suppliers and digital platforms to use, to the widest possible extent, their internal business records and accounting systems to fulfil their record-keeping obligations under a simplified compliance regime. In addition, allowing remote data storage, i.e. outside the taxing jurisdiction, in an electronic format and in conformity with the relevant privacy protection rules may provide significant benefits for both tax authorities and taxpayers. Kenya and South Africa both allow non-resident businesses to store records in electronic form outside of these jurisdictions' respective territories.

Because it is likely that most supplies will be of a high-volume, low-value nature, tax authorities are encouraged to limit any transactional data that suppliers and platforms must record to what is necessary to ensure that these businesses have charged and accounted for VAT correctly on each supply. Jurisdictions could limit the information that suppliers and platforms must record to the following:

- Type of supply;
- Date of the supply;
- VAT payable;
- Information that the supplier or platform used to determine the location of the customer (for supplies of services and intangibles) or the delivery address (for low-value imported goods).

Depending on the design of the simplified compliance regime (e.g. whether it requires invoices to be issued), further information to be kept should normally include:

- Copies of invoices or receipts and/or underlying accounting records for all supplies that are subject to a VAT collection and payment obligation for the non-resident supplier or digital platform under the simplified compliance regime;
- Copies of invoices and/or records identifying B2B supplies and indicating whether the non-resident supplier or digital platform charged VAT on these supplies or whether it made them VAT-free based on a jurisdiction's requirement that the business customer performs a reverse charge or on the VAT-free treatment of these supplies in the business customer's jurisdiction. Suppliers and platforms should substantiate this information on customer status with reasonable evidence to support the determination that a customer is a (VAT-registered) business, e.g. the customer's VAT registration number or tax identification number (TIN);
- Records and supporting evidence for VAT-exempt supplies, zero-rated supplies and reduced-rated supplies.

Box 5.7. Jurisdictional examples: Record-keeping

Kenya requires that non-resident businesses maintain sufficient records to substantiate all supplies they make, on which VAT is due in Kenya. The businesses can keep these records in either electronic or physical form outside Kenya and in currencies other than Kenyan Shillings. A business should maintain its records in English and must translate non-English-language records upon request.

Example from outside Africa:

Norway[1] requires non-resident suppliers and digital platforms to keep a list of, respectively, supplies of "electronic services" and supplies of low-value goods to Norwegian private individuals. The list must be sufficiently detailed to permit comparison with the VAT return and thereby function as a means of verification for audit purposes. These businesses must store the records for 5 years and make them available electronically within three weeks at the Norwegian tax authorities' request.

Note:
1. For example, see Norwegian Tax Administration, Which electronic services are included in the VOEC system, https://www.skatteetaten.no/en/business-and-organisation/vat-and-duties/vat/foreign/e-commerce-voec/electronic-services/legal-information/which-electronic-services-are-included-in-the-system/
Source: OECD research.

When introducing a requirement for non-resident suppliers and digital platforms to make records electronically available under a simplified compliance regime, tax authorities are advised to consider the following aspects (OECD, 2017[3]):

- Directing non-resident suppliers and digital platforms to maintain the usability and readability of data throughout the mandatory retention period. If a business encrypts its data, it should maintain the necessary key-recovery procedures to ensure that it can make decrypted data available to the tax authority in a readable format.
- Directing non-resident suppliers and digital platforms to have appropriate safeguards in place to secure their records regardless of whether such records are stored electronically or in paper form.
- Adopting a reasonable and proportionate period for the mandatory storage of data in order to limit the costs of storage of bulk data. A retention period consistent with that in place for registrants under the standard VAT regime should normally be sufficient.
- Jurisdictions may consider waiving the obligation to store very sensitive data fields for long periods because this increases the risk of misappropriation, e.g. hacking to acquire payments details; identity theft, etc.
- Consider allowing remote storage, i.e. outside the taxing jurisdiction, in an electronic format and in conformity with the relevant privacy protection rules.[75]
- Given the significant amount of data that digital platforms generally manage, additional specific considerations on data reporting and record-keeping may apply for these platforms under a full VAT liability regime as outlined below in Box 5.8.

[75] Remote storage could, under appropriate circumstances, allow suppliers to keep centralised records for all the jurisdictions in which they have VAT liabilities under these jurisdictions' registration and collection regimes and provide these jurisdictions access to these records as and when required. This could considerably reduce the associated compliance costs for suppliers and is likely to benefit the quality of the records that they keep.

Box 5.8. Specific considerations on data reporting and record-keeping by digital platforms under a full liability regime

Digital platforms typically manage significant amounts of transactional information, including on the supplies they facilitate for underlying suppliers. It is normally not necessary to establish specific information reporting requirements for digital platforms under a full VAT liability regime. It could cause undue administrative burden if, for instance, a systematic and regular reporting were required, e.g. to complement regular VAT returns, for all the supplies that platforms facilitate for underlying suppliers and for which they have full VAT liability.

It will generally be more efficient to impose record-keeping obligations so that these platforms keep detailed records of the supplies that they facilitate for underlying suppliers and for which they have full VAT liability. The reporting of these data could then be requested as part of the jurisdiction's audit activities or in the context of compliance risk mitigation activities that could be targeted at digital platforms that are considered posing high compliance risks. Including the identity of the underlying supplier in the transactional data sets that platforms are required to keep, will permit further analysis of the major entities in the underlying supplier population. Because of the volume of data that platforms produce and hold, tax authorities could consider limiting the period for which platforms can be requested to provide these detailed transactional data for analysis. It is finally noted that these data will normally be in electronic format and that tax authorities therefore need to be aware of any data storage limits to their e-mail or other electronic communications gateways that could create obstacles for receiving these data. They should also have the capability to undertake proper transactional analysis of the reported data.

In general, requests for regular and systematic reporting of bulk transactional data are not necessarily the most effective means for jurisdictions to monitor compliance by digital platforms under a full VAT liability regime. Instead of requesting bulk transactional data for whole years or several months, tax authorities may rather wish to focus on:

- Reduced periods initially, with
- Minimal data fields such as the underlying suppliers' names, their VAT or tax identification numbers, value of supplies, product categories and description.

Tax authorities can then make more extensive data requests if they identify errors or concerns about a platform's records or their underlying suppliers for the periods that are initially tested. Carefully constructed data requests can provide immediately useful information for tax authorities without the requirement for more extensive data reporting.

Source: OECD analysis.

5.2.5. Input VAT recovery

It is recommended that simplified registration and collection regimes for non-resident suppliers be designed and operated exclusively to facilitate payments of VAT due by non-resident suppliers and digital platforms ("pay-only") and that systematic refunds are thus excluded under this regime.

Most non-resident suppliers and digital platforms that register under a simplified compliance regime make online supplies to customers in the jurisdiction where they register without having any physical presence there. They are thus unlikely to incur substantial amounts of input VAT in that jurisdiction. The recommendation to implement a "pay-only" regime therefore strikes an appropriate balance between simplification and the requirement that tax authorities safeguard revenue and reduce refund fraud risks.

There nevertheless may be certain circumstances under which suppliers or platforms that have registered under a simplified compliance regime wish to recover input VAT incurred in the jurisdiction of registration on a one-off basis. For example, this may arise when business staff visits this jurisdiction as part of a trade show or through other local engagements. Input VAT recovery could then remain available under the jurisdiction's normal VAT refund procedure. A jurisdiction may, for instance, have special mechanisms in place for non-resident businesses to recover input VAT (e.g. an input VAT refund regimes). These mechanisms could (continue to) also apply to non-resident suppliers and digital platforms that are registered under the simplified compliance regime. As an example, the European Union provides an input VAT refund procedure for non-resident taxable persons as outlined in Box 5.9.

Box 5.9. Jurisdiction example: VAT refunds for non-established taxable persons in the European Union

The EU VAT system allows taxable persons that are not established in the **European Union** to recover input VAT incurred in an EU Member State, under a procedure determined by that Member State and subject to any restrictions that this Member State wishes to apply (e.g. requiring reciprocity or excluding refunds of input VAT incurred on certain types of supplies). The use of the European Union's simplified registration and collection regime for VAT (often referred to as "One-Stop-Shop") does not impede this right.

Source: OECD research.

A jurisdiction could also allow non-resident suppliers and digital platforms that wish to seek a more systematic input VAT relief to register for VAT under the standard regime, rather than under the simplified compliance regime (see subsection 5.2.1.3). New Zealand, for example, allows non-resident businesses to recover input VAT through registration that is aligned with the standard registration (see Box 5.10).

While the general recommendation is to exclude input VAT recovery through the simplified compliance regime, there may be specific circumstances where the possibility for refunds could be considered under that regime, e.g. in case of overpayment, corrections and product returns (see subsection 5.2.9.4 for more details).

Box 5.10. Jurisdictional examples: Input VAT deduction for non-resident suppliers and digital platforms

Algeria enables non-resident suppliers and digital platforms to recover input VAT to the extent that the relevant inputs are used for making taxable supplies in Algeria. The non-resident is required to appoint a local VAT representative that will collect the VAT on supplies made to non-taxable customers, such as private consumers, i.e. B2C supplies. The VAT returns submitted by the representative may include claims for VAT incurred in Algeria that relate to Algerian inputs used in the course of making the supplies.

Example from outside Africa:

New Zealand enables non-resident suppliers and digital platforms to recover input GST to the extent that the relevant inputs are used for making taxable supplies in New Zealand. The non-resident GST registration form asks applicants whether they intend only to pay GST on their sales, or to pay GST on sales and claim GST back on New Zealand-based costs. A simplified "pay-only" GST return is available for suppliers and platforms that only pay GST. The simplified return only includes fields relevant to paying GST, such as the amount of supplies to New Zealand-resident customers and the amount of

GST on those sales. Applicants who indicate that they intend to pay and claim GST may be asked to provide further information about their business during the registration process to better confirm their identity. These applicants will be required to file a full GST return and generally have all other tax obligations aligned to standard registration.

Source :
1. Algerian *Directrice Générale des Impôts*, https://www.mfdgi.gov.dz/com-smartslider3/vous-etes-un-professionnel/134-vos-impots/497-taxe-sur-la-valeur-ajoutee-tva
2. New Zealand Inland Revenue Department, https://taxpolicy.ird.govt.nz/publications/2016/2016-sr-gst-cross-border-supplies

5.2.6. Foreign currency conversion

Guide to subsection 5.2.6.

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5.2.6.1. Exchange rates

Tax authorities are advised to publish guidance on their website on the currency conversion procedures applicable to non-resident suppliers and digital platforms in complying with their VAT obligations under the jurisdiction's simplified registration and collection regime.

In online trade, suppliers and digital platforms may often display sales prices and require payment in a currency other than the official currency of the jurisdiction of their customers. This will often be the case for supplies to customers in smaller jurisdictions. When a supplier or digital platform executes a transaction in a currency that is different from the currency that a jurisdiction mandates for VAT reporting, tax authorities should determine and communicate how non-resident suppliers and digital platforms should convert the value of their sales for calculating the amount of VAT due and for submitting VAT returns and making payments.

Most jurisdictions that have implemented a simplified compliance regime provide details of or links to official published rates that suppliers can use for conversion into the currency of reporting and payment.[76] Some

[76] For example, the Kenya Revenue Authority provides the foreign exchange rates it approves on its website: https://www.kra.go.ke/foreign-exchange
The South African Revenue Service (SARS) provides three approved sources for exchange rates, as follows:
1).The South African Reserve Bank: https://www.resbank.co.za/en/home/what-we-do/statistics/key-statistics/selected-historical-rates

tax authorities allow businesses to choose among different conversion methods, such as commercial rates or use of internal business rates, which could be based on averages of official rates over time (with a built-in tolerance for small differences). Examples of conversion methods that jurisdictions mandate or permit are:

- Rates published by the jurisdiction's (or another jurisdiction's) central or reserve bank;
- Rates determined by other institutions, notably those that actively trade in foreign currency markets, such as commercial banks;
- A rate agreed by the supplier and customer for the period of a business agreement.

Clear guidance should be given to businesses on any other rules and requirements for the use of conversion rate methodologies under a simplified compliance regime. These may include rules on whether the method must be used consistently over time or whether tax authorities permit a change in method (e.g. after 12 months), and whether a change requires notification to or prior approval by the tax authority.

5.2.6.2. Timing of foreign currency conversion

Jurisdictions should specify conversion date options for non-resident suppliers and digital platforms, i.e. the date or range of dates at which suppliers can convert the value of supplies into the currency of reporting and payment. Tax authorities may want to direct businesses to apply the same option consistently. The following conversion date options could be considered:

- The transaction (sales) date;
- The day on which the payment is received for the supply;
- The invoice date; or
- The final day of the tax period. If suppliers choose this option, they should apply the rate to all sales on which VAT is payable for the period.

Some jurisdictions allow non-resident suppliers and digital platforms to choose between cash accounting and accrual accounting. This often depends upon the business's level of revenue. For example, South Africa allows a small business individual (turnover under ZAR 2.5m) to account for VAT on a cash rather than accrual accounting basis.[77] For businesses that use cash accounting for VAT purposes (i.e. by reference to the actual receipt of the payment for the supply), jurisdictions may consider excluding the option to convert the value of supplies based on the exchange rate on the final day of the tax period and even mandate that such businesses utilise the rate on the day that the consumer makes the payment for the supply. It is noted that some jurisdictions in Africa use cash accounting, including for VAT purposes. The International Federation of Accountants has reported, however, that a growing number of economies in the region have switched to accrual accounting or are transitioning to accrual accounting for both businesses and government. (International Federation of Accountants, n.d.[68]).

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2). Bloomberg: https://www.bloomberg.com/markets/currencies/cross-rates
3). The European Central Bank
https://www.ecb.europa.eu/stats/policy_and_exchange_rates/euro_reference_exchange_rates/html/index.en.html
See also: SARS (2020), *Binding General Ruling (VAT) 11 (Issue 3)*, https://www.sars.gov.za/wp-content/uploads/Legal/Rulings/BGR/LAPD-IntR-R-BGR-2012-11-Use-Exchange-Rate.pdf
Outside of Africa, Singapore's Inland Revenue Authority also provides a dedicated page on its website for foreign exchange rates: https://www.iras.gov.sg/irashome/Quick-Links/Exchange-Rates/

[77] South Africa, *Value-Added Tax Act 89 of 1991* [as amended and in force as of 1 April 2019], https://www.lph.co.za/dev/wp-content/uploads/2019/09/Value-Added-Tax-Act-89-of-1991.pdf. See Section 15(2) of the Act.

5.2.6.3. Additional foreign currency conversion considerations

Some supplies may be made on a periodic or continuing basis. Jurisdictions should clarify whether suppliers in such cases must treat each periodic or continuing component of the supply as if it were a separate supply for VAT accounting and subject each component to the exchange rate that applies to the reporting period in which it falls.

Jurisdictions that choose to develop or support the use of Application Programming Interfaces (APIs) by non-resident suppliers and digital platforms could make the official exchange rate available to these businesses through an API to facilitate the conversion of foreign currency for returns and payments. Subsection 5.3.3.2.iii contains further analysis of APIs. Alternatively, they could also provide for a currency conversion tool in the VAT return.

5.2.6.4. Foreign currency conversion rules for determining whether supplies of goods are "low-value"

Under a simplified compliance regime for imports of low-value goods, non-resident suppliers and digital platforms need to determine whether goods sold in a foreign currency meet the definition of a low-value good in the jurisdiction of importation. This determination will normally need to be made by reference to that jurisdiction's customs duty low-value relief threshold.

These non-resident suppliers and digital platforms will need to know what currency conversion mechanism they should apply to determine whether goods sold in a foreign currency should be treated as "low-value", including at what time this valuation and conversion must be carried out. Possible approaches to establishing the appropriate time for determining the value of goods supplied by non-resident suppliers and digital platforms under a simplified compliance regime, and the related currency conversion, include:

- The time that the customer orders the goods;
- The time when the consideration for the supply is agreed with the customer (e.g. Australia);
- The time when a customer provides a contractual signature or a supplier processes a contract;
- The time when a supplier issues an invoice;
- The time when a customer makes a payment; or
- The time that is relevant for customs procedures (if this is not one of the above).

Customs authorities should be made aware of any conversion rules that are allowed under a simplified compliance regime for non-resident suppliers and digital platforms that differ from the normal rules that apply to imports and have access to the necessary data to apply these rules.

5.2.7. Settlement of VAT due

> It is recommended that jurisdictions facilitate the ease of settlement of VAT due under a simplified compliance regime by enabling electronic payment. Clear guidance must be provided on the accepted means of payment.

The following aspects can be considered in designing an approach to facilitate the settlement of VAT due by non-resident suppliers and digital platforms under a simplified compliance regime:

- Provide the possibility for non-resident suppliers and digital platforms to use a suitable range of available electronic payment options that are low-cost and adequately secure.

For example: New Zealand offers a wide range of payment methods for non-resident suppliers and digital platforms in addition to more conventional payment options. These options include payment methods offered by businesses such as "OFX", "OrbitRemit", "Western Union" and "xe.com".

- Accept payments in the currencies of the taxing jurisdiction's main trading partners. As an example, Nigeria accepts payments in NGN, USD, EUR and GBP under its simplified compliance regime. Nigeria also provides non-resident suppliers with information on how to convert payments in currencies other than the four designated above into one of those currencies for remittance purposes by using the Central Bank of Nigeria published rate.[78]

  Jurisdictions will have to indicate the conversion rate to be used for the payment of VAT due in a foreign currency. Jurisdictions may wish to limit suppliers' and platforms' ability to choose the currency in which they make their VAT payments by requiring that they utilise only the currency they selected and requiring them to obtain approval from the tax authority before switching to another currency.
- Exempt non-resident suppliers and digital platforms under a simplified compliance regime from any requirement to maintain a local bank account. Opening a local bank account abroad can be a very burdensome administrative process for a non-resident supplier or digital platforms including, for example, extensive proof-of-identity checks. Jurisdictions should refrain from mandating the opening of a local bank account especially if doing so would require the non-resident business to create a presence in the jurisdiction in order to act as proprietor of the account. Nigeria has published details of the Central Bank of Nigeria accounts into which electronic transfers may be made, one for each of GBP, Euro and USD, and it has published details of the Banks and branches outside Nigeria into which each of these currencies may be paid.[79]
- Ensure that appropriate safeguards are in place to mitigate risks from potential attacks on electronic payment channels (see subsection 5.3.3.2, notably parts (i) and (v) to (vii)).

Tax authorities are advised to clarify whether non-resident suppliers and digital platforms should bear the costs of foreign currency conversion and any fees that banks or payment service providers (PSPs) charge to ensure that the VAT due is settled in full and that the tax authority does not experience a shortfall.

The online portal for a jurisdiction's simplified compliance regime should normally generate a payment reference number when a supplier or platform files its VAT return or provide the supplier or platform a payment reference upon registration, which it can retain for all payments. The supplier can then specify the payment reference number as an identifying reference for its bank or PSP to cite when executing the payment. The tax authority can then more easily reconcile the payment with the supplier's or platform's VAT return. Providing a standard payment reference number unique to a particular supplier or platform may assist it in managing its accounting system more effectively. Following payment, tax authorities are advised to send a notification or receipt to the supplier through a secure channel and confirm settlement of the VAT due on the supplier's or platform's online taxpayer account.

Tax authorities should clearly communicate the interest or penalties that may apply to late payments, including the circumstances under which tax authorities may waive or reimburse the interest or penalties. When suppliers or platforms overpay VAT, jurisdictions must ensure that these businesses understand

[78] Nigerian FIRS (2021), *Guidelines on Simplified Compliance Regime for Value Added Tax (VAT) for Non-Resident Suppliers, No. 2021/19*, https://www.firs.gov.ng/wp-content/uploads/2021/10/Guidelines-on-Simplified-Compliance-Regime-of-VAT-for-Non-Resident-Suppliers-15102021.pdf. See paragraph 19.7.
The Central Bank of Nigeria publishes foreign exchange rates at: www.cbn.gov.ng

[79] Nigerian FIRS (2021), *Guidelines on Simplified Compliance Regime for Value Added Tax (VAT) for Non-Resident Suppliers, No. 2021/19*, https://www.firs.gov.ng/wp-content/uploads/2021/10/Guidelines-on-Simplified-Compliance-Regime-of-VAT-for-Non-Resident-Suppliers-15102021.pdf. See paragraphs under section 19.0.

any time constraints that apply to the processing of refunds and any arrangements for the payment of interest on overpayments. Subsection 5.2.9.4 provides further analysis of refunds and amendments.

Tax authorities should consider the design features analysed in subsections 5.3.1 through to 5.3.3, which relate to building and maintaining the operational and IT-infrastructure for an online portal for simplified registration and collection that is secure and robust and includes payment processing and protection of confidential financial and banking data of non-resident suppliers and digital platforms.

5.2.8. The role of tax agents and intermediaries other than digital platforms under a simplified registration and collection regime

Guide to subsection 5.2.8.

Compliance by non-resident suppliers and digital platforms can be further facilitated by allowing them to appoint a third-party service provider to act on their behalf in carrying out certain procedures, such as submitting returns. This can be especially helpful for SMEs and businesses that are faced with multi-jurisdictional obligations.

Non-resident suppliers and digital platforms may opt to use the services of a variety of intermediaries (other than digital platforms) to either assist or act on their behalf in complying with their VAT obligations. The decision to use intermediaries may arise because of commercial preferences or for legal reasons (for instance, where a business adopts distribution arrangements with third parties to serve a specific region or jurisdiction). For some businesses that trade across international borders, especially for SMEs, it may simply be more practical to use the services of intermediaries to comply with their VAT obligations abroad rather than having to build and maintain in-house expertise to directly manage all of the tax obligations in every jurisdiction into which they make sales. Specialised service providers increasingly offer compliance services for VAT and other taxes in many jurisdictions. This is often an attractive option for businesses with multi-jurisdictional tax exposure but limited in-house capacity to manage VAT-compliance processes for all the jurisdictions into which they make sales.

This subsection focuses on a number of administrative considerations for the treatment of such intermediaries, other than digital platforms (which are analysed separately in subsection 2.3.4.4), under a simplified compliance regime for non-resident suppliers and digital platforms.

5.2.8.1. Compliance facilitation services by specialised third-party service providers

With the development and implementation of vendor collection regimes across numerous jurisdictions, traditional service providers such as accounting, legal, payment and software service providers, have expanded their service offerings to assist non-resident businesses in complying with their VAT obligations under these regimes. In addition, specialised third-party service providers have emerged that offer services to assist businesses in complying with their VAT obligations under vendor collection regimes in jurisdictions worldwide. By representing business clients across multiple jurisdictions, these providers often have a higher level of understanding of each jurisdiction's rules than individual businesses. The activity of these service providers is likely to contribute to greater consistency in businesses' compliance approaches, to enhance compliance levels while reducing compliance costs for businesses engaged in digital trade, particular for SMEs.

While many larger non-resident businesses may prefer to directly manage all aspects of their interactions with tax authorities, others may instead prefer to use third-party service providers to assist with specific compliance tasks, such as VAT calculation and remittance, return filing and record-keeping. The contractual VAT liability normally remains with the supplier or digital platform under such arrangements.

In reflecting on the design of a registration, reporting and payment portal, jurisdictions may consider the option of allowing third-party service providers to establish their own electronic identity credential and link to their clients' online accounts so that they can more easily undertake these functions on their client's behalf. This may first require the non-resident business to register in its own name and establish its own credentials before granting access to its third-party representative.

5.2.8.2. Commercial intermediaries that take on contractual liability for VAT compliance on behalf of a non-resident supplier or digital platform

A non-resident supplier or digital platform may have entered into a commercial agreement with a third party whereby the third party agrees to assume contractual liability for VAT compliance, including VAT payment, on behalf of the non-resident business as part of the contractual arrangement. The reasons why businesses may wish to enter into such contracts are manifold. It is common in online trade, for example, for online suppliers to outsource their customer-facing processes in a certain market to e-commerce intermediaries that may be specialised in that market and that provide a full suite of services, including communication with consumers and secure electronic delivery. These commercial arrangements may also include an agreement whereby the commercial intermediary takes on the responsibility for VAT compliance on behalf of the non-resident business. Such a contractual arrangement may (often) not be known to the tax authority in the taxing jurisdiction.

A commercial intermediary acting on behalf of a non-resident supplier or digital platform as described above will, in practice, often itself be a digital platform that will be subject to full VAT liability obligations under the taxing jurisdiction's simplified compliance regime (see subsections 2.3 and 3.3). Where this is not the case, or where a jurisdiction has not implemented such a full VAT liability regime, the contractual arrangement between a non-resident business and the third party should in principle not affect the VAT-liability of the non-resident business towards the tax authority in the taxing jurisdiction. The non-resident supplier will normally remain responsible for its VAT obligations in accordance with the rules of the taxing jurisdiction, even though it may have contractually agreed with a third party that the latter will assume responsibility for carrying out these obligations on its behalf. This is no different from the arrangement whereby a third-party service provider carries out compliance tasks for a non-resident supplier as outlined in the previous subsection.

Tax authorities could consider allowing such commercial intermediaries to take on the full liability to account for the VAT on the supplies made by a non-resident business in the jurisdiction and to comply with all the associated VAT obligations. Tax authorities may wish to limit such a treatment to commercial intermediaries with a good compliance record or with a low-risk compliance status. Such a treatment could be subject to the condition that the full content of the commercial agreement between the non-resident business and commercial intermediary is disclosed to the tax authority with the requirement to inform the tax authority promptly of any changes to these arrangements. The tax authority would need to be satisfied that the intermediary is fully capable of complying with all requirements for non-resident businesses under a simplified compliance regime, including that:

- It is either in possession of the information needed to make the appropriate taxing decisions and to meet the compliance obligations under the simplified compliance regime, including in respect of corrections and refunds to customers, or that it can readily access that information. This includes appropriate controls for determining the status (private consumer or business) and location (usual residency or permanent business establishment) of the customers of the supplies for which it assumes VAT liability.
- It has access to the relevant accounting data, software systems and records to facilitate any tax authority request for information.

5.2.8.3. Local fiscal representatives

Tax authorities in Africa may have historically required non-resident suppliers to appoint a local fiscal representative who is a resident or has an establishment within the jurisdiction to be responsible for the tax obligations of non-resident businesses. This was particularly common when such international transactions were relatively limited in number and individual transactions involved relatively high amounts. The requirement to appoint such a fiscal representative was usually motivated by a range of policy considerations such as the fiscal representative's understanding of local language and of national laws and its easier access to accounting and other documentation.

At the moment, many African jurisdictions continue to require the use of tax representatives to pay VAT on behalf of non-resident suppliers,[80] and, in many jurisdictions, this is the case even where registration obligations for non-resident suppliers have been introduced. Sometimes the legal obligations both apply simultaneously. In some cases, the use of a representative is employed as an alternative to supplier registration processes, as in Nigeria where it is offered as an option for non-resident vendors. The parallel operation of both the legacy rules of VAT representatives and registration obligations for non-resident suppliers can be confusing and unclear to non-resident businesses, and it may be preferable to remove the tax representative rules where registration obligations for non-resident suppliers are employed. South Africa has removed requirements for the appointment of fiscal representatives in relation to “Foreign Electronic Service Entities” and non-resident intermediaries (digital platforms), which are not required to appoint a representative in South Africa.

Where there is joint liability for VAT debts, fiscal representatives take on a significant amount of risk on a non-resident business’s behalf. Consequently, to be accepted by a fiscal representative there is usually a detailed due diligence process to be completed. In addition, most fiscal representatives will require the taxpayer to provide a financial guarantee. Guarantees typically take the form of bank guarantee or cash deposit.

Notwithstanding the potential of such a fiscal representative to facilitate tax collection and enforcement, in theory, the mandatory nature of such an appointment may result in unintended consequences in practice. Non-resident businesses facing the obligation to appoint such a person in the taxing jurisdiction may decide that it is too onerous and costly to do so – or they may find that it is practically impossible to find a fiscal representative that is willing to take on non-resident businesses’ responsibility under a vendor collection regime in the taxing jurisdiction. Accordingly, they may decide instead to restrict their trade with that jurisdiction or not comply with the rules there, particularly when sales for relatively low amounts or with relatively small profit margins are involved. For a small business with a modest turnover in the taxing jurisdiction, the cost of maintaining a fiscal representative may be disproportionate to its revenue, particularly in cases where the fiscal representative shifts the financial risks of non-compliance to the non-resident business by requiring it to provide a financial guarantee.

[80] These jurisdictions include Algeria, Angola, Cameroon, Tanzania, Zambia and Zimbabwe, among other jurisdictions.

It is therefore recommended that jurisdictions do not require the appointment of a local fiscal representative under a simplified compliance regime for non-resident suppliers and digital platforms.

The overall simplicity and mitigation of fraud risks that are inherent in the design of simplified VAT registration and collection regimes effectively remove the need for a local fiscal representative. The Republic of Korea and Singapore, for example, allow such representation as a voluntary option for non-resident businesses.

5.2.9. Additional elements in developing the administration for simplified VAT registration and collection regimes

Guide to subsection 5.2.9.

5.2.9.1. Changing registration types and cancelling VAT registration

Non-resident suppliers and digital platforms registered under a simplified compliance regime may request to change to a standard VAT registration and vice versa. Where a tax authority permits such a change, it should communicate the process for changing and consider practical administrative matters for managing the transition, including maintaining continuity in suppliers' taxpayer accounts and records and ensuring that suppliers understand any changes in obligations resulting from switching registration types.

Jurisdictions should also set out a process for registrants to cancel their registration and for tax authorities to initiate cancellation in the interest of risk management. This should be complemented with guidance on registrants' ongoing obligations after the cancellation of their registration, such as a requirement to periodically self-assess whether they expect to exceed their registration threshold in the next 12 months.

5.2.9.2. Taking account of multiple VAT rates and VAT exemptions

Some African jurisdictions, such as Angola and Chad, maintain differential VAT rates that could also apply to online sales depending on the nature of the supply. A number of jurisdictions on the African continent also apply exemptions, e.g. the Democratic Republic of Congo for a range of supplies including some medical and educational services, and certain banking and financial services. The DRC also exempts some imports of staple foods, and the import and sale of inputs for agriculture. Where transactions in scope of a simplified compliance regime can be subject to such differential VAT treatments, the VAT return and reporting process under this regime should be designed to allow disaggregated reporting of sales revenues (turnover) and associated VAT due for each of the applicable VAT rates. The tax authority should also provide clear guidance whether it requires registration under the vendor collection regime for non-resident businesses that exclusively make exempt supplies and whether it requires registrants that make taxable as well as exempt supplies to report these exempt supplies under the simplified compliance regime. Tax authorities should assist suppliers in making the correct taxing decisions by publishing guidance material on identifying the correct VAT rate for a supply and on identifying exempt supplies.

5.2.9.3. Corrections and amendments to VAT returns

For a variety of reasons, non-resident suppliers and digital platforms may need to report corrections or amendments to VAT returns in connection with the output VAT that they have previously reported and paid. These corrections will typically result from orders being cancelled or sold goods that are returned but could also be caused by accounting or systems errors. Also tax authorities' audit or other compliance actions could result in a requirement for registrants to make corrections and amendments to VAT returns.

Jurisdictions have often required taxpayers to amend their original VAT return in case such corrections are needed. Experience suggests, however, that this could be particularly complex to administer by non-resident suppliers and digital platforms in practice under a simplified compliance regime. Tax authorities could therefore consider an alternative approach allowing such non-resident suppliers and digital platforms to account for amendments and corrections in their VAT return relating to the period during which the need or obligation to amend or correct their original return has been established. This could be made conditional upon this amendment or correction not resulting in a net refund outcome for that return period (see next subsection for the possible treatment of refunds).

VAT returns under a simplified compliance regime could include a data field for registrants to report the value of adjustments and, if considered necessary, a free-text field for suppliers to offer a brief explanation for the adjustments. Alternatively, the tax authority could develop a list of pre-determined summary explanations from which suppliers can select.

5.2.9.4. Refunds in case of overpayment, corrections and product returns

Although it is recommended that simplified compliance regimes be "pay-only" in nature, and thus not to make input VAT recovery available to registrants under such a regime, circumstances may arise where a refund of VAT for registrants could be warranted. Examples include, in particular, overpayments of VAT by suppliers and refunds made by suppliers or platforms to their customers after a product recall.

Jurisdictions should consider how to manage the process for providing such refunds from a practical standpoint, including relevant time limitations commensurate with those for domestic suppliers. Tax authorities will need to undertake essential verification checks to establish the validity of the registrant's refund position and to ensure that the funds are distributed to the appropriate entity and bank account.

Specific guidance will be required for refunds or amendments in VAT returns under a simplified compliance regime where low-value imported goods have been subjected to VAT twice, i.e. once at the point of sale and once at importation (see subsection 5.2.11). To minimise risks of abuse, jurisdictions are advised to restrict access to such refunds and adjustments to situations where the supplier or digital platform has evidence of:

- The reimbursement of the VAT charged on the supply to the customer; and
- The payment of the import VAT to the customs authorities, e.g. on the basis of a customs declaration or other information indicating the payment of the import VAT by the customer.

5.2.9.5. VAT treatment of non-resident suppliers' and digital platforms' bad debts

A bad debt is a receivable that is no longer collectible for a business because a customer is no longer able to fulfil its payment obligation. Tax authorities need to clarify to registrants under a simplified compliance regime how they should treat the VAT on supplies that are likely to remain unpaid by their customers. VAT regimes often include provisions allowing a business to claim a refund for the VAT that it has previously reported and remitted in respect of such unpaid supplies, subject to certain conditions on the basis of which it is reasonable to accept that those invoices have indeed become uncollectible ("VAT bad debt relief"). Tax authorities will need to clarify the application of such "VAT bad debt relief" provisions under a simplified compliance regime.

A specific issue may arise for a digital platform under a full VAT liability regime, where it allows customers to pay the price of the transaction it facilitates directly to the underlying supplier (including the amount of VAT the platform is required to collect) and where the underlying supplier subsequently does not forward that amount of VAT to the digital platform that is liable for remitting it to the tax authorities. To address such cases, New Zealand allows digital platforms to claim GST bad debt relief (see Box 5.11).

Box 5.11. Jurisdiction example: New Zealand

New Zealand allows digital platforms to claim GST bad debt relief under the following conditions:

- The platform and the underlying supplier are not associated persons;
- The platform operator charges the underlying supplier a fee for making the sale on its platform;
- The platform files a GST return for the taxable period during which it facilitated the sale and includes the sale and the amount of GST on the sale in the return;
- The customer pays the underlying supplier directly for the supply, and the platform and the underlying supplier have an agreement that requires the underlying supplier to pay the platform an amount that includes the GST on the sale that the platform has accounted for in its return;
- The underlying supplier fails to pay the platform the entire amount that it is contractually obligated to pay in relation to the sale;
- The platform has written off this entire amount as a bad debt, including its fee or commission on the sale. This prevents the platform from claiming bad debt relief for the GST in the situation where it did receive some money from the underlying supplier.

Source: New Zealand, *Goods and Services Tax Act 1985*, Part 3: "Returns and payment of tax", Section 26AA: "Marketplace operators: bad debts for amounts of tax", https://www.legislation.govt.nz/act/public/1985/0141/latest/whole.html#LMS289937

5.2.9.6. Regularisation of non-resident suppliers or digital platforms that failed to register

Jurisdictions could consider encouraging regularisation by non-resident suppliers or digital platforms that failed to register through a voluntary compliance scheme that strikes an appropriate balance between incentivising those engaged in non-compliance to come forward and not rewarding or encouraging such conduct.[81]

Tax authorities could notably consider facilitating such regularisation by allowing these businesses to report supplies made before their registration and for which they were required to collect and remit the VAT, in the first return that they submit following their registration under the simplified compliance regime. Such regularisation could be considered on a case-by-case basis so as to minimise risks of abuse.

5.2.9.7. Vouchers and discounts

Vouchers and discounts are common features of online trade. Examples may include, but are not limited to, simple book tokens, gift vouchers, pre-paid cards and general electronic vouchers that consumers can purchase from specialised businesses.

VAT regimes often distinguish between single-purpose and multi-purpose vouchers,[82] thereby applying broadly the following approaches:

- Single-purpose vouchers are vouchers for which their issuer generally knows in advance which goods or services will be supplied in exchange for the voucher and what is the appropriate VAT treatment (taxable amount, tax rate, place of supply, etc.). This allows an approach whereby the issuer of the voucher or a person transferring it is made liable for the VAT at the point of issuance or transfer of the voucher.
- Multi-purpose vouchers are generally vouchers that issuers do not designate for a single purpose and that consumers can redeem for a variety of goods or services. The place of taxation of the supplies that are paid for by means of a multi-purpose voucher may not be determinable until the consumer redeems the voucher – and these goods or services may be subject to a standard, a reduced, or a zero VAT rate or be exempt in the jurisdiction of taxation. Jurisdictions generally treat the exchange of multi-purpose vouchers as though they were the consideration for the supply and therefore apply VAT at the point where the consumer redeems the voucher, in full or in part, for the supply. In addition, at the end of a defined time period following purchase, jurisdictions may subject any remaining unused portion of the voucher to VAT at a standard rate.

Jurisdictions should carefully consider how they wish to treat these supplies and how other jurisdictions may assert their taxing rights, especially in relation to multi-purpose vouchers. This is necessary to provide certainty to non-resident suppliers and digital platforms that accept payments in the form of vouchers and to minimise risks of double taxation and unintended non-taxation.

Importantly, the jurisdiction where a voucher is issued may be different from the jurisdiction where the voucher is redeemed. International distribution chains for vouchers accentuate the risk of non-taxation due to lack of clarity in different jurisdictions' rules as to how suppliers should treat such voucher payments. Tax authorities may wish to engage directly with voucher issuers to establish measures to mitigate these risks.

Jurisdictions should also consider the appropriate treatment of certain types of discounts. Two common examples of discounts in online trade are the following:

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[81] For more details on encouraging voluntary disclosures, see for example: OECD (2015) *Update on voluntary disclosure programmes a pathway to tax compliance*, https://www.oecd.org/ctp/exchange-of-tax-information/Voluntary-Disclosure-Programmes-2015.pdf

[82] See the example for the United Kingdom's approach: HM Revenue & Customs (2019), *VAT: treatment of vouchers from 1 January 2019*, https://www.gov.uk/government/publications/changes-to-the-vat-treatment-of-vouchers/vat-treatment-of-vouchers-from-1-january-2019

- Discount from a digital platform to an underlying supplier: digital platforms may provide volumetric or promotional discounts to underlying suppliers to promote suppliers' use of their platform. This will generally involve an arrangement purely between the platform and the underlying suppliers that sell via that platform. It will normally take the form of a reduction in the commission fee that the platform charges the underlying supplier and will not directly relate to the supply by the underlying supplier to its customers. Such a discount will thus normally not impact the VAT that is due on the supplies made by the underlying suppliers to customers in the jurisdiction of taxation.
- Discount from a supplier to a customer: a supplier can provide discounts to consumers to encourage higher levels of purchases or to reward consumer loyalty. Such discounts directly reduce the total price that the consumer pays and will thus reduce the VAT liability on the supply to the customer in the jurisdiction of taxation (for the supplier or for the digital platform that has full VAT liability for such a supply under a jurisdiction's simplified compliance regime for non-resident suppliers).

5.2.10. Special considerations for imports of low-value goods: Determining whether goods are within the scope of the vendor collection regime

Guide to subsection 5.2.10.

5.2.10.1. Alignment with customs valuation rules for determining whether a good is "low-value"

Jurisdictions should provide clear guidance to non-resident suppliers and digital platforms on the valuation methodology for determining whether a supply relates to a low-value or a higher-value imported good. A proper approach requires alignment of the VAT valuation criteria with the valuation criteria that customs authorities use in assessing imports against the customs duty low-value relief threshold. Lack of alignment or lack of clarity on this aspect creates substantial risks of double taxation and unintended non-taxation.

Customs authorities will generally use the "customs value" of goods to determine whether VAT and customs duties should apply at importation under the applicable low-value consignment relief regimes, if any. This value is usually exclusive of transport, insurance, import duties, taxes and other charges.

A vendor collection regime for supplies of low-value imported goods by non-resident suppliers is normally targeted exclusively, or primarily, at goods below a jurisdiction's customs duty low-value consignment relief threshold (low-value goods). Such a regime transfers the responsibility to collect and remit the VAT on these low-value imported goods from the customs authorities to the non-resident suppliers that supply them or to the digital platforms that facilitate these supplies. Customs rules setting out customs authorities' role in the collection of import VAT will often distinguish between goods with a customs value "below" or "at or below" the customs duty low-value consignment relief threshold and other goods. To ensure consistency between the VAT and the customs processes, tax authorities must ensure alignment of terminology used in customs and VAT rules setting out the scope and operation of the vendor collection regime and in their communication towards the non-resident suppliers and digital platforms that will have VAT obligations under the vendor collection regime.

Box 5.12. Example – Threshold for customs duty relief on low-value imported goods and application of the vendor collection regime

If a jurisdiction sets its threshold for customs duty relief on low-value imported goods to apply to goods with a value below USD 100, then the rules that impose VAT collection responsibilities on non-resident suppliers and digital platforms should likewise generally apply only to goods below USD 100. In this scenario, goods of a value of USD 100 or greater are higher-value goods and customs authorities remains legally responsible for VAT collection at the time of importation.

- Risks of double taxation arise where the jurisdiction does not clearly communicate to non-resident suppliers and digital platforms in its legislation and guidance that they should not collect VAT on goods of USD 100 (and above).

If the jurisdiction sets the customs duty low-value relief threshold to apply to goods at or below USD 100, then goods of a value of USD 100 are low-value and subject to VAT collection responsibilities for non-resident suppliers and digital platforms at the point of sale.

- Risks of unintended non-taxation arise where the jurisdiction does not clearly communicate to non-resident suppliers and digital platforms in its legislation and guidance that that they should collect VAT on goods of USD 100 (and below).

Source: OECD analysis.

It is crucial to clarify that non-resident suppliers and digital platforms should use the specified valuation methodology only for determining if goods are of low-value and thus whether or not they are subject to the vendor collection regime. This valuation methodology does not determine the tax base for the calculation of VAT due on the supply, which the non-resident supplier or digital platform must determine at the point of sale. This tax base for VAT normally includes the full value of the supply including transport and insurance costs.

5.2.10.2. VAT treatment of multiple (low-value) goods in a single consignment

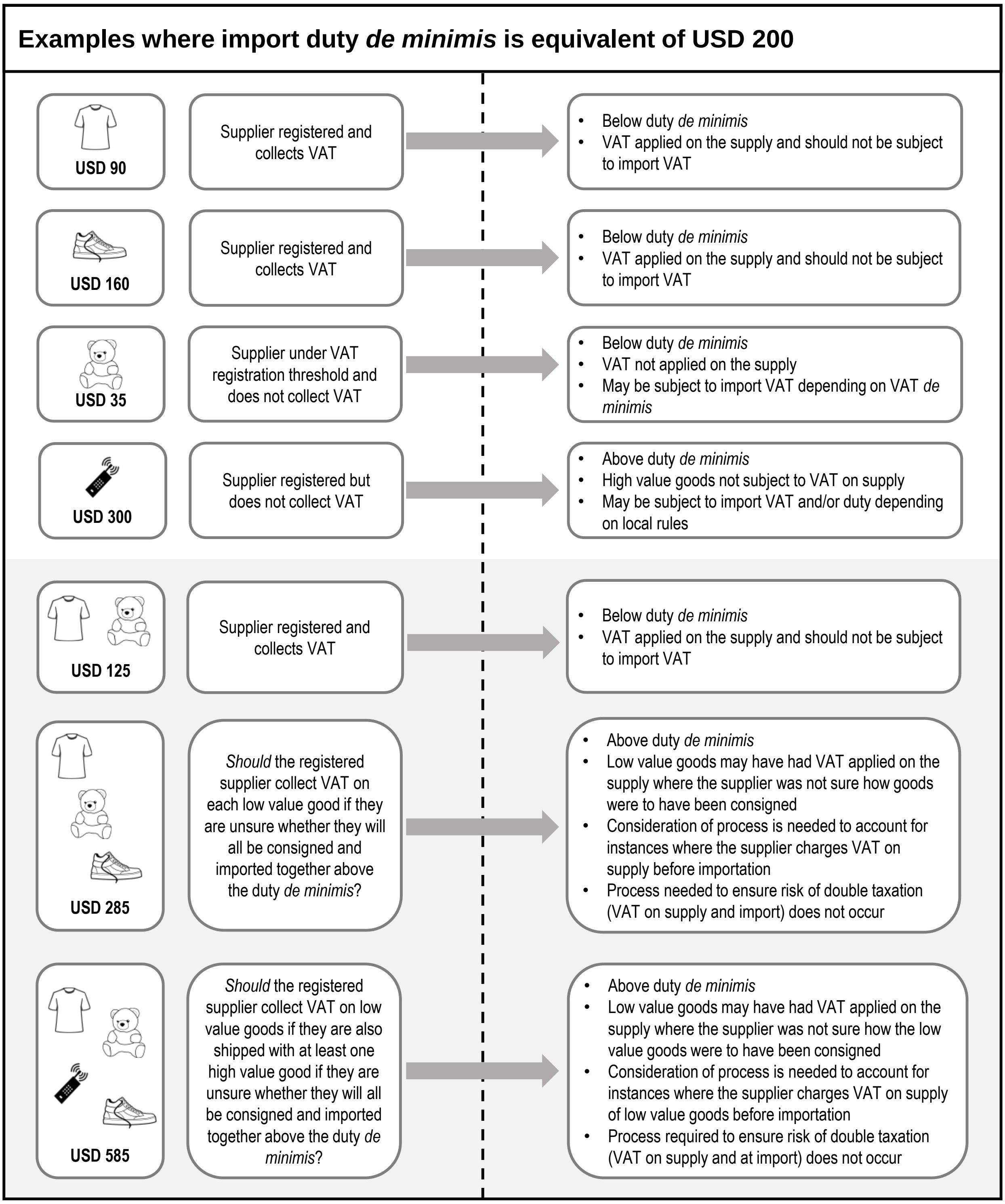
The jurisdictions that have introduced a vendor collection regime transferring the VAT liability for low-value imported goods to non-resident suppliers and digital platforms, have limited those obligations to goods below their customs duty low-value consignment relief threshold. VAT on the importation of consignments above that threshold continues to be collected by the customs authorities. In practice, determining whether a consignment containing low-value goods is below or above the customs duty low-value relief threshold can be challenging in a number of circumstances, in particular:

- Where a supplier sells multiple low-value goods and transports them together in a single consignment to the jurisdiction of importation, which results in that consignment having an aggregate value above the customs duty low-value relief threshold. The supplier or the digital platform that facilitates this supply may not always be aware that this is the case, for instance, when a third-party services provider arranges packaging and transportation.
- Where one or more high-value goods form part of a single consignment including low-value goods that may therefore collectively exceed the customs duty relief threshold upon importation.

The VAT collection responsibilities of non-resident suppliers and digital platforms and of customs authorities in these scenarios needs to be clarified respectively, in both the relevant customs and VAT laws and in communication with non-resident suppliers and digital platforms. The approach adopted by a jurisdiction in this context is likely to impact the customs clearance processes for imports of low-value goods.

Figure 5.2 provides an illustrative overview of key issues to consider in this regard.

Figure 5.2. How the composition of a consignment can affect the operation of a vendor collection regime for low-value imported goods – Illustrative examples



Source: OECD analysis.

Jurisdictions have taken the following approaches for the treatment of multiple low-value goods that are presented in a single consignment at importation under their vendor collection regime for low-value imported goods:

- **The "item-level" approach**: Australia, New Zealand and Norway take this approach by default. In practice, this means that non-resident suppliers and digital platforms must collect VAT at the point of sale on any good below the customs duty low-value relief threshold, irrespective of how these low-value goods will be packaged for transportation. This approach is usually complemented with other approaches, to avoid that tax is charged twice, namely at the point of sale and upon importation (see below for Australia and Norway and Box 3.3 for New Zealand).
- **The "high-value consignment exception" approach**: Australia takes this approach in a limited number of cases. This approach allows non-resident suppliers and digital platforms not to collect the VAT on the supply of a low-value good at the time of the supply, where they have a reasonable belief that this good will be transported to the jurisdiction of importation in one consignment with a total customs value exceeding the customs duty low-value consignment relief threshold. Customs authorities will then apply import VAT, duties and any charges upon importation of this consignment. Under this Australian approach, suppliers need to take reasonable steps to obtain information about whether or not Australian customs authorities would consider the goods to comprise a taxable importation, i.e. part of a consignment with a value above the customs duty low-value consignment relief threshold (Australian Taxation Office, 2018[69]). After taking these steps, the supplier must have a reasonable belief that the goods will form part of a taxable importation. In the case of Australia, because its customs duty low-value consignment relief threshold is relatively high at AUD 1 000 (USD 694), the incidence rate of suppliers with possible cause to apply the exception is relatively low. When non-resident suppliers and digital platforms are uncertain how goods will be transported, they must apply VAT on their supplies of all low-value goods at the point of sale, in accordance with normal obligations under Australia's vendor collection regime.
- **The "split value" approach for supplies comprising multiple goods**: This is the approach taken by Norway if multiple goods are supplied including both low-value goods and goods with a value above the NOK 3 000 (USD 312) customs duty low-value relief threshold or goods that are outside the scope of the Norwegian vendor collection regime for low-value imported goods (e.g. foodstuffs or restricted goods). Under this approach, suppliers must send the goods in separate consignments to avoid a requirement for a full customs declaration for the low-value goods component of the order. On the other hand, if multiple goods are supplied that individually have a value of less than NOK 3 000 (and none of the goods are foodstuffs or restricted goods) they are still considered "low-value goods", even if the total value of the consignment exceeds the NOK 3 000 threshold. The supplier must collect VAT on each item but the supply may be shipped in one single consignment.[83]
- **The "consignment value" approach**: In the European Union, the value of the consignment determines whether VAT is due at importation or at the point of sale under the vendor collection regime. This means in practice that supplies of goods imported together in a single consignment exceeding EUR 150 (USD 158; i.e. the customs duty relief threshold) are not within the scope of the vendor collection regime but subject to import VAT, even if the value of some of those goods individually is below this threshold.[84] Where the supplier is not aware at the point of sale that the goods will be imported in a single consignment, it will charge VAT for the supplies of goods with

[83] See further Norwegian Tax Administration's guidance on *VAT On E-Commerce - VOEC*, https://www.skatteetaten.no/en/business-and-organisation/vat-and-duties/vat/foreign/e-commerce-voec/

[84] For further detail and examples, see European Commission (2020), *Explanatory notes on VAT e-commerce rules*, https://ec.europa.eu/taxation_customs/system/files/2020-12/vatecommerceexplanatory_28102020_en.pdf

an individual value below the threshold. Jurisdictions are required to implement a mechanism to prevent or resolve cases where VAT has been collected twice under such an approach, e.g. by allowing adjustments in the VAT return under the simplified compliance regime if the supplier or digital platform has sufficient proof that VAT was levied at importation and that it has refunded the VAT it had collected at the point of sale to the consumer (see subsections 5.2.9.3 and 5.2.9.4 and 5.2.11 for more details).

Under all these approaches, it is essential that customs processes at the time of importation are able to readily distinguish between imported goods on which suppliers or digital platforms have collected VAT at the time of supply and those on which they have not collected VAT. Subsection 5.2.11 provides further detailed guidance on the design of these processes.

5.2.10.3. Potential expression of relief thresholds in a reserve currency or a major trading partner's currency

Jurisdictions could provide additional certainty to non-resident suppliers and digital platforms by expressing their customs duty and VAT low-value consignment relief thresholds in a reserve currency or major trading partner's currency. This may be particularly useful to consider for relatively small economies or economies with a relatively volatile domestic currency. This can facilitate compliance for non-resident suppliers and digital platforms with their VAT obligations under a vendor collection regime for low-value imported goods taking into account existing practices in global e-commerce, including the following:

- Vendors will not always set the price of the goods they offer for sale in the currency of the jurisdiction to which these goods will be transported.
- Suppliers and digital platforms will not always transact (i.e. settle customer payments) in the currency of the jurisdiction to which the goods will be transported.
- Suppliers and digital platforms would need to continuously update the exchange rates in their business and compliance systems to determine the appropriate VAT treatment of goods that they sell and transport to jurisdictions whose VAT or customs duty low-value consignment relief thresholds are denominated in a currency other than the currencies it uses for conducting its business (which are generally the main global currencies). Suppliers would therefore need ready access to accurate exchange rates that reflect real-time values. Obtaining this information could be difficult with respect to currencies that businesses do not normally use in global markets. Without access to accurate rates, the risk of systematic double taxation or unintended non-taxation increases significantly if the exchange rate used by the supplier at the time of sale is consistently and materially different from that used by the customs authority when the goods are cleared at importation.

Angola, Côte d'Ivoire and Zimbabwe, for example, operate a customs duty and import VAT low-value relief threshold based on USD.

5.2.11. The critical role of data to determine the VAT-settlement status of low-value imported goods at importation, to minimise risks of double taxation and unintended non-taxation

Guide to subsection 5.2.11.

Section	*Theme*	*Page*
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Double taxation and non-taxation risks arise especially where customs authorities are unable to identify, from available information at importation, the VAT settlement status of consignments of low-value goods at the time of importation. This subsection considers the information reporting requirements and data sharing approaches to support tax and customs authorities' strategies to minimise risks of double taxation, under-taxation, and unintended non-taxation under a vendor collection regime for low-value imported goods. Minimising these risks helps protecting revenue and avoiding cases where complex and burdensome refunds and adjustments may be necessary (see subsection 5.2.9.4).

This subsection first outlines key risks and causes of possible double taxation and unintended non-taxation or under-taxation. It then explores possible approaches and available tools for data collection and data exchange to support tax and customs authorities' risk management strategies, including data sharing between the tax and customs authorities in the jurisdiction of taxation.

5.2.11.1. Risks of double taxation and unintended non-taxation

> The main risks of double taxation under a vendor collection regime for low-value imported goods arise where a non-resident supplier or digital platform collects VAT at the point of sale while customs authorities also assess and collect import VAT on these goods at importation.

This can follow from errors in determining the appropriate VAT treatment by either the supplier or digital platform or by customs authorities. Alignment of policies, legislation and procedures for setting out the respective VAT collection responsibilities of the various parties involved will mitigate these risks. Decisions at the policy design stage can in particular affect a jurisdiction's exposure to these risks, including in respect of the issues outlined below.

- **Use of the customs-based collection process as a fall-back.** A jurisdiction may decide that VAT must be collected at importation under the traditional customs process on any low-value imported good for which the customs authorities cannot ascertain that the VAT has been collected by the supplier or digital platform at the point of sale (see subsection 3.2.2.7.i). This creates a necessity for customs authorities to verify at the time of importation whether the VAT on such goods has been collected at the point of sale. A lack of a robust verification process or any flaws are likely to increase risks of double taxation, and considerable complexity, as customs authorities will be required to collect the VAT on any low-value consignments for which they do not have the necessary information to determine the VAT-settlement status at the time of importation.
- **Customs duty low-value relief thresholds**. The level of the customs duty low-value relief threshold directly affects the proportion of imported low-value goods on which non-resident suppliers and digital platforms must collect VAT at the time of supply. The lower the proportion of goods with a value close to the customs duty low-value relief threshold, the lower the potential for incidences of double taxation due to errors by either suppliers or customs authorities or because of different approaches to conversion of foreign currencies (e.g. different sources of exchange rates or methodologies for determining the time and date on which to base currency conversion).
- **Rules for the treatment of consignments containing multiple goods**. Consumers often purchase more than one good, which suppliers or digital platforms package and collectively consign to the jurisdiction of destination. Such packages could contain a low-value good and a high-value good or, alternatively, two or more low-value goods that together have a value above the customs duty low-value relief threshold. Jurisdictions must provide certainty to customs authorities as well as to suppliers and digital platforms on the treatment of such consignments to minimise risks of double taxation as a result of both parties electing to collect VAT on the same goods. All other relevant parties to the sale and the delivery of the goods, such as transporters, should understand their obligations and their reporting requirements. Subsection 5.2.10.2 discusses the VAT treatment of multiple (low-value) goods in a single consignment in more detail.
- **Supplies of goods under a domestic fulfilment house model**. Compliant non-resident suppliers or digital platforms that make supplies of goods through fulfilment houses (see subsection 3.3.2.3) could face effective double taxation if they are unable to recover the VAT paid at the time of importation of the goods that are stored in the fulfilment house. This is because they must account for the VAT again when the goods are sold. Jurisdictions can facilitate timely recovery of the import VAT either by permitting registration under the standard VAT regime or through an alternative refund mechanism.

In addition to double taxation risks, there is also a potential for unintended non-taxation under the operation of a vendor collection regime for low-value imported goods. This can notably occur in the scenarios set out below.

- **Where a customs-based collection process is operated as a fall-back**:
  - Customs authorities will verify at importation whether VAT has been collected at the time of supply for consignments that are subject to the vendor collection regime for low-value imported goods. Where they are not satisfied that VAT was collected at the point of sale, customs authorities will collect the import VAT. Non-taxation may, for instance, occur when non-compliant suppliers or platforms fraudulently claim to have collected VAT at the time of supply and fraudulently use the VAT registration numbers of a compliant supplier or platform to evade detection and assessment by customs authorities at importation. This can include non-compliance by non-resident suppliers that sell through a digital platform, fraudulently using this platform's VAT registration number to evade VAT collection on sales they make to consumers outside this platform (direct sales).
- **Where a vendor collection regime for low-value imported goods is combined with an import VAT low-value relief threshold**:

  - Under such a regime, at the time of importation, the customs authorities will normally clear all goods with a value below the import VAT low-value relief threshold without collecting any import VAT. As a rule, the VAT will have been collected by the non-resident supplier or digital platform at the point of sale of these goods under the vendor collection regime (see subsection 3.2.2.7.ii). For non-resident suppliers or digital platforms that choose not to comply with their VAT registration and collection obligations under the vendor collection regime, however, this approach creates an opportunity to sell to customers in the jurisdiction of importation without remitting the VAT on these sales and while avoiding VAT collection at importation. Tax authorities need to implement robust risk-based compliance strategies to detect and address these instances of non-compliance.
- **Lack of co-ordination between a supplier and the digital platform with full VAT liability, in establishing the correct VAT status of the supplied goods:**
  - Where a digital platform has full liability for the VAT on a low-value imported good, a lack of co-ordination with the underlying supplier of this good can lead to non-taxation. This can notably occur where the underlying supplier incorrectly assumes that the platform has collected the VAT on the supply of a low-value good at the point of sale and therefore labels the packaging of its consignment to reflect this "VAT-paid" status. The digital platform, on the other hand, may have acted on the assumption that the underlying supplier would consign multiple low-value goods for the same consumer together in a single consignment with a value above the customs duty relief threshold, thus refraining from collecting VAT at the time of supply as VAT would in that case be collected by the customs authorities at importation. In such case, no VAT is collected at the time of supply nor at importation.

5.2.11.2. Minimising risks of double taxation and unintended non-taxation through reporting, data collection and data exchange

> Information is key to minimising risks of double taxation and risks of fraudulent or abusive practices undermining the integrity of the VAT system. However, jurisdictions should balance the benefits of information reporting requirements proportionately against the costs of compliance for businesses.

To ensure proper management of revenue risks and risks of double taxation under a vendor collection regime for low-value imported goods, while facilitating an efficient customs clearance process, customs authorities must have access to the appropriate information on the VAT settlement status of such goods at the time of importation. The following two components are essential in achieving that objective:

- Mandatory reporting by non-resident suppliers and digital platforms on the VAT settlement ("VAT-paid") status of consignments that are subject to the vendor collection regime;
- Appropriate processes and infrastructure to make that information available to customs authorities at the time of importation.

The most straightforward process that is currently available is one whereby non-resident suppliers and digital platforms are required to indicate on the labelling of the low-value consignment that VAT has been collected at the time of supply, thereby using readily available technology such as customised barcodes or "quick response" (QR) codes. This is discussed in further detail in the next subsection. This information needs to be complemented, for each of these consignments, with the VAT registration number of the supplier or digital platform that has collected the VAT on that low-value consignment at the point of sale. This should allow the customs authorities to verify the validity and reliability of the information concerning the VAT-settlement status as indicated on the consignment (e.g. whether the VAT-number is correct, whether it refers to a supplier or platform with an appropriate compliance record, etc.).

Ideally, the information on the suppliers' and digital platforms' VAT registration number is transmitted to the customs authorities via a secure electronic channel, with the appropriate cross-references to the low-value consignments for which they have collected the VAT at the point of sale. This approach limits the risk of fraud from the misappropriation of VAT-numbers by fraudulent actors (see below).

The use of such secure electronic channels may not (yet) always be possible, for instance, because the jurisdiction or an intermediary in the information chain (e.g. potentially postal operators in different jurisdictions) cannot facilitate the electronic data flow. In this case, the jurisdiction can require suppliers to inscribe their VAT registration number onto the package labelling, along with its VAT-settlement status. Customs authorities, and other key actors in the customs process such as transport intermediaries can thus visually identify the VAT-settlement status of the consignment relatively easily. Tax and customs authorities should be aware, however, that this approach to demonstrating the VAT-settlement status of consignments is vulnerable to fraud, particularly from the appropriation of compliant suppliers' and platforms' VAT registration numbers by fraudulent operators seeking to evade both charging VAT on supplies and assessment by customs authorities.

The information provided at the time of importation not only serves to avoid double taxation by identifying the goods on which VAT is already paid through the vendor collection regime. It also allows the cross-checking of customs information with the data reported by non-resident suppliers and digital platforms in their VAT returns with a view to counter unintended non-taxation. It should however be noted in this context that:

- Consumers often return goods and receive refunds, which is likely to lead to differences between the VAT liabilities that non-resident suppliers and digital platforms report in their VAT returns and the cumulative values that customs authorities record for imports (as customs authorities' records may not precisely capture export data/records for low-value goods that consumers return to suppliers).
- The value of goods for customs declaration purposes may not align exactly with the price that the consumer pays.
- The time of importation does not coincide with the time of supply of the goods. Therefore, the time of supply under a vendor collection regime (see subsection 3.2.2.9) may fall into a different reporting period than the submission of the customs declaration.
- Reporting inconsistencies may be caused by fraudulent actors using a supplier's VAT registration number without its knowledge.
- Transposition and other errors can occur when electronically recording the information on customs declarations.

The following subsections present further detailed guidance on information reporting tools and data sharing approaches to establish the VAT-settlement status of consignments at importation and to support tax and customs authorities' risk management strategies, including data sharing between the jurisdiction's tax and customs authorities in the jurisdiction of taxation. Further elaborations on risk management strategies, along with international administrative co-operation and information exchange issues, can be found in Section 6 of this Toolkit.

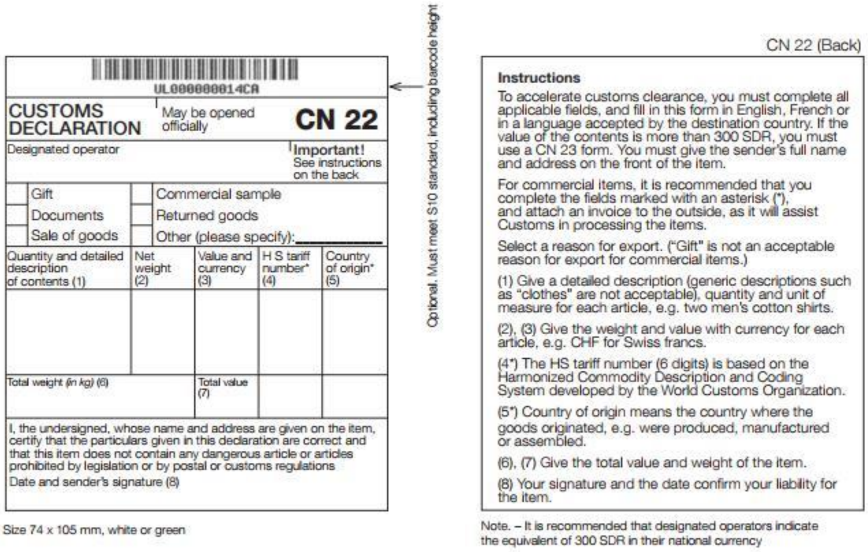
5.2.11.3. Labelling and other tools for reporting the VAT-settlement status of consignments at importation

A minimum level of information must accompany imports of low-value goods on which non-resident suppliers and digital platforms have already collected VAT under the vendor collection regime, including an indicator of VAT collection at the point of sale and the VAT registration number of the supplier.

If they have access to appropriate technology, jurisdictions could combine these minimum requirements with additional tools such as customised barcodes,[85] QR ("quick response") codes,[86] RFID (radio frequency identification) tags[87] that provide a link to key transactional and tax compliance information to confirm the identity of the supplier and the "VAT-paid" status of goods.

Jurisdictions should align as closely as possible with existing standards for information reporting and labelling for consignments or seek international recognition for any new standard. For example, in respect of electronic advance data for use in the international post (i.e. M33 ITMATT standard[88]), it is important to note that the "S 10" barcode standard is the only standard used by the UPU and postal authorities. The UPU guidance note *Identification of postal items - 13-character (Data definition and encoding standards identifier*) explains that the "identifier is used for visibility in the supply chain, for example in an ITMATT message for electronic advance data" (Universal Postal Union, 2018[70]).

Figure 5.3. Examples of an S10 identifier on paper CN22 and CN 23* customs declaration forms[1]


UL000000014CA
CUSTOMS DECLARATION
May be opened officially
CN 22
Designated operator
Important! See instructions on the back
Gift
Documents
Sale of goods
Commercial sample
Returned goods
Other (please specify):

Quantity and detailed description of contents (1)	Net weight (2)	Value and currency (3)	H S tariff number* (4)	Country of origin* (5)
Total weight (in kg) (6)		Total value (7)		

I, the undersigned, whose name and address are given on the item, certify that the particulars given in this declaration are correct and that this item does not contain any dangerous article or articles prohibited by legislation or by postal or customs regulations
Date and sender's signature (8)

Optional. Must meet S10 standard, including barcode height

Size 74 x 105 mm, white or green

CN 22 (Back)

Instructions

To accelerate customs clearance, you must complete all applicable fields, and fill in this form in English, French or in a language accepted by the destination country. If the value of the contents is more than 300 SDR, you must use a CN 23 form. You must give the sender's full name and address on the front of the item.

For commercial items, it is recommended that you complete the fields marked with an asterisk (*), and attach an invoice to the outside, as it will assist Customs in processing the items.

Select a reason for export. ("Gift" is not an acceptable reason for export for commercial items.)

(1) Give a detailed description (generic descriptions such as "clothes" are not acceptable), quantity and unit of measure for each article, e.g. two men's cotton shirts.

(2), (3) Give the weight and value with currency for each article, e.g. CHF for Swiss francs.

(4*) The HS tariff number (6 digits) is based on the Harmonized Commodity Description and Coding System developed by the World Customs Organization.

(5*) Country of origin means the country where the goods originated, e.g. were produced, manufactured or assembled.

(6), (7) Give the total value and weight of the item.

(8) Your signature and the date confirm your liability for the item.

Note. – It is recommended that designated operators indicate the equivalent of 300 SDR in their national currency

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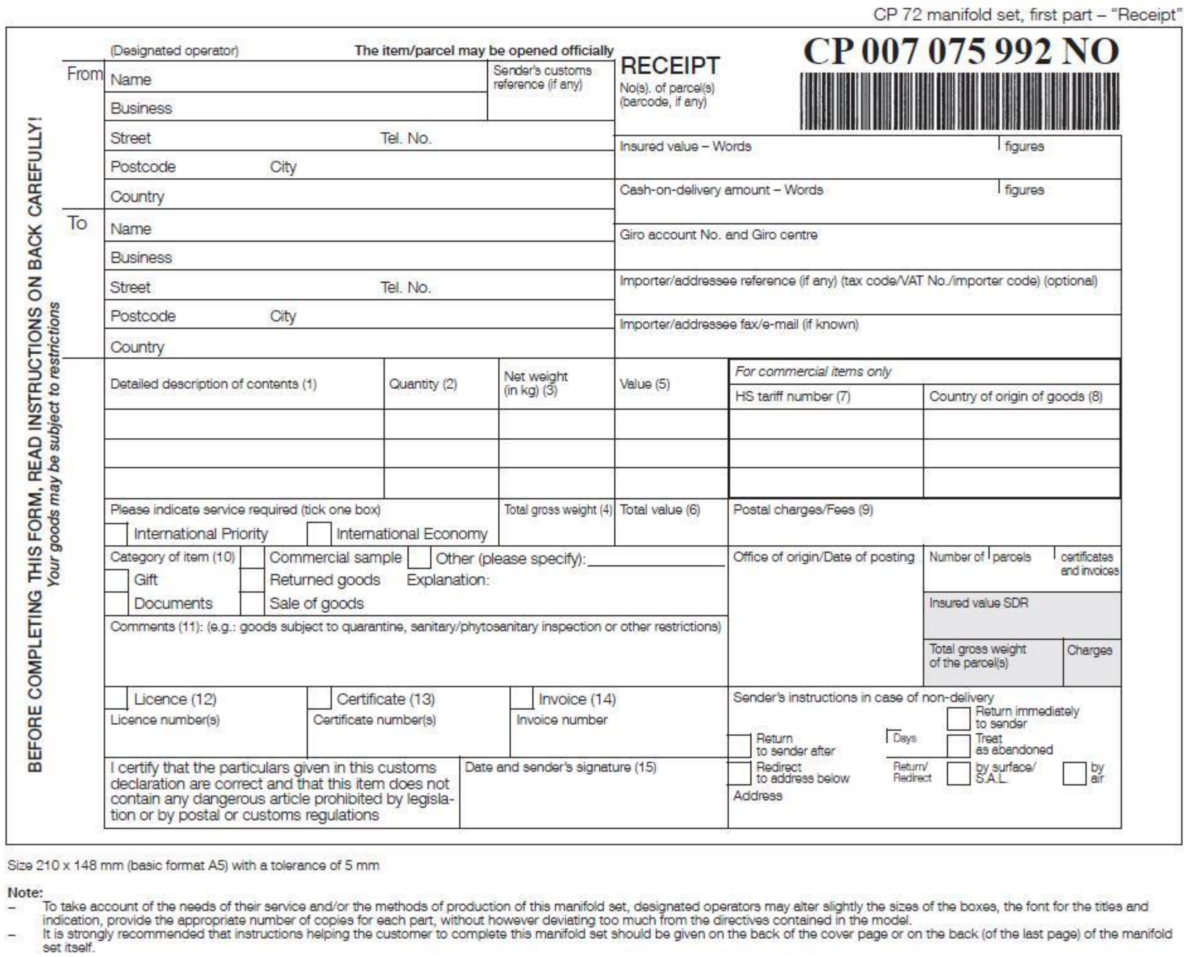
[85] Multiple international barcode standards exist, some of which businesses use exclusively in general distribution and logistics.

[86] The International Organization for Standardization has developed standards for QR codes, specifically *ISO/IEC 18004:2015*, https://www.iso.org/obp/ui/#iso:std:iso-iec:18004:ed-3:v1:en

[87] The International Organization for Standardization has developed standards for RFID systems, specifically *ISO/IEC 18000-63:2015*, https://www.iso.org/obp/ui/#iso:std:iso-iec:18000:-63:ed-2:v1:en

[88] See *WCO–UPU guidelines on the exchange of electronic advance data (EAD) between designated operators and customs administrations*, http://www.wcoomd.org/-/media/wco/public/global/pdf/topics/facilitation/instruments-and-tools/tools/upu/joint-wco-upu-guidelines.pdf?db=web. See pages 8 to 14.



CP 72 manifold set, first part – "Receipt"

(Designated operator) The item/parcel may be opened officially

RECEIPT

CP 007 075 992 NO

No(s). of parcel(s) (barcode, if any)

From: Name | Sender's customs reference (if any) | Business | Street | Tel. No. | Postcode | City | Country

To: Name | Business | Street | Tel. No. | Postcode | City | Country

Insured value – Words | figures

Cash-on-delivery amount – Words | figures

Giro account No. and Giro centre

Importer/addressee reference (if any) (tax code/VAT No./importer code) (optional)

Importer/addressee fax/e-mail (if known)

Detailed description of contents (1)	Quantity (2)	Net weight (in kg) (3)	Value (5)	HS tariff number (7)	Country of origin of goods (8)

For commercial items only

Please indicate service required (tick one box): International Priority | International Economy

Total gross weight (4) | Total value (6) | Postal charges/Fees (9)

Category of item (10): Gift | Documents | Commercial sample | Returned goods | Sale of goods | Other (please specify): | Explanation:

Office of origin/Date of posting | Number of parcels | certificates and invoices | Insured value SDR | Total gross weight of the parcel(s) | Charges

Comments (11): (e.g.: goods subject to quarantine, sanitary/phytosanitary inspection or other restrictions)

Licence (12) – Licence number(s) | Certificate (13) – Certificate number(s) | Invoice (14) – Invoice number

Sender's instructions in case of non-delivery: Return to sender after [ ] Days | Return immediately to sender | Treat as abandoned | Redirect to address below | Return/Redirect by surface/S.A.L. | by air | Address

I certify that the particulars given in this customs declaration are correct and that this item does not contain any dangerous article prohibited by legislation or by postal or customs regulations | Date and sender's signature (15)

BEFORE COMPLETING THIS FORM, READ INSTRUCTIONS ON BACK CAREFULLY!

Your goods may be subject to restrictions

Size 210 x 148 mm (basic format A5) with a tolerance of 5 mm

Note:
– To take account of the needs of their service and/or the methods of production of this manifold set, designated operators may alter slightly the sizes of the boxes, the font for the titles and indication, provide the appropriate number of copies for each part, without however deviating too much from the directives contained in the model.
– It is strongly recommended that instructions helping the customer to complete this manifold set should be given on the back of the cover page or on the back (of the last page) of the manifold set itself.

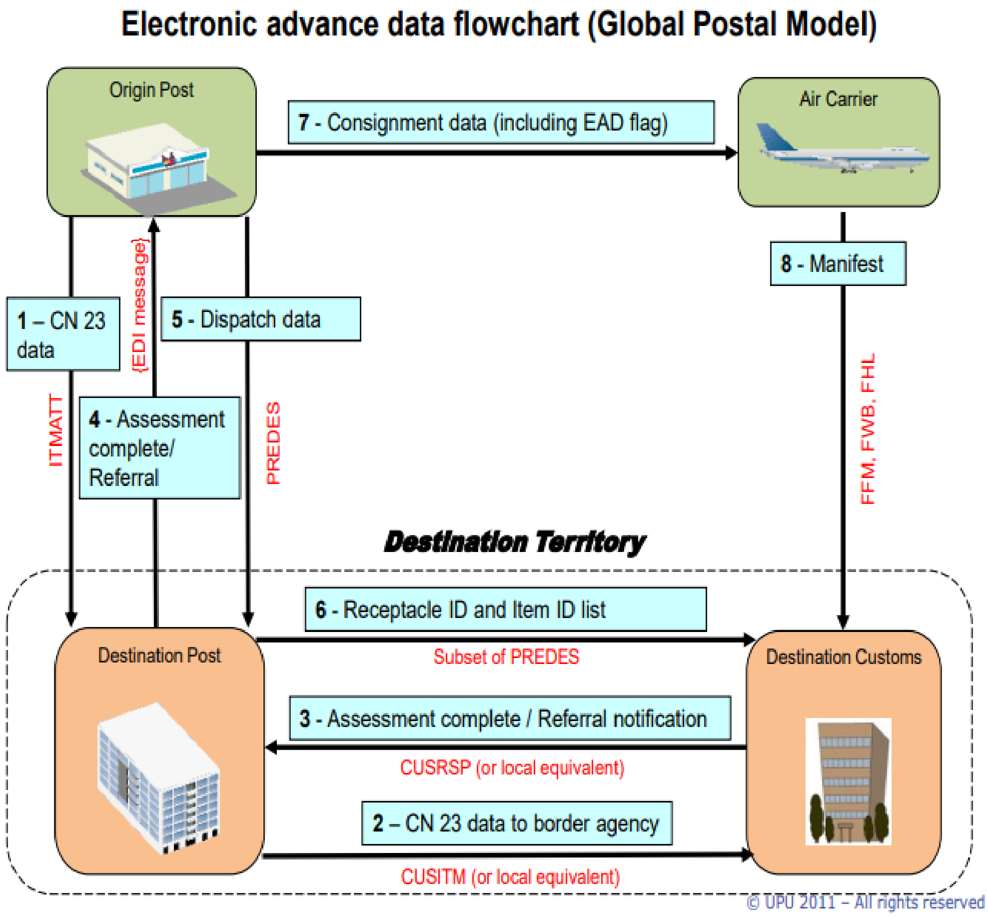
Notes:
1. The CN 22 and CN 23 are the standard customs declaration forms that apply to postal consignments, which the UPU authorises in its Acts currently in force. Customs officials use these forms for customs clearance purposes. The CN 22/23 forms contain the following information fields: 1). Sender and recipient information (CN 23); 2). Postage paid and insurance costs (CN 23); 3). S10 item identifier; 4). Designated operator; 5). Nature of transaction, i.e. gift, sale of goods, commercial sample, documents, other; 6). Quantity and detailed description of contents; 7). Weight, being individual item weight and total weight; 8). Value, being individual item value and total value, and currency; 9). HS tariff number per item, for commercial items only; 10). Country of origin of goods.
* The CN 23 customs declaration can form part of the "manifold form" set that composes the wider CP 72 customs declaration, as in the image above with the title "CP 72 manifold set, first part - "Receipt" ". The CP 72 manifold set also incorporates the customer receipt, the CP 71 dispatch note, the parcel labels (CP 73 or CP 74), as well as parts that can be used for address labels. The CN 23/CP 72 is a more extensive form of declaration than a CN 22.
Source: WCO–UPU guidelines on the exchange of electronic advance data (EAD) between designated operators and customs administrations, (WCO-UPU, n.d.[71]).

5.2.11.4. The exchange of electronic advance data (EAD) to establish the VAT-status of low-value imported goods

Timely exchanges of VAT-status information throughout the entire supply and delivery chain are important to mitigate risks of double taxation and unintended non-taxation under a vendor collection regime for low-value imported goods. This is achieved primarily through the exchange of electronic advance data (EAD) with customs authorities. Such EAD are normally already available for goods that are transported via cargo and express courier channels. For goods that are transported via postal operators, the availability of EAD is also increasing, although at the time of writing of this Toolkit this development is still in its early stages.

While postal operators may not yet have fully implemented EAD, many have participated in pilot activities to test systems and some postal authorities are now routinely exchanging EAD. Several jurisdictions have plans to mandate the exchange of EAD through the international post, including the United States and in Europe.

Figure 5.4. High-level overview of electronic data exchange in the postal supply chain



Notes:
Legend:
EAD – electronic advance data
CN 23 – standard customs declaration form used for postal consignments
ITMATT – item level attributes – contains the data corresponding to the content of paper postal forms CN23 or CN23 customs declaration.
CUSITM – customs item – sent from designated postal operators receiving an item to the local customs administration
CUSRSP – customs response – sent from a customs authority to a designated postal operator in response to a CUSITM
PREDES – preadvice despatch- the name of an EDI (electronic data exchange) message containing information on a mail dispatch.
FFM – Airline Flight Manifest Message
FWB – Air Waybill Data Message
FHL – House Manifest Data Message
Source: WCO-UPU guidelines on the exchange of electronic advance data (EAD) between designated operators and customs administrations (WCO-UPU, n.d.[71]).

Jurisdictions should carefully consider how transport intermediaries such as express carriers and postal operators can most effectively exchange information with customs authorities. The WCO-UPU guidelines on the exchange of EAD between postal operators and customs authorities outline electronic transmission standards and processes to facilitate customs clearance and revenue collection. EAD enable exchange of item-level attributes (ITMATT) between postal authorities, thereby communicating key information necessary for customs clearance. Postal authorities transmit the information to the customs authority in the jurisdiction of destination via a customs item (CUSITM) to enable advance assessment for pre-clearance or selection of consignments for holding. The customs authorities will transmit a response (CUSRSP) to the postal authority to advise on the appropriate actions. See Figure 5.4 for an illustration of electronic data exchange in the postal supply chain. The *UPU E-Commerce Guide 2020* provides useful guidance on the operation of EAD in a postal environment (Universal Postal Union, 2020[72]).

Readers will find a range of examples of information reporting requirements for imports of low-value goods that jurisdictions have implemented under their vendor collection regimes in Annex D of this Toolkit.

5.2.11.5. Data sharing between customs authorities and tax authorities

Jurisdictions should ensure that the appropriate legal, information technology, and operational frameworks are in place to enable data sharing between customs authorities and tax authorities. During the policy design phase, tax and customs authorities should consider what actions will be required to achieve such data sharing, including any necessary changes to existing legislation and procedures; and which IT, operational, and financial resources are needed to implement it.

Even where a jurisdiction administers both tax and customs authority functions within a single government unit, legal separation of responsibilities can still limit the data that can be collected by and exchanged between tax and customs officers. For example, a postal authority may have legal ability to disclose information only to customs officers. Likewise, a confidential register of non-resident suppliers that have registered for VAT under a simplified compliance regime for imports of low-value goods may be accessible only to tax officers by default. Therefore, tax authorities should consider the information access requirements for both tax and customs officers and implement the necessary legal and operational instruments to facilitate exchange where necessary, such as a memorandum of understanding/agreement (MOU/MOA) between the two sets of officials and their respective governance structures.

The WCO *Guidelines for Strengthening Co-operation and the Exchanging of Information between Customs and Tax Authorities at the National Level* (WCO Customs and Tax EOI Guidelines) make recommendations on how to enable co-operation and exchange of information between customs and tax authorities (World Customs Organization, 2016[73]). These Guidelines also provide a framework of principles for the development and operation of MOU/MOA arrangements, which jurisdictions should consider as part of their policy implementation strategies.

Jurisdictions should establish appropriate procedures to enable customs authorities and, where appropriate, other relevant actors in the supply chain to access VAT-relevant information (see Box 5.13 for the example of the European Union). Under a vendor collection regime that reassigns the liability for the VAT on low-value imported goods to non-resident suppliers and digital platforms, customs authorities shift their focus away from the declaration value of the goods to new critical pieces of information. This relates in particular to the information on the packaging and customs declaration, stating whether the supplier or digital platform has collected the VAT on the imported items and providing the VAT registration of the supplier or digital platform that is liable for the VAT on the imported goods under the vendor collection regime. Suppliers and digital platforms can also use this process to inform customs authorities of the B2B character of a transaction, which may not be subject to the vendor collection regime, by providing their customer's VAT registration number. To improve the integrity of this customs verification process, customs authorities must have access to the tax authorities' register of VAT numbers for non-resident suppliers and digital platforms under the vendor collection regime and, preferably, any records on these suppliers' and platforms' compliance history.

Interaction between customs and VAT systems can also increase the efficiency of risk management strategies. Access to import data may, for instance, allow tax authorities to detect irregularities in the VAT reported under the vendor collection regime. Box 5.13 describes how this is enabled in the European

Union. This information can then, in return, be fed back to customs risk management. If the tax authority thinks that a Tax Identification Number has been fraudulently reported on a parcel, it may provide the necessary data for customs to identify the consignor of these parcels. Tax authorities should be aware, however, of the limitations to the use of customs information for VAT compliance monitoring and risk management. They should be cautious when evaluating the results of data analysis based on customs data for assessing VAT compliance levels under a vendor collection regime (see subsection 5.2.11.2 for more details). Detailed guidance on effective risk management strategies is given in subsections 6.2 and 6.3.

Box 5.13. Jurisdiction example: The EU Import One-Stop-Shop (IOSS)

When it introduced its vendor collection regime for low-value imported goods as of 1 July 2021, the **European Union** removed its VAT low-value consignment relief for the importation of goods with a value not exceeding EUR 22. All goods imports into the European Union have thus become subject to VAT as a general rule. The Import One-Stop Shop (IOSS) was created to facilitate and simplify the declaration and payment of VAT for supplies of low-value imported goods with a value not exceeding the European Union's customs duty low-value relief threshold of EUR 150. All the IOSS VAT identification numbers issued by tax authorities in EU Member States are made available electronically to all customs authorities in the European Union. The database of IOSS VAT identification numbers is not public. When receiving an IOSS VAT identification number in the dataset of the customs declaration, the customs authorities will automatically check its validity against the IOSS VAT identification number database. If the IOSS number is valid and the customs value of the consignment does not exceed EUR 150, the customs authorities will not request the payment of VAT on low-value goods imported under the IOSS. The person who declares the goods to customs (e.g. postal operators, express carriers, customs agents, etc.) does not and cannot itself check the validity of the IOSS VAT identification number.

Data on imports made under an IOSS number are shared by customs authorities with tax authorities, allowing the latter to use the data for risk management of the respective IOSS returns (i.e. the VAT reported by the supplier or digital platform under the EU vendor collection regime).

Source: OECD analysis.

5.2.11.6. Alternative sources of information

Where tax and customs authorities are unable to obtain the necessary information through customs reporting processes alone, they can turn to additional third-party data sources for transactional data (see subsection 6.5 for more details), such as:

- Non-resident suppliers and digital platforms;
- Financial intermediaries;
- Jurisdictions' "Financial Intelligence Units".[89]

This information may not be readily accessible to tax or customs authorities. They may need to utilise specified powers of legal access to obtain such information, including:

- A MOU or other information sharing arrangement between customs and tax authorities where one of these authorities has access to the relevant data;

[89] See an indicative list on the "Members by Region" page of the Egmont Group website: https://egmontgroup.org/members-by-region/

- Information access powers, such as formal notices requesting information from suppliers, exporters, intermediaries or other actors in the supply and value chain;
- Exchange of Information provisions in Double Tax Treaties or in the Multilateral Convention on Mutual Administrative Assistance in Tax Matters (MAAC) that can be employed to obtain supplier-specific information from another jurisdiction (see subsection 6.8).

5.2.12. Facilitating fast-track customs clearance processes

Any policy framework that transfers the VAT collection on imports of low-value goods from the customs authorities to non-resident suppliers and digital platforms should recognise the continuing authority of customs authorities to subject all goods to inspection notably in respect of product safety and security. From a revenue assessment and collection perspective, however, a regime that transfers VAT collection obligations for imports of low-value goods to non-resident suppliers and digital platforms does provide opportunities for fast-track customs clearance of these goods. Fast-track customs clearance creates an important incentive for non-resident suppliers and digital platforms to comply with their VAT obligations under a vendor collection regime for low-value imported goods.

The European Union's framework, effective since 1 July 2021, adjusts the customs declaration process to deliver fast-track clearance of consignments for which non-resident suppliers and digital platforms have collected VAT at the time of supply. Under the EU framework, it is possible to declare low-value goods, i.e. goods with a value up to EUR 150 (USD 158), using a customs declaration that requires three times less data than a standard customs declaration (European Commission, 2019[74]).[90] If a non-resident supplier or digital platform does not collect VAT under the vendor collection regime for low-value imported goods, then it is collected by the transporter under the traditional customs process at importation. The EU model permits transporters to charge customers a clearance fee for submitting a customs declaration on the customer's behalf. The cumulative effect of these features is to incentivise consumers to buy from suppliers or digital platforms that have registered for VAT under the vendor collection regime for low-value imported goods.

In Australia and New Zealand, low-value imported goods (i.e. below the VAT and customs low-value duty relief threshold) are not subject to import VAT, except goods that would attract excise duties. Customs authorities therefore will not routinely stop low-value imported goods for revenue collection purposes at the border. Australia operates a simplified customs clearance regime, which transporters (e.g. express carriers) administer for clearance of imports below the customs duty low-value relief threshold. This allows for fast-track clearance with customs authorities stopping only low-value goods for inspection if they have product safety and security concerns in relation to a consignment.

The Southern African Development Community (SADC) has agreed protocols such as "The Single Window" concept under its "Coordinated Border Management Guidelines"[91], which speeds up the experience of persons and vehicles at SADC members' borders. As described in the SADC "Customs ICT Strategy"[92], the concept of removing the need for physical payment of tax at a cashier facility at the border, and replacing it with electronic payment processes, demonstrates the manner in which tax obligations can be met speedily, securely, and efficiently, so as obtain early payment for the authorities and minimal disruption of trade. Equivalent electronic payment and clearance processes can be developed for the supply of goods and services across borders.

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[90] The availability of the customs declaration with reduced data set in a Member State may depend on whether it manages to change its systems in time (which has to be done before 2023 at the latest).

[91] See SADC (2011), *SADC Draft Guidelines for Coordinated Border Management: A Practical Guide on Best Practices and Tools for Implementation*, https://www.sadc.int/document/sadc-coordinated-border-management-guidelines-august-2011

[92] SADC (2013), *Customs Information Communication Technology Strategy*, https://www.sadc.int/document/sadc-customs-ict-strategy

Some jurisdictions in Africa are parties to free trade agreements that may include the obligation to adopt or maintain customs processes for expediting clearance of imports.[93] Because of these agreements, those jurisdictions may already have fast-track clearance processes in place, which they could expand and utilise in the context of a vendor collection regime for low-value imported goods.

For example, Article 18 of the *Southern African Customs Union Agreement* between Botswana, Lesotho, Namibia, South Africa and Eswatini uses a model typical for customs unions, reserving some key categories of supplies but otherwise affording customs duty-free movement of domestic goods and previously taxed goods between signatory states. Under Article 23, members undertake to "take such measures as are necessary to facilitate the simplification and harmonization of trade documentation and procedures".[94]

The East African Community's establishment of a Customs Union in 2005 led to the implementation of a "Single Customs Territory" to overcome challenges to the realisation of a fully-fledged customs union. This Single Customs Territory came into force in July 2014 and involves interconnectivity and information sharing between partner states (DRC, Burundi, Kenya, Rwanda, Sudan, Uganda, and Tanzania). For example, the use of multiple entries and documents has been replaced with a single customs declaration, and importers can pay customs duty only to the partner state of destination rather than at the point of entry or at intermediate crossings of partner states' borders en route to the state of destination.[95]

5.3. Operational and information technology infrastructure for a simplified VAT registration and collection regime

Guide to subsection 5.3

[93] For example, this is an aspiration of the Economic Community of Central African States (ECCAS) in developing a future Customs Union. Please see the ECCAS website for further details: https://ceeac-eccas.org/en/
C.F. The following article on the website of the World Customs Organization:
http://www.wcoomd.org/en/media/newsroom/2022/april/eccas-members-gather-to-align-common-external-tariff-on-hs-2022.aspx

[94] The Southern African Customs Union 2002 (2017), *Southern African Customs Union (SACU) Agreement*, SACU Secretariat, Windhoek, https://www.sacu.int/docs/agreements/2017/SACU-Agreement.pdf

[95] For further details on the EAC's Single Customs Territory, please see: https://www.eac.int/sct

This Section of the Toolkit provides further specific guidance to support tax authorities' decision making in respect of the development of the operational and IT infrastructure to support the operation of a simplified VAT compliance regime for the collection of VAT from non-resident suppliers and digital platforms under a vendor collection regime.

5.3.1. Governance framework for building the operational and IT infrastructure for a simplified registration and collection regime

5.3.1.1. Creating the appropriate project management structure

Readers are reminded that a roadmap for the implementation of a simplified compliance regime for the collection of VAT from non-resident suppliers and digital platforms is presented in subsection 5.1.

> A project-based approach is recommended for the development of the operational and IT infrastructure that is necessary to support the implementation of a simplified compliance regime, with an appropriate governance structure to ensure proper project management and project delivery.[96]

[96] See International Monetary Fund (2017), *Use of Technology in Tax Administrations 1-3*, IMF, Washington D.C.:

- *Use of Technology in Tax Administrations 1: Developing an Information Technology Strategic Plan (ITSP)*, https://www.imf.org/en/Publications/TNM/Issues/2017/03/15/Use-of-Technology-in-Tax-Administrations-1-Developing-an-Information-Technology-Strategic-44714
- *Use of Technology in Tax Administrations 2: Core Information Technology Systems in Tax Administrations*, https://www.imf.org/en/Publications/TNM/Issues/2017/03/15/Use-of-Technology-in-Tax-Administrations-2-Core-Information-Technology-Systems-in-Tax-44689

Such a governance structure should identify the staff or project team members that will lead the project and its various components, their respective roles and responsibilities, and the interactions between them. The main roles and responsibilities in such a project management structure may include the following:

- The "project sponsor" (usually a senior executive in the tax authority), who is responsible for successfully delivering the objectives of an IT infrastructure development project, ensuring appropriate staffing of the governance structure, chairing high-level meetings, and sourcing and distributing funding for the project;
- An "independent assurer", to provide an assessment of the performance of any external software development firms supporting the project, general progress of the project and issues resolution;
- A "steering committee", to provide strategic direction to all project staff, ensure that the project scope aligns with the tax authority's objective, allocate resources and address issues and risks that have implications for the project;
- A "project manager", to prepare, implement and update the project plan and to manage delivery of outcomes according to the plan;
- A "project team", to work with the project manager to achieve the requirements of the project plan;
- The operational and IT infrastructure "process owners" in the tax authority, which provide input to the development of the project plan and are responsible for managing business-as-usual processes after the completion of the project;
- Subject matter experts to address particular elements of the project.

The project manager should ideally be a senior official or consultant with a good degree of knowledge of the jurisdiction's administrative and IT environment, as well as of its VAT framework and of the internationally agreed standards and principles for the application of VAT to international digital trade, including for the collection of VAT from non-resident suppliers and digital platforms. The project manager should preferably have prior experience of assisting with the implementation of major IT infrastructure projects for VAT and or for other taxes.

5.3.1.2. What kind of expertise should the project team contain?

The approach that jurisdictions take towards the development of the operational and IT systems, whether they opt for an in-house, a commercial off-the-shelf (COTS), or an outsourcing solution, will affect the nature and quantity of resources that they will require (see subsection 5.3.5 on the different options).

Where they adopt a COTS or outsourcing approach, there will be less need for systems architecture, development and design experts. In-house solutions will require a greater investment in staff with expertise in the specialised areas of software design and IT architecture along with the allocation of time to evaluate and understand the key objectives of the project. This could impact the staffing or commencement of other IT projects until the completion of the project to develop the infrastructure for a simplified compliance regime.

As an estimate for in-house solutions, when there is a pre-existing IT framework (including an existing website to host the online portal for the simplified compliance regime) as well as qualified staff with sufficient capacity and a strong support structure, the process of implementation could require a relatively small core project team, e.g. between 10 and 20 full-time staff.

Such a core team would typically include business analysts, IT systems developers and testers, and user interface support staff. The required skillsets would include project planning, systems architecture building,

- *Use of Technology in Tax Administrations 3: Implementing a Commercial-off-the-Shelf (COTS) Tax System*, https://www.imf.org/en/Publications/TNM/Issues/2017/03/15/Use-of-Technology-in-Tax-Administrations-3-Implementing-a-Commercial-Off-The-Shelf-COTS-Tax-44719 skills in the design, deployment, testing and monitoring of systems, management of systems security and authentication controls, product support, and incident management. Access to VAT policy specific and legal support should be available where appropriate.

If a tax authority lacks such internal expertise, then it may need to seek advice or support from an experienced external website and software developer. Such an external service provider would preferably have experience in building systems to support taxpayers in managing tax compliance obligations, ideally in the area of VAT. Certain providers of IT and technology advisory services will be willing to act as a contractor that provides its own staff to assist in project management or in developing the IT systems for the simplified compliance regime or of specific components.

Staffing resources will further depend on the amenability of the tax authorities' existing IT systems to "add-ons" or minor modifications and on the availability of COTS to address specific systems needs for the implementation and operation of the simplified registration and collection regime.

The closer a jurisdiction's policy framework and administrative processes and regulations align to the OECD guidance for the collection of VAT on online supplies by non-resident suppliers and digital platforms, the easier it will be to build on the experience of other jurisdictions around the world in achieving effective implementation of operational and IT systems and to readily obtain assistance from systems and software developers.

5.3.1.3. Data protection and ownership of intellectual property rights: Contractual considerations for staff developing operational and IT systems

Generally speaking, governments require their agencies to have strong safeguards in place to protect data, such as privacy and financial secrecy legislation, secure buildings and IT systems along with strict controls on employees and contractors who have access to data.

Tax authorities should clearly set out the obligations of staff involved with the creation and administration of the online portal for a simplified compliance regime in their contracts, unequivocally requiring them to respect the confidentiality of any sensitive personal and commercial information they encounter in the course of their duties.

Contracts should provide that the online portal and any supporting technology developed to support its operation remain the intellectual property of the national government/tax authority and that staff may not publish the technical specifications and operating software codes that the portal utilises, whether for commercial gain or for non-commercial reasons. Tax authorities should also strongly consider assigning a dedicated IT security team to continually test and reinforce the security of the online portal to protect it against organised hacking, cyber-attacks and unauthorised use.

Further analysis, guidance and recommendations on digital security risk management have notably been developed by the OECD in its publication on Digital Security Risk Management for Economic and Social Prosperity (OECD, 2015[75]). Readers may also refer to subsection 5.3.7 for guidance on internal risk management including on information security management.

5.3.1.4. Specific considerations for supplies of low-value imported goods

> Governance arrangements will need to take account of the additional requirements for the operational and IT infrastructure when the scope of the simplified compliance regime is extended to the collection of VAT on low-value imported goods.

As subsection 5.2 of the Toolkit explicitly outlined, it is recommended that jurisdictions utilise substantially the same administrative, operational and IT infrastructure for a simplified compliance regime for the collection of VAT on low-value imported goods as they utilise for supplies of services and intangibles by non-resident suppliers. Tax authorities should thus ensure that senior IT and technology staff that manage the design of the infrastructure for the simplified compliance regime for supplies of services and intangibles, consider at the outset also the principal additional features and functionalities that this infrastructure would require to support registration and the remittance of VAT on supplies of low-value imported goods by non-resident suppliers and digital platforms.

In particular, jurisdictions will need to implement processes to ensure that customs authorities do not collect import VAT on consignments of low-value goods at importation where non-resident suppliers and digital platforms have already collected VAT at the time of sale. This is likely to require the involvement of customs officials or staff with the appropriate customs expertise in the design and development of the operational and IT infrastructure for the simplified compliance regime.

Subsection 5.2.11 of the Toolkit discusses mechanisms to prevent double taxation and non-taxation of low-value imported goods in detail, including analysis of operational and IT systems that can underpin these mechanisms.

5.3.2. Establishing the overall objective of an online simplified VAT registration and collection regime

The successful construction of the operational and IT infrastructure should start with clearly communicating the objectives of the simplified VAT compliance regime to the senior IT and technology staff that will lead the development. These senior officers can use these objectives as the basis for establishing a core project management and design architecture framework.

The objectives do not need to be complex but rather should communicate the essential purpose for designing the operational and IT infrastructure. An example could be the following statement:

> *"The online portal for a simplified VAT registration and collection regime should allow eligible non-resident businesses to easily register with the tax authority in order to report and settle VAT obligations. It shall provide an alternative to the standard VAT registration, reporting and payment regime, and should align to similar simplified VAT compliance regimes operating in other jurisdictions. This design feature will make the system more familiar and user-friendly for non-resident businesses and thus further encourage high levels of compliance."*

5.3.3. Creating the operational and IT systems and software for a simplified VAT registration and collection regime: The online portal

Guide to subsection 5.3.3.

The portal for a simplified VAT registration and collection regime is normally designed to be a microcosm of the system that a tax authority uses to support domestic businesses in complying with their tax obligations, including for VAT registration, reporting and payment.

When designing the portal for a simplified compliance regime, tax authorities must be aware, however, that it will be directed at non-resident businesses that will often have no prior familiarity with the jurisdiction's VAT regime, and that the design of the portal should seek to accommodate the geographic, linguistic, and cultural barriers, as well as associated costs, that could otherwise act as a deterrent to compliance.

Box 5.14 sets out the core components of a well-designed online portal to facilitate registration and compliance by non-resident suppliers and digital platforms under a simplified compliance regime as outlined in OECD guidance. The possible design of the main functionalities of such an online portal is discussed further below.

Additionally, certain procedures, which jurisdictions typically support through "back office" IT tools, must be in place, either as standalone functions or through integration with existing IT infrastructure to enable tax officials and tax administration systems to carry out core tasks including to:

- Communicate with registrants;
- Follow up on outstanding VAT returns or payments;
- Validate returns;
- Check if registered taxpayers are complying with their obligations;
- Calculate revenue collected under the simplified compliance regime;
- Manage transitions between simplified and standard VAT registration regime;
- Manage cancellation of registrations.

Box 5.14. Typical characteristics of a well-designed online portal to facilitate registration and compliance for non-resident suppliers and digital platforms

- **Simple and secure access to the registration portal**
  - Log on to the government's online service;
  - Insert basic identification information (e.g. name, address, website URLs, contact persons);
  - Create a verification code or establish a credential to get access to the portal.
- **Simple operating instructions and navigation including**
  - Compatibility with the most commonly used business systems;
  - Capacity to upload data rather than having to fill in tables online;
  - Availability of structured templates (e.g. XML, Excel) that can be filled in offline;
  - Automated controls for submission/lodgement (e.g. validating totals);
  - Ease of making corrections or changes at any time during or after the registration;
  - Frequently updated Questions and Answers;
  - Supporting the operation of the portal through a back-office support team;
  - Sending out of automatic notifications/alerts to taxpayers when there is communication uploaded on the portal.
- **Operation at least in English and/or the language(s) of the major trading partners, in addition to the jurisdiction's local language(s)**
  - Accepted language(s) to be kept simple and clear to avoid any confusion.
- **Secure to use**
  - Different levels of credentials may dictate the level of self-service that can be offered;
  - Secured communication of pass codes. Sending pass codes via the post can present risks of accidental loss or deliberate appropriation;
  - Avoid complexity in cases where authorised persons need to be replaced. Such complexity can arise when encryption keys or specific individual passwords are used and a registrant's authorised member of staff departs without informing its successor of its individual password or of how to unlock encryption keys, resulting in the registrant's loss of access to the system;
- **Include easily accessible information on compliance obligations**
  - Facilitate access to information on how to comply with VAT obligations under the simplified compliance regime, e.g. through information bubbles on forms; links to relevant guidance; a point of contact for questions and resolving difficulties; etc.
  - No need for a VAT registration number (whether under the simplified compliance or under the standard VAT regime) for accessing information because this may not be available at the point where a non-resident business has a legitimate need to review such information.

Source: OECD (2017), The Collection Mechanisms Report, Annex A (OECD, 2017[3]).

5.3.3.1. Key functionalities of an effective and secure portal for a simplified compliance regime

Tax authorities' IT systems are, in principle, fundamentally the same in terms of function and purpose, i.e. they need to identify taxpayers, process information to determine tax liability, and ultimately collect tax (Cotton and Dark, 2017[76]). Figure 5.5 demonstrates the functionality that a tax authority is likely to need in its IT systems. These requirements apply equally to a simplified VAT compliance regime.

Figure 5.5. Functionality that a tax authority normally needs for its IT system

Source: IMF (2017), *Use of Technology in Tax Administrations 2: Core Information Technology Systems in Tax Administrations* (Cotton and Dark, 2017[76]).

Simplification under a simplified VAT compliance regime is focused primarily, if not exclusively, on the front-facing (service) features of the IT-system. The aim is to provide optimal simplicity of access and use for non-resident suppliers to comply with their VAT obligations in the taxing jurisdiction while ensuring the appropriate security safeguards for the tax authority and registrants. The back-end (client record) features of the simplified compliance regime will normally benefit from replicating or integrating the structures of existing IT systems for domestic taxpayers into the simplified regime, as the tax authorities' responsibilities for service standards and systems security must in principle be equally applicable to non-resident suppliers and digital platforms that register under a simplified regime.

The key elements of the IT architecture on which a tax authority will thus need to focus when designing and implementing a simplified registration and collection regime for non-resident suppliers and digital platforms are outlined in Table 5.1.

Table 5.1. Key elements of the architecture for a simplified VAT registration and collection portal

Architecture element	Functionality description
Identification credential	Allows entities (non-resident suppliers and digital platforms) wanting to access the system to obtain a credential. These credentials must be stored so that access to the system can be granted once the identification credential is satisfied.
Authenticate using an identification credential	Allows a user with a credential to authenticate itself in order to be granted access to the system.
"Act on behalf of" functionality	Allows for intermediaries or agents also to be authenticated users with a credential to access the system to act on behalf of a taxpayer (non-resident supplier or digital platform) that has authorised them to do so.
Website homepage for the portal for a simplified compliance regime	Allows an authenticated user to sign in to access a set of online services including, but not limited to, registrations, return filing and payments. The home page should also provide access to information to assist the individual's compliance with VAT obligations.
Registration	Enables an authenticated user to register using the online portal where eligible. The system issues an identification number to the new registrant. It also creates a new account to facilitate the filing of returns, and payments of VAT.
Returns	Allows an authenticated user to report the VAT due under the simplified compliance regime for a specific period. The filing of the return creates a liability on the supplier's tax account for the reported period.
Payment	Allows an authenticated user to make an online payment for the VAT liability created by a filed return.
Information Access	The provision of links to information relating to the compliance obligations under the simplified registration and collection regime assists users in complying.
Data analytics and user feedback	Ensures comprehensive monitoring of user activity and reporting by users on their experiences.

Source: Australian Taxation Office.

(i) Identification and authentication

The identification credential provides proof of qualification for access to the secure online portal and is usually sourced separately from the system for which a user needs to provide identification. The system for generating identification credentials will provide one to the user after it submits specific identifying information during the application process.

Box 5.15. Creating and authenticating a digital identity

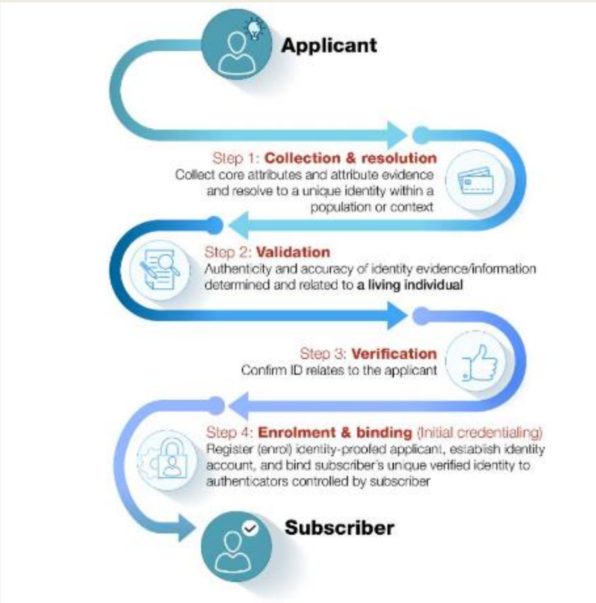
Tax authorities' requirements for digital credentials for identity verification in accessing an online portal for a simplified compliance regime will need to balance the need for very strong protection of non-resident suppliers' and digital platforms' identities, commercial data and payment details against the imperative that the regime be simple to access and use.

The Financial Action Task Force (FATF) provides guidance on how organisations can permit users of a system to create and authenticate a digital identity (FATF, 2020[77]). The FATF is an independent inter-governmental body whose mission is to develop policies to protect the global financial system against money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction. Jurisdictions designing an authentication system for a simplified compliance regime could utilise this guidance to develop processes and mechanisms for ensuring secure access to the regime's online portal for the reporting and settlement of VAT liabilities.

The main features of FATF's recommendations for creating and authenticating a digital identity are as follows:

- Collection: Collect identity attributes and evidence, e.g. by requiring users to fill out an online form, upload photos of documents such as passport or driver's license, etc.
- Validation: Ensure that documents are authentic and that the data and information the user provides are accurate, e.g. checking (images of) physical security features, expiration dates, and verifying attributes via other services.
- "Deduplication": Establish that the identity attributes and evidence relate to a unique person, e.g. via duplicate record searches, biometric recognition or de-duplication algorithms.
- Verification: Link the individual to the identification evidence that it has provided.
- Enrolment in a user account on the basis of the digital identity and binding of the account to authenticators: Create an account for the user on the basis of the identity it has created and evidenced; issue and link one or more authenticators with the user's account for approving system access, e.g. passwords, a one-time-code (OTC) generator on a smartphone, etc.

The following diagram summarises this process as FATF recommends:



Source: FATF (2020), *Guidance on Digital Identity* (FATF, 2020[77]).

The authentication of an identification credential may be as simple as the provision of a password that the user selects to validate the credential. More complex authentication may involve the generation of one-time codes sent by SMS or email, secret questions or codes generated by separate software. The strength of an authentication transaction is characterised by an ordinal measurement known as the Authentication Assurance Level (AAL) (National Institute of Standards and Technology, 2021[78]). Stronger authentication levels, such as those provided by the use of digital certificates, effectively reduce the risk of cyber-attacks but may not be necessary depending on the severity of the consequences of the credential being compromised.

Non-resident businesses often engage with intermediaries and agents to undertake compliance responsibilities for them. For that purpose, it is advisable to have a facility that enables a non-resident business that has obtained an identification credential to share the credential and the authentication so that its authorised intermediary can access the online portal. Alternatively, the intermediary should be able to register in its own name and obtain authorisation to link submissions to the accounts of the taxpayers it supports.

(ii) Access to the portal of the simplified compliance system and its main functionalities

The successful input of an authenticated identification credential will give the authenticated user access to the home page of the portal for the simplified compliance regime. The authenticated user will then have access to a set of online services including, but not limited to, registration, VAT returns filing, and payment. The home page should also provide access to other information to assist in compliance with VAT obligations such as help text functions and links to detailed guidance on the jurisdiction's website covering obligations for non-resident businesses.

There are a minimum of four distinct user interfaces that a non-resident supplier or digital platform will use to engage with a tax authority within the portal for a simplified VAT compliance regime. These are registration, return filing, payment, and updating taxpayer information, and are described in further detail below:

- **Registration**: The system will issue an identification number (a unique identifier; UID) to the new registrant, i.e. the non-resident supplier or digital platform, and it will create a new account for the new registrant to enable the filing of returns and payments of VAT. Tax authorities are advised to adopt unique identification numbers for registrants under the simplified compliance regime in a format that is distinguishable from normal VAT registration numbers in recognition of the fact that the registrant is generally a non-resident and has normally passed a lower level of identity verification checks to obtain registration.

  Alternatively, where it is preferred that the format of the simplified registration regime be consistent with domestic registration syntax, it is recommended that underlying indicators be put in place so that the type of taxpayer is evident in a system query and so that simplified system registration population can be easily segregated for reporting purposes.

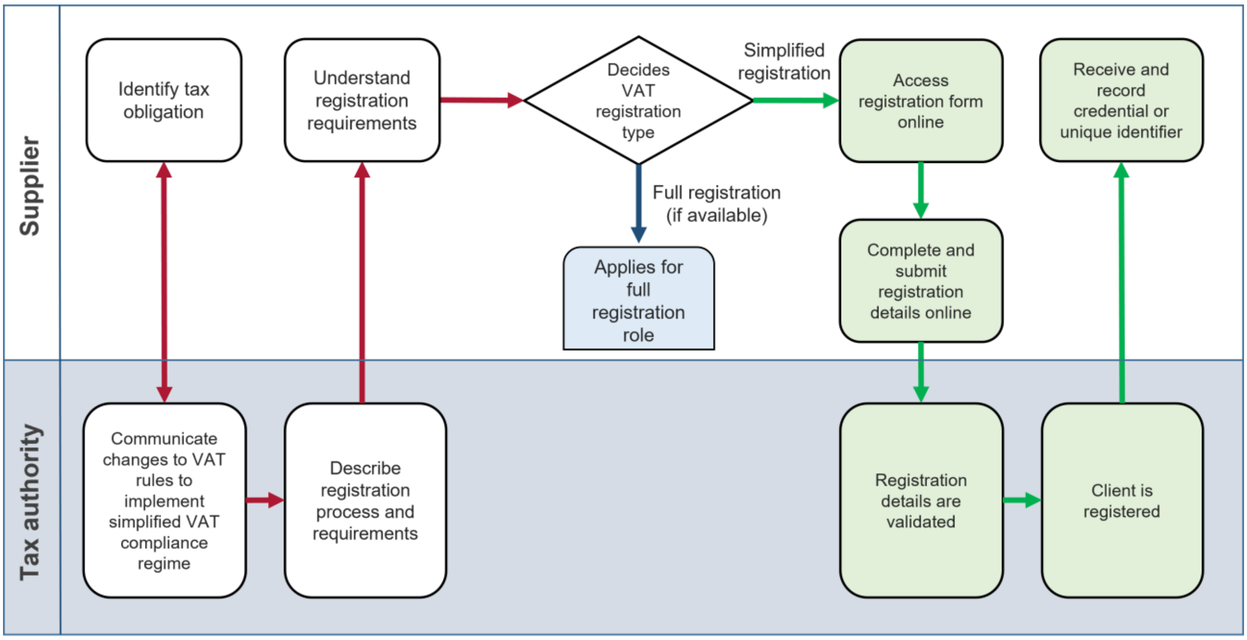
  Jurisdictions could consider incorporating a facility to upload data files as part of the registration process to allow businesses to provide documents that the jurisdiction requires in an electronic format. This facility will generally be useful only if the tax authority has a strong desire to request supporting documents as part of registration despite the recommendations above to adopt a minimalist approach. Singapore has, for instance, included in its simplified registration form a facility to upload documents in an electronic format such as:

  - Signed declaration form;
  - Certificate of incorporation;
  - Other attachments.

Tax authorities will also need to design verification rules and identify any conditions under which registration applications must be rejected, such as incorrect formatting or failure to provide mandatory data. A balance between these rules and the goal of simplification is needed to ensure both the quality of registration data and ease of registration.

It is strongly advised that registrants be notified of their registration number under the simplified compliance regime by secure electronic means. For security purposes, registrants have sometimes been required at the registration stage to create a verification code that is later used to retrieve their VAT registration number. Assigning digital credentials or other identifiers may also help strike a balance between security considerations and ease of use.

Figure 5.6. Example of a simplified VAT registration process for non-resident suppliers

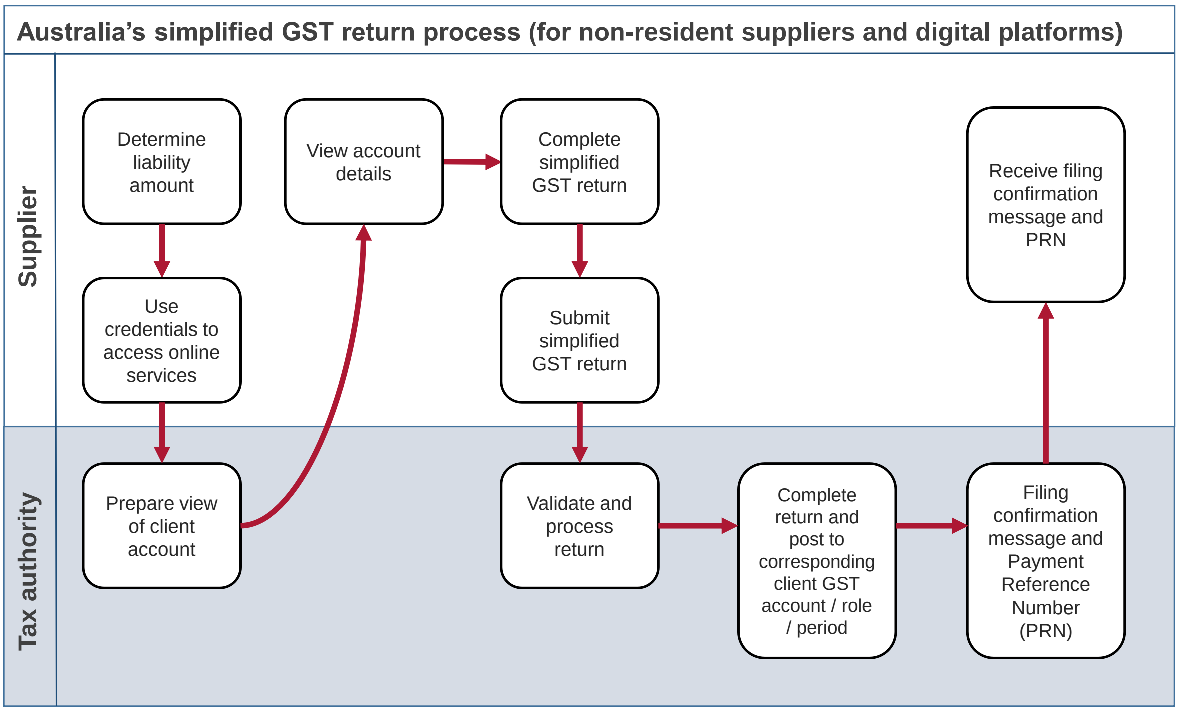


Note: The sourcing of the identity credential is from a separate stand-alone system available on the Australian Taxation Office's business registration webpage.
Source: Australian Taxation Office.

- **Return filing**: This functionality allows the authenticated user to report the VAT due under the simplified compliance regime for a specific period. As recommended previously in subsection 5.2.3, the reporting fields required for return filing under a simplified compliance regime can remain limited, focusing primarily on the total value of supplies made to customers in the jurisdiction for the reporting period (per VAT-rate where applicable) and the calculated VAT due on these supplies. The filing of the return will create a liability in the registrant's tax account for the reporting period. Returns should be secure electronic forms (see subsection 5.3.3.2.v).

It is recommended that tax authorities include a validation mechanism for the automatic acceptance/approval or rejection of VAT returns. In their simplest form, these checks could identify whether the vital elements of the return are provided and whether registrants have entered the information in the proper format. A balance between robust validation rules and simplification is needed in order to ensure both quality of data and ease of use.

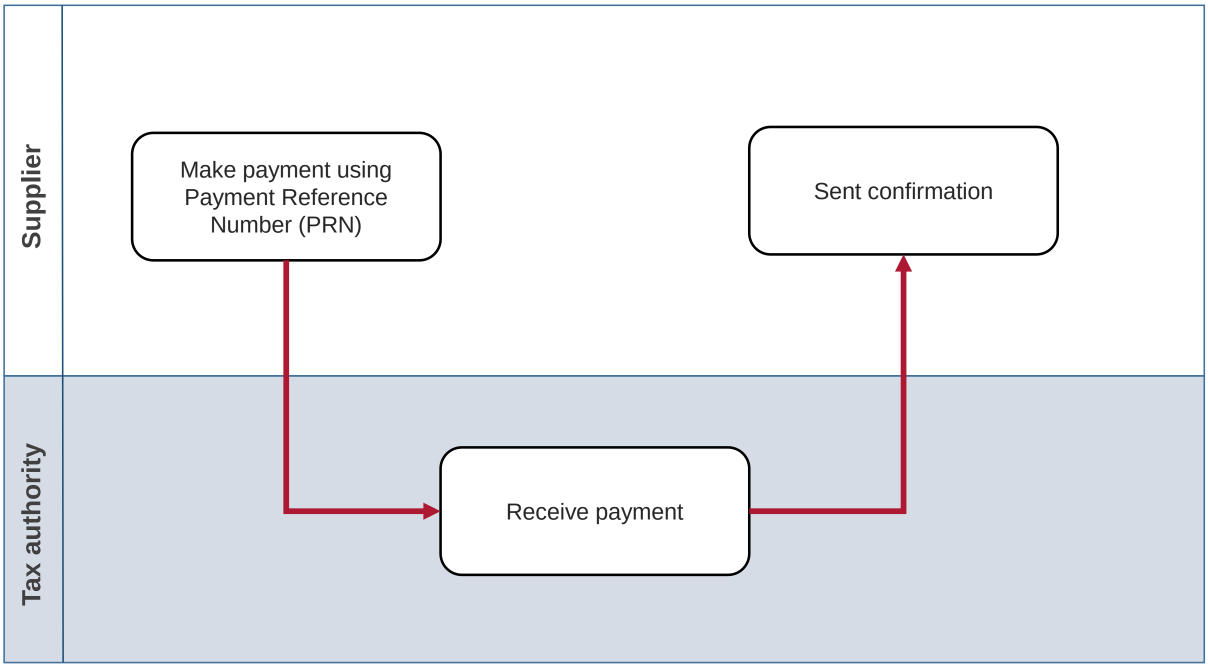
Figure 5.7. Example of a simplified VAT return process for non-resident suppliers and digital platforms



Source: Australian Taxation Office.

- **Payment**: This functionality allows an authenticated user to make an online payment for the VAT liability created by filed returns. Ideally, the tax authority's systems will generate a payment reference number for the non-resident supplier upon submission of each periodic return or provide such a number that the supplier can utilise consistently for all payments. This payment reference is advantageous in enabling the tax authority to reconcile receipts against a non-resident taxpayer's account with the authority. Where a selection of payment options is available then the user interface should permit the registrant to select the payment option it wishes to utilise. The system may redirect the user temporarily to a payment processor's website or, alternatively, the user can utilise its payment reference number by including it in the editable information fields when making the payment via bank transfer. The system should update the client's account records to recognise receipt of the payment and also provide a confirmation message. For further details, see also subsections 5.2.7 and 5.3.3.2.vii.

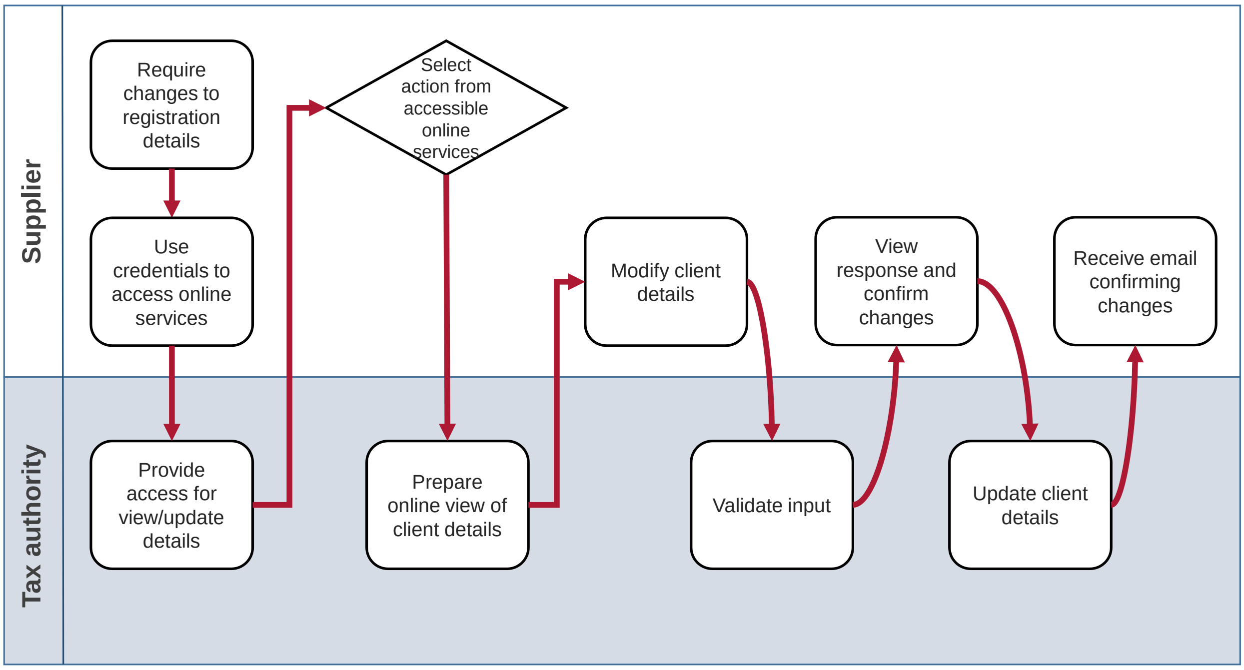
Figure 5.8. Example of a simplified VAT payment process for non-resident suppliers and digital platforms (after receipt of payment reference number)



Source: Australian Taxation Office.

- **Updating taxpayer information**: As non-resident suppliers and digital platforms continue to operate under the simplified compliance regime, they will at times experience changes in personnel responsible for using the simplified compliance regime portal. For this reason, it is important that the system provides functionality to enable users to be deleted, details to be updated or new users to be added. In this connection, it is useful that the registration system's functionality permits registration applicants to save their draft applications and to retain the ability, on their own initiative, to update relevant details in their application (such as contact details) following registration.

Figure 5.9. Simplified update process for registrants under a simplified compliance regime



Source: Australian Taxation Office.

5.3.3.2. Additional systems and software requirements

(i) Hosting a secure online portal

It is highly recommended that the login page to the simplified registration and collection portal be hosted on the tax authority's existing website rather than creating a standalone Internet address. The reason for this is that the inclusion within existing webpages will provide a high level of certainty to users that the portal is legitimate and not a fraudulent site designed to steal funds from businesses.

Hosting the portal on the jurisdiction's existing webpages also ensures that the security and integrity processes already in place for the pages in the tax authority's website are extended to the simplified compliance regime.

An online portal will normally be underpinned by a number of fundamental technology standards. Two key standards are:

- **HTTP**: The Hypertext Transfer Protocol (HTTP) is a stateless application-level protocol for distributed, collaborative, hypertext information systems. HTTP is the underlying protocol used by the World Wide Web and this protocol defines how messages are formatted and transmitted, and what actions web servers and browsers should take in response to various commands. It was first standardised in 1999.
- **TLS**: The Transport Layer Security protocol provides communications security over the Internet. The protocol allows client-server applications to communicate in a way that is designed to prevent eavesdropping, tampering, or message forgery. It is the successor protocol to SSL (Secure Sockets Layer).

The exchange of data that are encrypted with TLS achieves a high level of security (HTTP Secure; HTTPS). Well-configured TLS ensures that no third party can eavesdrop or tamper with any communications and is internationally recognised as the preferred standard. Tax authorities are most likely to have already adopted the TLS standard, especially if they allow electronic filing through web forms.

A website is normally secured with SSL if "https" is included in the web address. A properly configured public HTTPS website includes an "SSL/TLS" certificate that is signed by a publicly trusted certification authority (CA). Users visiting an HTTPS website can be assured of:

- Authenticity. The server presenting the certificate is in possession of the private key that matches the public key in the certificate.
- Integrity. Documents signed by the certificate (e.g. web pages) have not been altered in transit.
- Encryption. Communications between the client and server are encrypted.

These properties allow users to securely transmit confidential information such as credit card numbers, tax identification numbers, and login credentials over the Internet, and to be sure that the website to which they are sending the information is authentic. With an insecure HTTP website, these data are sent as plain text, readily available to any eavesdropper with access to the data stream. Users of such an unprotected website will have no trusted third-party assurance that the website they are visiting is what it claims to be.

(ii) Ownership, technical prowess and location of the underlying servers and hardware that host the portal and store taxpayer data

Since IT equipment is capable of processing, storing or communicating sensitive or classified information, it is important that an IT equipment management policy be developed and implemented to ensure that IT equipment, and the information it processes, stores or communicates, is protected in an appropriate manner.

Regardless of whether IT equipment is purchased and owned by the tax authority, or leased from a third party, the security of the servers and hardware should be at the forefront of project planning for the implementation of the IT changes. IT equipment should be classified for security purposes based on the highest sensitivity or classification of information that is approved for processing, storing or communicating for tax purposes. The tax authority or other government agencies may already have a contractual relationship with IT services providers, which governs issues such as server location, storage protocols and security.

When jurisdictions choose to outsource or purchase commercial off-the-shelf (COTS) solutions, this could include the provision of IT servers or even cloud-hosted services as part of the arrangement. Again, in these cases, the tax authority will need to assure the security of information that may be accessed via third-party service providers, and contractual arrangements should reflect such obligations.

(iii) The use of Application Programming Interfaces (APIs) for network communications with non-resident suppliers' and digital platforms' IT systems

Jurisdictions are increasingly moving towards greater connectivity between tax authorities' compliance systems and businesses' commercial and accounting systems for VAT reporting and compliance. This includes the use of Application Programming Interfaces (APIs), which enable the direct and automatic transfer of data from a taxpayer's business or accounting system to the tax reporting system. APIs minimise the need to enter information manually.

APIs are useful whenever system-to-system integration is possible, for example, for the provision of transactional data. They allow the automation of data provision and thus the reduction of compliance costs. They also provide an opportunity for the tax authority to make information that is relevant for determining a supplier's VAT-liability directly available to the supplier's compliance system (e.g. the currency exchange rate to be used by a registrant under the simplified compliance regime for VAT filing and payment; VAT rate information in jurisdictions with multiple VAT rates; access to information to determine whether a customer is a business or a private consumer for VAT purposes such as a mechanism to validate VAT identification numbers).

APIs are widely used in many environments and their use will further increase in the coming years. The use of APIs by tax authorities to facilitate compliance under a simplified compliance regime for non-resident suppliers and digital platforms enhances the opportunity for providers of VAT compliance solutions and software to manage VAT compliance on behalf of these businesses across multiple jurisdictions. The use of APIs to support VAT compliance will also further enable the integration of functionality to support more automated international VAT compliance utilising businesses' Enterprise Resource Planning (ERP)[97] systems.

The more consistency there is among simplified compliance regimes and APIs implemented by tax authorities across jurisdictions, the greater the opportunity for non-resident suppliers and digital platforms to integrate VAT-reporting obligations into their accounting and tax compliance systems to maximise the efficiency and quality of multi-jurisdictional VAT compliance.

(iv) Language of the online portal content

The online portal to a jurisdictions' simplified compliance regime is primarily directed at non-resident businesses. It is therefore recommended that the operation of the portal be made available in English and, ideally, in the language(s) of the jurisdiction's main trading partners. This will facilitate and enhance compliance considerably, as suppliers' staff tasked with accounting and tax compliance may not always be familiar with the language in each of the jurisdictions in which they have VAT obligations. Making the necessary operating instructions and information available at least in English will also facilitate the introduction of the necessary changes to accounting and tax compliance systems, as English is often the default language used by systems developers.

Multilingual websites are becoming more and more common. Website translation is the process of taking website content in its original language and adapting it, often word-for-word, into other languages to make it accessible and useable to global users. This is best achieved by the creation of versions of the website rather than by creating duplicate sites, so that any changes to the original site will appear across all language versions. Automatic translation of information for taxpayers may create challenges. Jurisdictions must legally protect their procedures against the consequences of incorrect translation and potential misinformation to taxpayers when using automated translation.

Translating a website is fundamentally a technology issue, requiring automation and software to manage numerous workflows and processes. A number of different technologies[98] can be used to handle these workflows, in particular:

- A proxy-based solution: Technologies are used to leverage content and structured code of the main website. This makes it easy to translate, deploy and operate multilingual versions.
- Content management system (CMS) connectors: CMS connectors allow website owners that prefer to store and control translated content internally, to manage the process without the aid of external service providers (rather than with a translation vendor).
- Application programming interfaces (APIs): Translation APIs are sourced from translation providers and have a broader scope than a CMS connector, providing flexibility to create workflows for any type of content requiring translation, not just content stored in a CMS.

[97] Enterprise resource planning (ERP) refers to a type of software that organisations use to manage day-to-day business activities such as accounting, procurement, project management, risk management and compliance, and supply chain operations.

[98] See, for example: MotionPoint Corporation (N.D.), *The Technologies of Translation*, https://en.motionpoint.com/resources/translation/the-technologies-of-translation/

(v) Creating secure electronic forms

Online forms, which businesses can complete to securely record and transmit their VAT obligations for filing and reporting purposes, can be used to streamline and improve the compliance process. A well-designed form replaces time consuming and complicated paper-based processes.

The creation of a secure electronic form through which information can be submitted electronically for registration, reporting, payment or updating information to a tax authority is a critical design element of a simplified registration and compliance portal. For more guidance on hosting a secure online portal and standards to secure communications on the internet see subsection 5.3.3.2.i.

(vi) Facilitating file uploads

As discussed in subsection 5.2.1, a file upload facility could be incorporated into the design of the simplified system to enable registrants to electronically upload documents to the tax authority where required. Whether this is incorporated into the simplified regime or not, it is recommended that where tax authorities require registrants to submit additional information electronically, a facility for secure transmission of transactional data be provided.

(vii) Facilitating payment by registrants under the simplified compliance regime

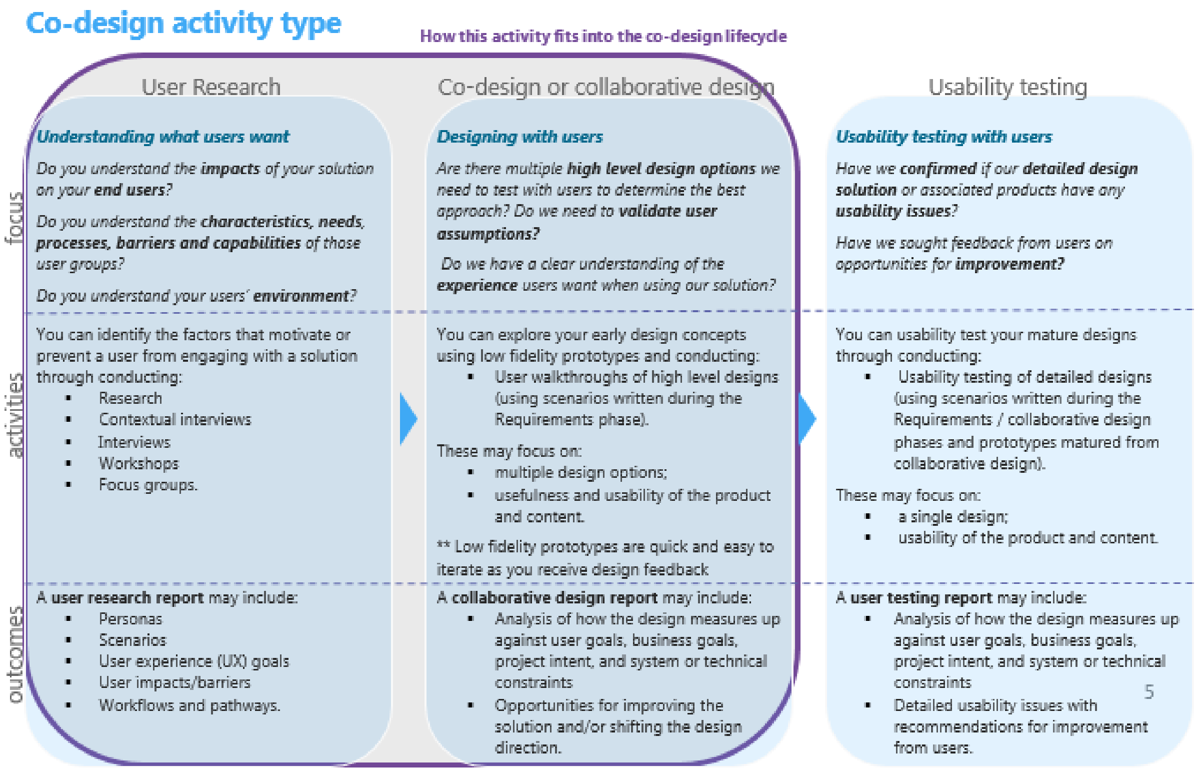
Tax authorities are encouraged to consider the nature, identity, status and domicile of payment service providers (PSPs) that could interface with or be embedded within the online portal for a simplified compliance regime in order to facilitate payments for settlement of VAT due by non-resident suppliers and digital platforms. As noted in subsection 5.2.7, some jurisdictions have embedded the payment process into the tax authority's website to facilitate payments (e.g. New Zealand).[99] Other jurisdictions provide a form through which registrants can communicate credit card details where this is used as the payment mechanism, or an option to advise that the payment will be made through bank transfer (with reference to the applicable SWIFT code, i.e. the international bank code that identifies financial institutions involved in international payments; also known as a Bank Identifier Code or BIC; e.g. Australia). When a VAT return is filed, it is recommended that a payment reference number is generated that is then reflected in the separate payment process that the registrant makes, e.g. via means of a bank/electronic funds transfer.

(viii) Business consultation on the design of the online portal ("co-design")

Experience from tax authorities that have successfully implemented a simplified registration and collection regime suggests that consultation with representatives from the relevant businesses and business sectors has contributed considerably to the design quality and performance of the online portal. The following diagram represents an example of such a "co-design process" aimed at identifying user requirements and incorporating them into the design architecture where possible.

[99] See New Zealand Inland Revenue Department (2020), *Pay using a credit or debit card*, https://www.ird.govt.nz/managing-my-tax/make-a-payment/ways-of-paying/paying-electronically/credit-or-debit-card

Figure 5.10. Example of a co-design process



Source: Australian Taxation Office.

5.3.4. Integrating the new compliance infrastructure with existing infrastructure

A key aspect of the implementation of a simplified VAT compliance regime for non-resident suppliers and digital platforms is the integration of the new regime into the existing tax IT infrastructure.

Tax authorities are likely to be faced with a number of challenges in integrating the online portal for the simplified compliance regime, which involves primarily the "front-end" (taxpayer-facing end) of a tax authority's IT-system, with the "back-end" functions of the existing IT system. Particular issues to consider include the following:

- Client account systems. A simplified compliance regime for non-resident suppliers and digital platforms will typically require less information to be provided by registrants than the information that is required from businesses that register under the standard VAT regime. This can create issues for the operation of existing client account systems, for instance where the system does not permit the creation of a client account when information is missing that is not required under the simplified compliance regime (e.g. a non-resident supplier's local bank details). The client account system should be adjusted to allow either that the information is not required or, as a last resort, that a dummy number be utilised to satisfy the system demand.
- Compliance case management systems, which allow the steps and details of an audit to be properly documented, are another example of back-end systems that may need to be adjusted in light of the implementation of a simplified compliance regime. Actions facilitated by the case management system can, for instance, include the issuance of a tax assessment and the

application of administrative penalties. If this functionality cannot be extended to audits of registrants in the simplified system, then manual processes may be required to create such a tax assessment or administrative penalty.

- Law referencing systems are sometimes part of a tax authority's IT infrastructure, so that correct and up-to-date reference can be made to legal provisions and administrative guidance in communicating with taxpayers. This could, for instance, include system-generated reminders for late filing of returns or for non-payment. Where a simplified compliance regime does not connect with this system, it may require manual intervention to ensure the correct referencing to the relevant legal and administrative provisions.
- Other systems that support client engagement such as website pages, call centre scripting, correspondence and complaints may also require integration or stand-alone processes.

Integrating new IT infrastructure with tax authorities' legacy IT-systems includes a number of key actions, such as:

- Identifying the points of integration: systems components, services, pages, screens, tables, database objects, lines, etc.
- Designing the integration strategy for each point of integration, with the objective of creating access to the existing function or information using standard protocols supported by the great majority of market tools. New technologies such as screen scraping software and Robotic Process Automation (RPA) could be very valuable options at this stage.
- Executing the designed changes. Some components may need to be totally or partially reconstructed, which will require the support of a specific accompanying strategy for their migration to the existing system (Inter-American Center of Tax Administrations (CIAT), 2020[79]).

5.3.5. Several options are available, including in-house development or outsourcing and the use of "commercial off-the-shelf" (COTS) solutions

Tax authorities will normally have a number of options to choose from when deciding on the approach for the development of the online portal for the simplified VAT compliance regime for non-resident suppliers and digital platforms. These broadly include: constructing the online portal utilising in-house IT expertise; outsourcing the project; or selecting a commercial off-the-shelf (COTS) solution.

The decision will ultimately depend on an assessment of a range of circumstances, including the functionality of the tax authority's existing IT system, the in-house capability of IT staff, the time available for the implementation of the system, and the funding available. Although the capabilities of modern (e.g. in-house) custom-built IT solutions and commercial off-the-shelf (COTS) IT solutions may ultimately be similar, the approaches for their implementation can differ (Jimenez, Mac an tSionnaigh and Kamenov, 2013[80]).

Custom solutions built in-house or delivered via outsourcing can accommodate specific existing business processes. These solutions may have lower initial costs, as they can leverage off internal experience and existing systems and can allow more control over the final product. On the other hand, these solutions are dependent on internal expertise, which may not be readily available, and they may not fully keep pace with technological innovations.

In-house development may be most suitable in circumstances where the existing IT infrastructure supports the desired features of a simplified online portal, in particular:

- Providing a webpage in the existing IT infrastructure that could operate as the online portal for the simplified registration and collection process; and

- Utilising an identity credential verification process that provides non-resident suppliers and digital platforms, who are unable to claim VAT refunds under the simplified compliance regime, secure access to the portal without imposing the typically strict identification protocols that are necessary to reduce the risks of refund fraud under a standard VAT registration regime.

In comparison, COTS solutions are ready-made, third-party products designed to accommodate best practice in business processes. They can provide advanced technology solutions with potentially shorter implementation timelines, and are more likely to have been rigorously tested. However, COTS solutions allow fewer controls over customisation, maintenance and intellectual property rights.

Box 5.16. The "Digital Economy Compliance" software developed by the Inter-American Center of Tax Administration (CIAT)

The Inter-American Center of Tax Administrations[100] (CIAT), in co-operation with the Norwegian Agency for Development Co-operation (NORAD), has developed an open-source software aimed at facilitating registration and compliance obligations for VAT and consumption taxes on transactions carried out by non-resident suppliers. Depending on the set-up, this software, which has been named "Digital Economy Compliance", is intended to assist tax authorities in implementing a simplified registration and collection regime for non-resident suppliers and digital platforms in line with OECD guidance.

According to CIAT specifications, the software is multilingual and can be installed in a local data centre or in the cloud, for use to comply with vendor collection obligations in a single or multiple jurisdictions, and it supports the following processes:

- Simplified registration;
- VAT return filing and settlement;
- VAT liability calculation;
- Adaptability to different business models of the digital economy;
- Statistical reports, amongst others.

The Inter-American Center of Tax Administrations (CIAT) has identified challenges with the use of COTS encountered by tax authorities in developing economies, which became confronted with the need to make radical changes to processes that had not been considered when acquiring the product (Inter-American Center of Tax Administrations (CIAT), 2020[79]). The cost of licenses, maintenance and support, which are generally paid annually, may also create pressures, including those attributable to cost increases due to upgrades and extensions that had not been anticipated and that may be required to keep the system operational. If a tax authority procures solutions from private providers, it will in any case need to contractually define a service level agreement (SLA) for the provided solutions. The contractual relationship will need to clearly specify responsibilities, confidentiality requirements, and liability for non-compliance with the SLA.

[100] The Inter-American Center of Tax Administrations (CIAT) is a non-profit international public organisation that provides specialised technical assistance for the modernisation and strengthening of tax administrations. Founded in 1967, CIAT currently has 42 member countries and associate member countries from four continents: 32 countries of the Americas, five European countries, four African countries and one Asian country.

Box 5.17. In-house development of IT infrastructure vs. COTS solution: Examples

Different approaches have been taken globally by jurisdictions that have implemented a simplified compliance regime, for example:

- **Australia** constructed its simplified VAT compliance system in-house utilising existing IT infrastructure. Adapting this infrastructure for the simplified reporting portal and complementing it with a standalone identity credential process with significantly reduced identity authentication requirements have been key to reducing costs and minimising system build time.
- **Kenya** utilised an outsourced IT solution to develop the KRA's bespoke online compliance system, *iTax*, to offer a range of taxpayer services. Initially for resident taxpayers. It subsequently made the system available to non-resident suppliers of digital services with Kenyan VAT obligations through a distinct registration process and returns filing portal for them. In-house IT systems developers now manage, maintain and enhance the iTax system for the KRA.
- **New Zealand** used existing customer registration, return filing and self-service portal functions utilising standard configuration in a COTS package. It ensures that front-end (taxpayer-facing) and back-end systems can operate on the basis of tax identification numbers that are structured consistently for both domestic and non-resident businesses. The non-resident registrants can be isolated for specific tax management practices through the use of underlying attributes.

Source: OECD research.

The following table provides a summary overview of possible advantages and disadvantages for tax authorities to consider in evaluating the possible approaches to the development of the IT infrastructure to support the operation of a simplified VAT compliance regime for non-resident suppliers and digital platforms.

Table 5.2. Approaches to building the IT infrastructure for a simplified compliance regime

System Type	Advantages	Disadvantages
Commercial Off-the-Shelf (COTS) Solution	• May allow for faster delivery and ready-to-use solutions. • Likely to provide latest technology or proven software that is pre-tested and supported. • Opportunity for tax authority staff to work alongside external service providers in implementation and thus increase capability. • May result in lower cost over time (but need to carefully manage costs of maintenance and upgrades).	• Minimal customisation. • No intellectual property rights. • Higher initial costs. • May create a reliance on external IT providers for system maintenance or require upskilling of existing IT staff to support changes in the COTS system. • Requires continued assessment of available upgrades and the additional cost of those upgrades if not part of the initial contract.

System Type	Advantages	Disadvantages
Bespoke COTS Solution	Same as above COTS IT solution, plus: • Tailored solution to organisational needs.	Same as above COTS IT solution, plus: • Client experience impacted when a bespoke COTS solution is too inconsistent with other tax authority systems. • Complex integration to core back-end systems can be expensive to maintain and difficult to change. • Custom design systems may be more complex and incur higher costs to upgrade.
In-house IT Solution	• Allows tax authorities more control over the solution. • Lower initial and maintenance costs. • Can leverage off internal experience and systems. • System changes can be easier and be made more quickly depending on capability of IT staff and complexity of the regime. • Intellectual property rights/source code are with the tax authority.	• Lower initial functionality and slower deployment unless mature IT infrastructures and systems are in place. • Dependent on internal expertise which may be difficult to acquire or retain. • May not keep pace with technological innovations. • Tax authority incurs all costs and risks of the project.
Outsourced IT Solution (Not COTS)	Same as above in-house IT solution, plus: • Opportunity for tax authority staff to work alongside external service providers and consultants in implementation and increase capability.	Same as above in-house IT solution, plus: • Higher initial costs. • Increased focus on contract management. • High dependence on the service provider which can make the tax authority captive.

Source: OECD analysis.

5.3.6. Alternatives where an online portal cannot be implemented - Related IT security issues

A jurisdiction may lack the necessary administrative or technological capacity to implement and operate an online portal for a simplified compliance regime, including an online VAT return process. In these exceptional circumstances, such a jurisdiction may consider implementing a VAT return process through an alternate channel with appropriate safeguards, such as a secure e-mail exchange.

To facilitate compliance and administration under such an e-mail-based approach, a jurisdiction could consider adopting the following features:

- Using a dedicated email address for VAT returns so that the tax authority can properly segregate and manage the returns.

- Sending confirmation emails to registrants that the tax authority has received their VAT return and payment.
- Ensuring that the dedicated email channel is supported by dedicated administrative and IT staff to resolve issues quickly.

To limit security risks under an e-mail-based approach for VAT return filing under a simplified compliance regime, tax authorities are strongly advised to require only those pieces of information on the VAT return that are essential to identifying the non-resident supplier or digital platform and to determine the VAT due at an aggregate level.

Where a jurisdiction is unable to provide an online portal for non-residents and digital platforms to register and file VAT returns under its vendor collection regime, it is likely to face risks that will need to be mitigated. These risks and potential compliance challenges include the following:

- The vulnerability of manual forms to manipulation by persons attempting fraud against businesses and tax authorities.
- Difficulty to collect and validate an appropriate level of identity credentials in the registration process.
- Insufficiently rigorous checks on identity credentials and on the authenticity of the mandates of intermediaries acting (or claiming to act) on behalf of registrants.
- The protection of confidential taxpayer information included in VAT registration forms and returns.
- Complexity of processing communication (including return filing and other reporting requirements) in multiple languages.
- The inability of the tax authority to automate the validation of manually completed forms, leading to time-consuming manual verification and follow-up processes, including the gathering of any missing information from registrants.

The Forum on Tax Administration published the findings of a survey of member tax administrations noting that while revenue bodies rely increasingly on electronic services to improve customer services and costs, there has also been an exponential growth in the frequency and sophistication of criminal attacks (OECD, 2012[81]).

A range of safeguards and protective systems are available to secure email channels, including electronic user IDs, digital certificates, registered e-mail addresses, use of secure passwords and “code-card” challenges, and encryption. Some tax authorities provide the secure equivalent of an email service within their online portal for taxpayer registration and compliance, both under the simplified and standard VAT regimes. Where jurisdictions have not previously used methods of secure communication with non-residents, they may want to consider their compatibility with common IT systems that non-resident businesses use to ensure that these businesses can adequately receive and inspect any information that the tax authority transmits securely, such as through encryption. This can be relevant when the jurisdiction of the registrant prohibits its businesses from accessing certain types of secure channels. Tax authorities therefore may wish to undertake some form of consultation and testing with tax advisors, tax authorities in other jurisdictions and with international businesses when designing their communication channels under a simplified compliance regime. This will enhance the extent to which the approach they adopt is not only secure but also accessible, which is critical to its success.

5.3.7. Internal audit and risk management

Internal risks, especially information security risks, may affect the integrity and effectiveness of a jurisdiction's vendor collection regime for the collection of VAT on international digital trade. Specific risk management strategies can be applied, as appropriate, to mitigate such internal risks to the extent feasible.

The implementation of robust and efficient audit and risk management strategies is necessary to ensure proper tax collection in accordance with the law in a manner that will sustain public confidence in the tax system and its administration. Both external and internal risks should be taken into account. External risks comprise above all the risk of non-compliance by taxpayers. This Toolkit provides extensive guidance on external audit and risk management in subsections 6.2 et seq. Internal risks on the contrary arise within the tax authority and are the subject of the following analysis.

A number of key internal capabilities affect risks associated with the administration of a simplified compliance regime. These include (OECD, 2004[82]):

- **Information technology and business systems**. The simplified compliance regime is aimed at facilitating compliance for non-resident businesses with their VAT obligations in a jurisdiction where they make taxable supplies without having a physical presence there. The implementation of an electronic process that is accessible via an online portal on the tax authority's website is the simplest way for such non-resident businesses to engage with the tax authorities in that jurisdiction. The proper implementation and operation of these processes and supporting infrastructure should be considered as a core organisational objective for the tax authority in a jurisdiction that implements the recommended vendor collection regime for the collection of VAT on international digital trade from non-resident suppliers and digital platforms.
- **Organisational culture**. Organisational commitment, staff and management buy-in is essential for the effective operation of any compliance risk management system. This in turn is created by a clear and demonstrable commitment from the organisation and its leaders to any new compliance strategy, as well as sensitive management to foster common understanding and acceptance.
- **Organisational structure**. Tax authorities should ensure that their overall objectives are achieved. Processes need to exist to deal with the potential adverse effects e.g. of organisational fiefdoms which have the ability to lead to the sub-optimisation of organisational compliance responses.
- **Staff and business capabilities**. Developing an organisation's skills involves both training people to design and operate systems, and to engage in research and intelligence activities. Jurisdictions should consider the importance of adequate co-ordination between tax and IT specialists, and also customs specialists in relation to low-value imported goods. This co-ordination will enhance the adequate use of data and the design of systems aligned with business needs.

Box 5.18. Enterprise risk management maturity model

The OECD Forum on Tax Administration (FTA) has developed a set of stand-alone maturity models covering both functional areas of tax administration as well as specialised areas. Maturity models are a relatively common tool, often used on a self-assessment basis, to help organisations understand their current level of capability in a particular functional, strategic or organisational area. The recent *Enterprise Risk Management Maturity Model* (OECD, 2021[83]) covers the organisation and operational aspects of enterprise risk management.

The aim of this maturity model is to allow tax administrations to self-assess through internal discussions as to how they see their current level of maturity in enterprise risk management, to provide staff and senior leadership of the tax administration with a good overview of the level of maturity based on input from stakeholders across the organisation, and to allow tax administrations to compare where they sit in relation to their peers. The model sets out five levels of maturity, ranging from "emerging" to "aspirational".

To assist in the understanding of what a given level of maturity means, a set of indicative attributes is also contained in the same maturity model table. These indicative attributes are a selection of attributes that leading industry frameworks identify as important elements for implementing and sustaining enterprise risk management within any organisation.

Source: OECD (2021), *Enterprise Risk Management Maturity Model*, OECD Tax Administration Maturity Model Series (OECD, 2021[83]).

5.3.7.1. Internal risk management during the design and implementation phase of the online registration and compliance portal and supporting infrastructure

Prior to the entry into force of the new VAT regime for non-resident suppliers and digital platforms, the main internal risks relate to the tax authority's work in designing and implementing the online registration and compliance portal and supporting infrastructure.

In order to minimise internal risks during this phase, the tax authority should:

- Ensure that the responsible project team and its leadership have sufficient understanding of the principal policy design, legal and administrative features of the regime as needed to design and implement a portal and supporting infrastructure fit for purpose.
- Review and reflect on the perspective of businesses as the future main users of the online portal, during the development and implementation process.
- Adopt all the internal actions required to ensure a timely development and implementation of the portal and supporting infrastructure.
- Take proactive actions to avoid and, if required, timely correct any problem that may affect the normal operation of the systems.

5.3.7.2. Security and confidentiality of tax data

The proper operation of a simplified compliance regime for non-resident suppliers and digital platforms requires compliance by these businesses with registering, filing, reporting and VAT payment obligations through the portal and other electronic means made available by tax authorities. The online registration and compliance portal for non-resident suppliers and digital platforms and its integration into tax authorities' existing IT, payment and account management systems are critical components of the infrastructure to support the operation of the simplified compliance regime (see also subsection 5.3.4).

It is important for tax authorities to ensure that the information provided by the registered businesses under the simplified compliance regime is safely stored and is used only for the purposes for which it was provided. The information is often highly sensitive as it may disclose, for instance, businesses' profit margins, their most commercially targeted regions, discount policies or a business's current and future commercial strategy. Concerns about businesses' data being disclosed to third parties can make them reluctant to share information with tax authorities. It may also create operational and reputational risks for tax authorities. The business expectations regarding confidentiality of the information reported to the tax authorities must be understood in terms both of contractual commitments towards these businesses' counterparts and of protecting their internal commercial decisions, commercial or intellectual property and commercial strategies. Consequently, all information provided to tax authorities should, in principle, be considered confidential and access should only be granted on a need-to-know basis within tax authorities.

This is particularly relevant in any circumstances in which tax authorities may have access to sensitive personal information (e.g. information related to natural persons not carrying out economic activities, such as identification, personal consumption trends, etc.) due to data protection rules in place in most jurisdictions. Limiting the required information to what is strictly necessary, as recommended by OECD guidance, helps reducing the amount of data and thus extenuates data protection concerns.

In addition to ensuring the security and confidentiality of taxpayer data, jurisdictions must also ensure the security of taxpayer gateways and systems for processing payments (see also subsection 5.3.3.2).

To safeguard the operation and security of tax authority's systems (including the data they collect for risk management purposes) and to ensure the security of payment gateways, it is recommended to consider the following requirements:

(i) Legal framework

A legal framework is necessary to ensure the integrity of the relevant systems and the appropriate use of the information accessed by tax authorities.[101] Any officer or authority with knowledge of sensitive data, reports, or records generally should be required to maintain secrecy, except in the cases specifically provided by law, and sanctions should be prescribed for violation of this requirement, e.g. for improper disclosure or use of taxpayer information. Adequate administrative resources and procedures to ensure their effective application should reinforce the laws.

A legal framework to combat cyber-attacks and sabotage should also be adopted.

(ii) Security management standards

Tax authorities should take a holistic approach to information security, as the weakest element is the most vulnerable source of information leaks. Tax authorities are advised to establish information security management systems to ensure the protection of relevant data in the context of the implementation of a simplified compliance regime for non-resident businesses and for related audit purposes.

Specifically, a team of dedicated staff at a systems level will be needed to:

[101] In 2013, the OECD issued revised *Guidelines Governing the Protection of Privacy and Transborder Flows of Personal Data*, available at https://www.oecd.org/digital/ieconomy/privacy.htm. These Guidelines focus on the practical implementation of privacy protection through an approach grounded in risk management, and on the need to address the global dimension of privacy through improved interoperability. They discuss recommended approaches to cross-border data flows and to strengthening privacy enforcement and they detail the key elements of what it means to be an accountable organisation. Further information on information security management in the context of exchange of information can also be found in: OECD (2020), *Confidentiality and Information Security Management Toolkit*, https://www.oecd.org/tax/transparency/documents/confidentiality-ism-toolkit_en.pdf

- Periodically test and reinforce the security of the infrastructure to protect it against organised hacking or cyber-attacks.
- Perform robust internal audits to test for and address instances of unauthorised use and put in place preventative measures to resolve identified vulnerabilities.
- Limit the number of officials having access to sensitive information.
- Regularly train authorised users to protect against phishing and other attacks.

Tax authorities can ensure the effectiveness of such systems by applying internationally accepted standards, in particular 'ISO/IEC 27000-series' [102], or ensuring an equivalent information security framework.

[102] A series of standards on information security management developed by the International Organisation for Standardisation (ISO) and International Electrotechnical Commission (IEC).

6 Enhancing compliance and enforcement

Section 6 of the VAT Digital Toolkit for Africa provides guidance on effective audit and administrative risk management strategies and processes, including concrete measures to enhance compliance under a vendor collection regime supported by simplified compliance processes. It also provides guidance on enforcement measures to address non-compliance.

In Brief

Section 6 of the Toolkit provides in-depth analysis of the possible strategies and approaches for tax authorities to enhance compliance by non-resident suppliers and digital platforms under the recommended vendor collection regime and to support tax authorities' capacity to enforce compliance by these non-resident businesses. Core components of a comprehensive strategy include:

- **A well-designed, simple and easy-to-use registration and compliance regime for non-resident suppliers and digital platforms.** Putting in place such a regime, based on internationally agreed principles as consistently implemented across jurisdictions, is a critical starting point to achieve high levels of compliance and VAT revenue collected.
- **Adopt an approach to policy design and administration that facilitates and stimulates compliance.** This will nurture willing participation, notably from major businesses and platforms that are likely to account for a significant share of the VAT revenue and will allow tax authorities to focus risk mitigation and enforcement actions on the remaining fraction of non-compliant businesses. In particular, jurisdictions should consider:
    - **Facilitating compliance**. Appropriate simplification and alignment with the internationally agreed standards and approaches reflected in OECD guidance is particularly important to facilitate compliance for businesses faced with obligations in multiple jurisdictions. As a basic principle, obligations should be limited to what is strictly necessary for the effective collection of the VAT, and compliance should be supported by online processes.
    - **Clear rules and consistency in the law**. Legal uncertainty should be minimised. Legislation and administrative guidance should provide clear information on the obligations that non-resident suppliers and digital platforms have under the simplified compliance regime. It is strongly recommended that legislation and supporting guidance be made available in English and in the language(s) of the jurisdiction's main trading partners in addition to the jurisdiction's local language(s) and be proactively communicated by the tax authorities.
    - **Co-operative compliance**. The implementation of co-operative compliance approaches between tax authorities and businesses may further help to enhance compliance.
- **An effective and proactive communication strategy is crucial to achieving appropriate compliance levels by non-resident suppliers and digital platforms from the outset.** Jurisdictions should ensure awareness from non-resident suppliers and digital platforms on the main aspects of the vendor collection regime facilitated by simplified compliance processes through all the phases of the reform. This Toolkit therefore recommends jurisdictions to:
    - Develop a staged communication strategy that delivers clear, relatively short messages focused on key aspects of the simplified compliance regime in a phased approach.
    - Start communication early on in the design and implementation phase to raise early awareness among non-resident suppliers, digital platforms and other stakeholders that are likely to be affected by the reform. Crucial information for early awareness includes the scope of the regime (including types of supplies in scope); the rules for determining the customers' status where this is relevant for the operation of the regime; indicia and criteria

for determining and evidencing the customers' location; applicable VAT rate(s) and exemptions, among other aspects.

- Use a multi-channel communication strategy. This includes engaging with international and regional organisations (e.g. OECD, World Bank Group, African Tax Administration Forum, World Customs Organization, among others) and industry bodies in reaching out to non-resident businesses, digital platforms and other relevant stakeholders.
- Ensure that an appropriate lead-time is provided for the proper implementation of the reform

- **Identifying and addressing the main risks of the vendor collection regime**. The process of risk analysis involves identifying all sources of relevant data, analysing data, and deciding what actions must be taken. Once the critical risks have been identified, tax authorities should assess and prioritise them. The Toolkit advises the prioritisation of risks according to the different phases of the implementation of the simplified compliance process for the vendor collection regime, as follows:
  - **Preparatory phase** (prior to the date of entry into force of the reform onwards): focus on the VAT registration process. The objective is to minimise the number of in-scope non-resident suppliers and digital platforms failing to register.
  - **Implementation phase** (from the date of entry into force of the reform onwards): focus on the VAT return and remittance processes, in addition to compliance with registration requirements. The objective is to minimise the number of in-scope non-resident suppliers and digital platforms failing to timely report or remit the tax; and
  - **Maturity phase** (post implementation once the law has settled in and onwards): focus on inaccurate reporting, customer misrepresentation, among other risks. The overall objective is to further limit and correct cases of unintentional as well as deliberate non-compliance.

  Relative size of the businesses is a factor that may be considered for prioritisation, since large businesses will account for a larger share of VAT revenues.

- **Access to data is critical for tax authorities in designing and operating a vendor collection regime, including for modelling the regime and for risk management and audit activities**. The Toolkit provides guidance on the use of a range of data sources that are available to identify and acquire information on non-resident suppliers, digital platforms and other stakeholders that are likely to be affected by the implementation of a vendor collection regime. In particular, third-party transactional data can be helpful in identifying the in-scope non-resident suppliers and digital platforms and in detecting non-registration, to monitor compliance and to support a risk-based compliance management strategy. This would typically include data from banks and financial intermediaries, from stakeholders in the goods trade (including postal operators and express carriers), among others.
- **Enforcing compliance**. Despite the efforts of tax authorities to facilitate compliance by non-resident suppliers and digital platforms, non-compliant conduct can nevertheless occur. To enforce compliance under the recommended vendor collection regime facilitated by simplified compliance processes, jurisdictions should especially consider:
  - **VAT registration and assessment**. Allow the compulsory registration and assessment of VAT liabilities by the tax authority where taxpayers refuse to comply with the law. International co-operation may play an important role for debt recovery.

- **Penalties and other enforcement measures.** To discourage non-compliance, appropriate and proportionate enforcement measures should be in place which may include interest charges and administrative penalties, criminal prosecution in serious cases, among others.
- **Withholding by financial intermediaries as potential fall-back solution**. Jurisdictions may consider implementing a withholding obligation for financial intermediaries specifically on payments to non-compliant non-resident suppliers and digital platforms, as a backstop solution and disincentive to non-compliance.

Jurisdictions should enhance their capacity to obtain tax relevant information and to enforce VAT compliance by non-resident businesses by making effective use of the available instruments for international administrative co-operation. In particular, the Multilateral Convention on Mutual Administrative Assistance in Tax Matters (MAAC) 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. This co-operation encompasses exchange of information, including automatic information exchanges, and assistance in the recovery of foreign tax claims (subject to any reservations).

Guide to Section 6

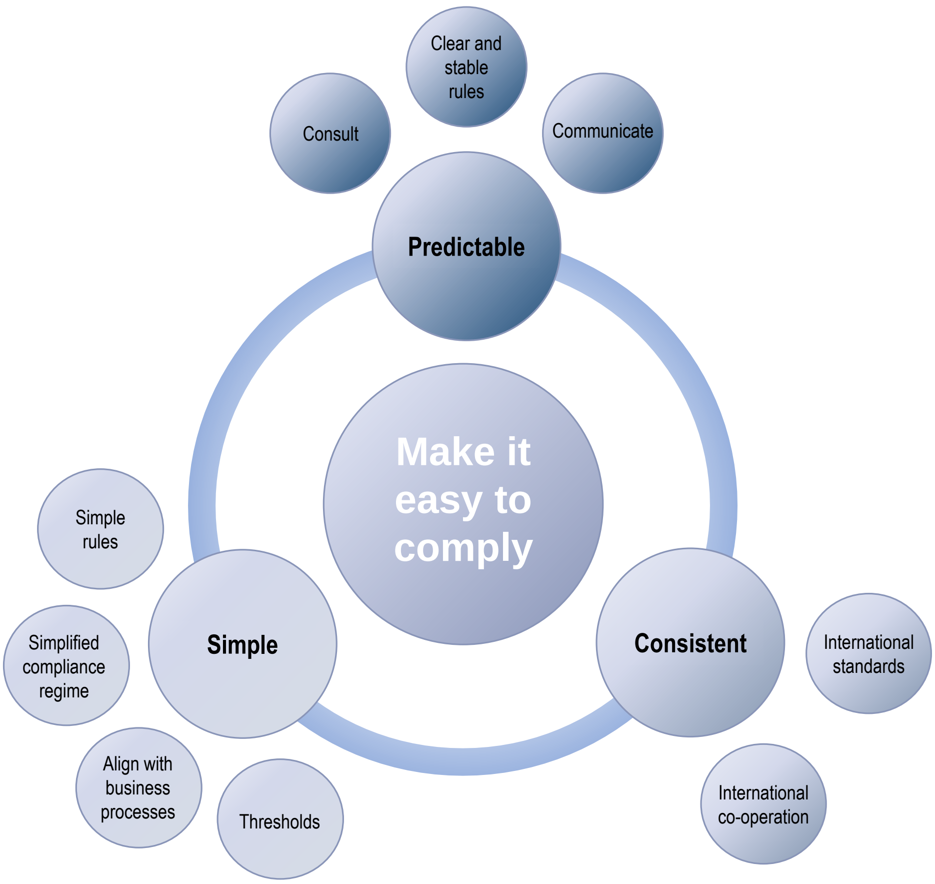
6.1. Introduction: Making it easy to comply and difficult not to

A well-designed, simple registration and collection regime for non-resident suppliers and digital platforms based on OECD guidance and international best practice is the single most effective mechanism to ensure compliance by the vast majority of non-resident businesses with a jurisdiction's vendor collection regime.

In order to maximise the VAT revenues they collect on digital trade from non-resident businesses while, at the same time, minimising administrative costs and taxpayers' compliance costs, jurisdictions are encouraged to keep the underlying compliance regime as simple as possible. They are advised to minimise bespoke design features and ensure that such features do not create compliance difficulties for suppliers and digital platforms. Simplicity, predictability and consistency of VAT rules with the international practice are key features to facilitate compliance, as illustrated in Figure 6.1.

Policy decisions relating to registration thresholds, the role of digital platforms and the treatment of B2B supplies can cumulatively help to reduce overall compliance costs and optimise the administration of the regime. These decisions will minimise the number of registrants in the system in a manner that enables tax authorities to focus on the entities that contribute most significantly to VAT revenues while reducing or eliminating compliance costs for small and micro businesses that are likely to contribute little or no net revenues.

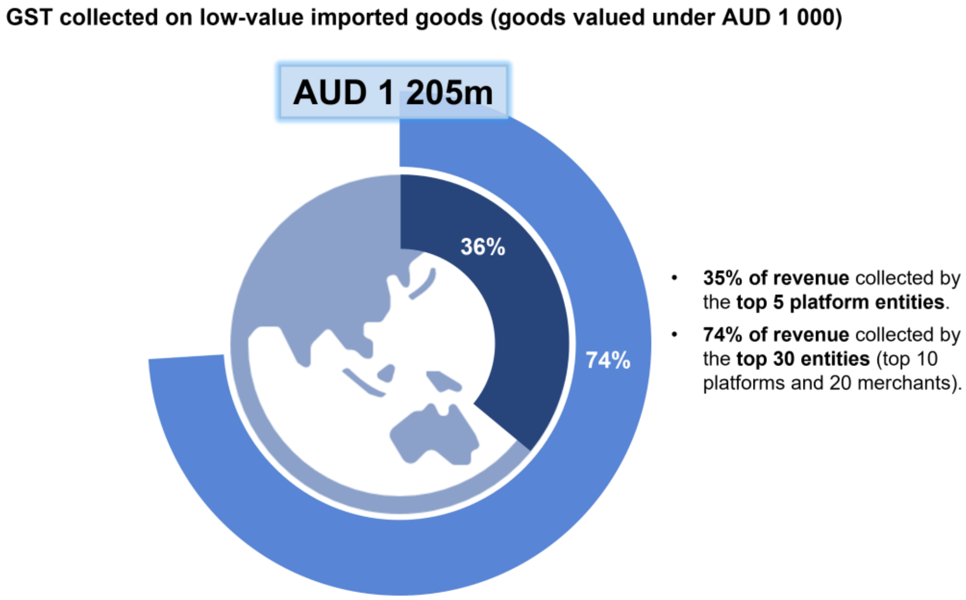
Figure 6.1. Enhance compliance: Make it easy to comply



Source: OECD analysis.

The experience from jurisdictions that have implemented a vendor collection regime based on OECD guidance indicates that compliance by major online vendors and digital platforms (that are likely to operate in multiple jurisdictions) with their VAT obligations under such a regime tends to be high, especially when rules are clear and consistent with the recommended OECD policy framework (see for example Figure 6.2 showing Australia's positive GST revenue results on low-value imported goods, including the important revenue shares collected by large online vendors and platforms). Reputational and regulatory considerations are important drivers for these businesses to comply with their VAT obligations under vendor collection regimes worldwide. Tax authorities can leverage this willingness to comply, by adopting rules that are easy to apply in practice, providing assistance to taxpayers in complying with these rules, and maintaining dialogue with the business community.

Figure 6.2. GST collected in Australia from 1 July 2018 to 30 June 2021



Source: Australian Taxation Office.

Where efforts to encourage willing compliance fail, however, jurisdictions should develop effective and robust strategies to manage compliance risks by non-resident suppliers and digital platforms. They should strive to strengthen and fully utilise their tax authorities' enforcement capacity in respect of VAT compliance by these businesses, including by making effective use of the available opportunities for international administrative co-operation (see subsections 6.7 and 6.8).

VAT collection generally operates effectively when the supplier is located in the jurisdiction of taxation because that jurisdiction's tax administration possesses the authority and significant legal powers to enforce collection and other related obligations against the supplier. When the supplier has no physical presence in the jurisdiction of taxation, the tax authority in this jurisdiction may face practical limitations in its ability to enforce such VAT collection and related obligations because it lacks personal jurisdiction over that non-resident business (OECD, 2017[3]).

At the policy design phase of a vendor collection regime for the collection of VAT from non-resident suppliers and digital platforms, jurisdictions are advised to assess whether their tax authorities have the appropriate powers to manage compliance by these non-resident businesses, and the powers to enforce compliance when needed. Jurisdictions will often be able to base their strategies on the same or similar enforcement regimes, such as sanctions and anti-abuse provisions, as those directed at domestic suppliers. This Section provides guidance on compliance approaches for jurisdictions to consider where non-residents businesses do not willingly engage with tax authorities in relation to their VAT obligations under a vendor collection regime.

Jurisdictions that implement a vendor collection regime for the collection of VAT on international digital trade in accordance with Sections 2, 3 and 5 of this Toolkit should strive to ensure that all taxpayers that are in scope of the regime respect and comply with their VAT obligations under this regime. One of the primary goals of tax authorities is to collect the taxes payable in accordance with the law and to do so in a manner that will sustain public confidence in the tax system and its administration. This is particularly important considering that the main objectives of jurisdictions' reform to ensure the proper collection of VAT on online supplies of services, intangibles, and low-value imported goods by non-resident businesses is to raise revenue to fund public expenditure and to create a level playing field between domestic businesses and non-resident suppliers.

Since tax authorities operate with limited resources, both human and material, there is a need to allocate these resources in a manner to achieve the best possible outcome in terms of improved compliance with the tax laws. A well-designed and efficient strategy is needed to accomplish this objective. The remainder of Section 6 seeks to outline the main elements for the development of such a strategy to enhance and enforce compliance by suppliers and digital platforms under a jurisdiction's vendor collection regime.

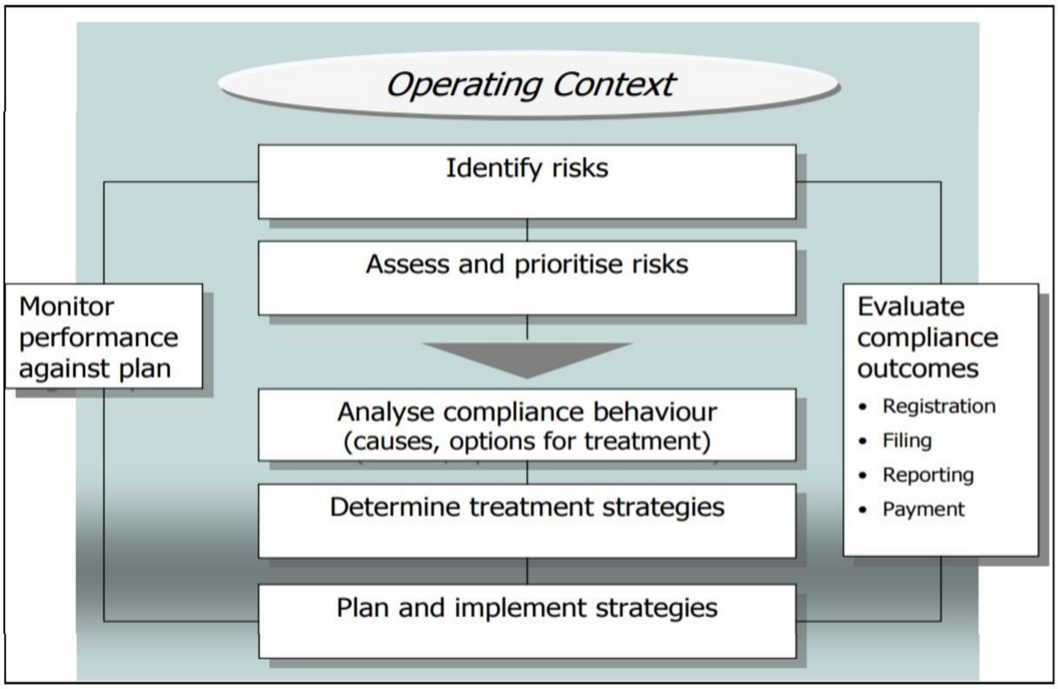
6.2. Compliance risk management under a vendor collection regime

Guide to subsection 6.2

This subsection of the Toolkit seeks to outline the main elements of a robust and efficient strategy to manage compliance risks under a vendor collection regime for the collection of VAT from non-resident suppliers and digital platforms, facilitated by simplified registration and collection processes.

The process of tax compliance risk analysis generally involves identifying all relevant data sources, analysing data, and deciding what actions must be taken. The OECD guidance note on *Compliance Risk Management: Managing and Improving Tax Compliance* provides a framework for the application of modern principles to the management of tax compliance risks (OECD, 2004[82]). It also describes a step-by-step strategic process for identification and treatment of those risks. In doing so, it identifies and discusses general principles in both the identification and treatment of compliance risks, and associated monitoring and evaluation activities that are required to gauge the effectiveness of the treatment strategies implemented. This guidance also presents a model of a compliance risk management process for tax authorities (Figure 6.3).

Figure 6.3. The compliance risk management process



Source: OECD (2010), *Evaluating the effectiveness of compliance risk treatment strategies* (OECD, 2010[84]).

The following subsections present further detail on the central features of this compliance risk management model as applied to a vendor collection regime for non-resident suppliers and digital platforms.

6.2.1. Identify risks

The overall strategy to be deployed by tax authorities must first focus on identifying the main risks of a regime for the collection of VAT on international digital trade. This phase of the process provides a list of potential risks. In identifying relevant risks, tax authorities may consider performing an environmental analysis, using available information, and focusing on specific categories that are likely to have significant tax revenue consequences if left untreated.

Some risks are internal to the tax administration (addressed primarily in subsection 5.3.7 of this Toolkit), such as internal infrastructure and capabilities, and others are external, such as non-resident suppliers' or digital platforms' failure to comply with their obligation to register, to file tax returns, to accurately report tax liabilities, or to pay taxes on time.

National circumstances may influence the way in which tax authorities administer a vendor collection regime and therefore the risks that each jurisdiction identifies for its own situation. With that caveat acknowledged, this Section nevertheless proceeds to consider further general criteria and recommendations.

6.2.2. Assess and prioritise risks

Once the critical risks have been identified, tax authorities should assess and prioritise them. Not all risks can (or should) be addressed.

A balanced approach to risk prioritisation requires an assessment of the frequency, consequences and likelihood of the risks to be covered in an attempt to determine a relative rating of the risks. Relative size of the businesses is also an important factor since large businesses will account for a larger share of VAT revenues.

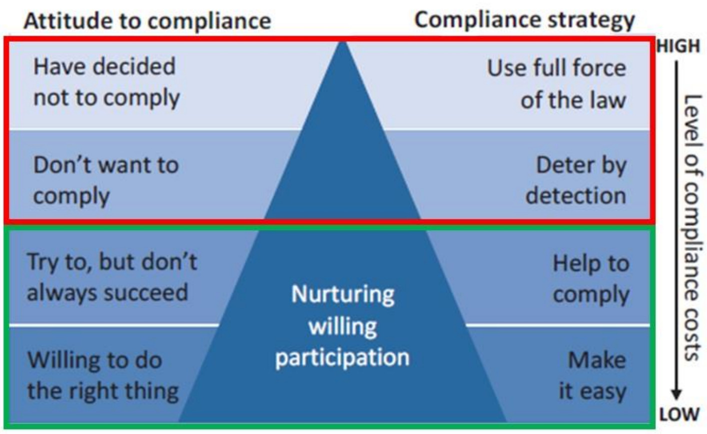
This Toolkit advises the prioritisation of the risks according to the different phases of the implementation of a simplified compliance regime (see subsection 6.3).

6.2.3. Analyse compliance behaviour (causes, options for treatment)

Tax authorities should seek to obtain information on and analyse the root causes of each relevant risk. Regarding external risks, the strategies may be different depending on a proper understanding of the reasons for the taxpayer's behaviour since non-compliance is a complex phenomenon. The adequate compliance management strategy is likely to depend on the taxpayer's attitude to compliance (see Figure 6.4).

It is important to consider that the behaviour or attitude of non-resident taxpayers may differ from the behaviour of the domestic population due to a number of factors. For example, a non-resident supplier may be unable to register, to file a VAT return, or to pay the VAT due for a number of reasons other than deliberate non-compliance, such as, not understanding how to use the compliance system or not having its own systems configured properly to report and pay. Some non-resident businesses may register in error, due to their misunderstanding of the law, such as those that sell exclusively through digital platforms that are subject a full liability regime. Tax authorities are advised to consider these specific aspects in their analysis of the development of their strategies.

Figure 6.4. Compliance behaviour and strategy



Source: Based on OECD (2004*), Compliance Risk Management: Managing and Improving Tax Compliance*, Figure 4.2 A spectrum of taxpayer attitudes to compliance (OECD, 2004[82]).

The OECD has provided guidance on using behavioural insights (BI) for breaking down a policy issue into its behavioural components and identifying potential behavioural barriers that can undermine the intended policy outcome as well as potential behavioural enablers that can ultimately enhance the effectiveness of the policy (OECD, 2019[85]).[103] Many jurisdictions have adopted this approach for their domestic taxpayers and some have already extended the same approach to non-residents. The insights gained from BI allow tax authorities to customise risk treatment based on the underlying cause(s) of non-compliance and to develop targeted compliance programmes. These are discussed in further detail in the next subsection.

6.2.4. Determine treatment strategies

Appropriate actions, either preventive or corrective, should be considered for each relevant behaviour and related risk. Appropriate strategies can be determined, drawing on an understanding of the root cause(s) of the underlying taxpayer behaviour (see Table 6.1). Actions notably include the identification of key players and engagement with them, e.g. through a targeted communications strategy.

Table 6.1. Summary risk assessment of non-resident businesses under a vendor collection regime based on behavioural insights and potential strategies

<table>
<tr><th>Behaviour</th><th>Examples</th><th>Strategy to address related risks</th></tr>
<tr><td rowspan="4">Ignorance</td><td>Non-resident businesses may genuinely lack awareness of their obligations outside of their domiciled jurisdiction.</td><td rowspan="4">• Undertake communication strategies to better target and inform non-resident suppliers and digital platforms in scope of the regime.
• Utilise third-party stakeholders or intermediaries to assist in better targeted communication.
• Ensure that tax authorities' website has easily identifiable information for non-residents to understand the law and to undertake registration and VAT return processes (in English and languages of main trading partners).
• Develop and publish guidance material and include this on tax authority's website.
• Assist non-resident businesses to willingly comply.
• Correct any systems access or system functions that non-resident suppliers and digital platforms have difficulty with.</td></tr>
<tr><td>Confusion among businesses over how the regime impacts them.</td></tr>
<tr><td>Poor client experience for businesses resulting from challenges in the functioning of the tax authority's operational systems, e.g. making it very difficult to access and use the registration, returns and payment processes.</td></tr>
<tr><td>Scam apprehension – The entity may not believe the tax authority's engagement is legitimate and, in fact, view it as a scam.</td></tr>
<tr><td rowspan="4">Deliberate disengagement[1]</td><td>Cost of compliance leading to an unwillingness or inability to make the necessary investment in business systems to comply with the law.</td><td rowspan="4">• Ensure that consequences of disengagement are clearly stated on tax authority's website and guidance material.
• Take available compliance actions to respond to deliberate non-compliance, developing new measures where appropriate.
• Use legal bases for administrative co-operation (e.g. as provided by Double Tax Treaties and the MAAC) to obtain assistance from the tax authority in the residence jurisdiction of the non-resident business.</td></tr>
<tr><td>Desire to obtain a commercial pricing advantage through evasion of VAT.</td></tr>
<tr><td>Belief that a foreign jurisdiction has no legal right to impose an obligation on a non-resident entity to collect and remit a tax.</td></tr>
<tr><td>Belief that foreign tax authorities will not be able to effectively enforce compliance.</td></tr>
</table>

1. Disengagement may also arise in the historically *compliant* population if it believes that non-compliant competitors are not receiving appropriate attention in the enforcement actions that the tax authority undertakes.
Source: Based on OECD (2019), *Tools and ethics for applied behavioural insights: The BASIC Toolkit* (OECD, 2019[85]).

[103] The OECD guidance uses a process that guides the policymaker through "Behaviours", "Analysis", "Strategies"", "Interventions" and "Change" (abbreviated as "BASIC"). BASIC is a toolkit that equips the policymaker with best practice tools, methods and ethical guidelines for conducting BI projects from the beginning to the end of a public policymaking cycle.

Jurisdictions may see value in publishing their compliance strategies on their tax authorities' websites and in guidance material, including the consequences of non-compliance, so that the proper understanding of these consequences can act in itself as a deterrent. The Australian Taxation Office (ATO), for instance, provided on its website a summary of its general approach to compliance and non-compliance at the time of introduction of its vendor collection regime for GST on the sales of low-value imported goods to Australian consumers as of 1 July 2018 (reproduced in Table 6.2). This particular information was found to be one of the most visited webpages about the new law.

Table 6.2. Jurisdiction example: Australia's former ATO website on "Making compliance happen"

Compliance category	Your behaviour	Our action
Fully compliant – Willing to do the right thing	You have: • Registered for GST as required. • Made necessary changes to your business systems. • Collected GST as required. • Reported and paid GST collected by the due date. • Made an honest mistake.	We will not contact you unless we believe that you have made a mistake. From 1 July 2018 to 30 June 2019, where you have made a mistake, we will: • Ask you to correct it. • Not impose any penalties. From 1 July 2019, where you have made a mistake, we will: • Ask you to correct it. • Consider your circumstances and level of co-operation before applying penalties.
Mostly compliant – Try to comply but don't always succeed	You have: • Registered for GST as required. • Made a genuine attempt to collect, pay and report GST as required, but have difficulty with any or all of these. • Contacted us about your situation and worked with us to resolve it.	We will not contact you unless we believe you have made a mistake. From 1 July 2018 to 30 June 2019, where you have made a mistake, we will: • Ask you to correct it. • Not impose any penalties. From 1 July 2019, where you have made a mistake, we will: • Ask you to correct it. • Consider your circumstances and level of co-operation before applying penalties.
Partly compliant – Don't want to comply	You have: • Registered for GST as required. • Not collected GST as required. • Not reported the GST you collected. • Not paid us the GST collected.	As of 1 July 2018 we will: • Calculate your liability and issue an assessment. • Impose an additional 75% administrative penalty. • Take recovery action for the debt.
Not compliant – Have decided not to comply	You have taken no action to comply with your obligations.	As of 1 July 2018 we will: • Register you for GST. • Calculate your liability and issue an assessment. • Impose an additional 75% administrative penalty – higher penalties can apply if you are a significant global entity. • Take recovery action for the debt.

Source: Australian Taxation Office. With increasing maturity of the regime, this "Making compliance happen" website has been integrated into the Australian Taxation Office's "Our compliance approach to imported services, digital products and low value imported goods" website at https://www.ato.gov.au/Business/International-tax-for-business/GST-on-imported-goods-and-services/Our-compliance-approach/#Identifyingnonresidentbusinessesthatdont.

6.2.5. Plan and implement strategies

Tax compliance risk management strategies should be applicable in principle to all businesses. However, this does not mean that the specific strategies adopted should be the same for all taxpayers. The applicable strategy can and should be tailored to the risk profile of the taxpayer or to the specific taxpayer categories under consideration (see also Table 6.1 and Table 6.2).

6.2.6. Monitor performance and evaluate outcomes

A compliance management framework (CMF) provides the proper foundation for the continuous improvement of risk treatment strategies (OECD, 2008[86]). Monitoring performance of these strategies helps to identify the need for any adjustments that should be made. This monitoring and evaluation should rely on clear statements such as:

- Target – what risk is being addressed?
- Objectives – what does the treatment strategy intend to achieve?
- Methodology – what are the measurement methodologies to be used?
- Data – what data will be collected?
- Measures – what compliance indicators were used in identifying the problem and what has changed as a result of putting strategies in place?

There are pre-defined obligations imposed by VAT laws that indicate compliance and form the basis of a typical evaluation approach. These obligations can be broadly classified as follows:

- To register for tax purposes.
- To file tax returns on time (i.e. by the date stipulated in the law).
- To correctly report tax liabilities.
- To pay taxes on time (i.e. by the date stipulated in the law).

The approach to measuring the effectiveness and efficiency of a tax authority's administration of a vendor collection regime for VAT on supplies of services, intangibles or low-value imported goods by non-resident businesses should not differ significantly from the approach it takes in a domestic context. Examples of indicators used by tax authorities to measure compliance are illustrated in Figure 6.5 below.

Figure 6.5. Compliance indicators (by major risk types)

<table>
<tr><th colspan="4">Compliance measures and indicators (by major risk types)</th></tr>
<tr><th>Failure to register</th><th>Failure to file on time</th><th>Failure to report correctly</th><th>Failure to pay on time</th></tr>
<tr><td rowspan="2">% of eligible business registered for VAT</td><td rowspan="2">% of returns filed on time (by filing periodicity, if useful)</td><td rowspan="2">% of aggregate liability under-reported (as per random audits)</td><td>% of tax paid on time</td></tr>
<tr><td>% of taxpayers who pay on time</td></tr>
<tr><td colspan="4">Trend of aggregate VAT tax gap (As established by macro-comparison with National Accounts data)</td></tr>
<tr><td colspan="4">Trend in growth of net VAT collected compared to personal domestic expenditure estimated for National Accounts purposes</td></tr>
<tr><td></td><td></td><td>Trend in the incidence of taxpayers assessed "at risk" by automated risk assessment system</td><td>% of end-year unpaid tax compared to annual (net or gross) revenue collections</td></tr>
<tr><td colspan="4">Public perceptions / attitudes survey results</td></tr>
</table>

Source: OECD (2008), *Monitoring Taxpayers' Compliance: A Practical Guide Based on Revenue Body Experience*, (OECD, 2008[86]).

6.3. Identifying and addressing the main risks of a vendor collection regime

Guide to subsection 6.3

From a VAT compliance and control perspective, the operation of a vendor collection regime to collect the VAT on supplies by non-resident businesses presents a number of risks that can be identified and prioritised according to the different phases of the regime's introduction, in a sequential approach, as outlined in Figure 6.6.

Figure 6.6. Indicative sequence

Source: OECD analysis.

The sequencing outlined is merely indicative and seeks to reflect the fact that tax authorities are strongly advised to focus initially on the "big issues" and then move gradually towards more complex and potentially resource-intensive issues.

As a general principle, tax authorities should calibrate their strategies and actions according to defined objectives and the severity of the respective risks.

6.3.1. Preparatory phase

This phase comprises the activities required for a successful entry into force of the vendor collection regime.

Table 6.3. Indicative list of risks and related strategies during the preparatory phase

Risks	Risk identification / Cause	Elements of treatment strategy
Registration: **Non-resident suppliers failing to register**	**Identification:** • Anticipated VAT registrations not being made. • High volume of enquiries being made on registration and reporting procedures. **Possible causes:** • Businesses were not aware of the reform. • Businesses could not adapt due to insufficient lead-time. • Unclear or inconsistent legislation and guidance. • Tax authority failing to create the appropriate supporting infrastructure in a timely manner. • Registration system is not functioning as planned. • Fear of penalties and criminal persecution relating to prior (unintentional or intentional) non-compliance. • Intentional disregard of VAT obligations by non-resident businesses.	• An effective communications strategy (see subsection 6.5) is crucial. • All relevant information, including clear guidance on the main aspects of the VAT regime, has been made available to non-resident businesses on the tax authority's website in English and in the languages of the jurisdiction's main trading partners. • Consistency of the jurisdiction's rules is ensured with OECD guidance and international best practice. • A simplified registration process is available without any overly onerous identification credential requirements. • The registration system is tested regularly. • The appropriate lead-time has been provided so that businesses can make the necessary preparations to ensure timely compliance. • Taxpayer assistance is available through client relationship officers (senior officers for significant entities) and through consultation with the business community. • The possibility to regularise the past is foreseen (see subsection 5.2.9.6). • Compulsory registration and penalties for the failure to register can be utilised.

Note: guidance on policy, administrative and IT infrastructure design that makes it easy for non-resident businesses to comply is presented in Section 5.
Source: OECD analysis.

6.3.2. Implementation phase

This phase comprises the activities required for successful "bedding in" of the regime from the date of its commencement. Tax authorities should continue carrying out strategies to avoid risks identified in the preparatory phase, as these risks will continue to exist during this period.

Table 6.4. Indicative list of risks and related strategies during the implementation phase

Risk	Risk identification / Cause	Elements of treatment strategy
Reporting: **Failure to report/late filing**	**Identification:** • VAT returns not being filed. • High volume of enquiries being made on aspects of the law, VAT return and payment procedures. • Significant number of VAT returns being filed after the due date. **Possible causes:** • Businesses have not been able to prepare for timely compliance due to insufficient lead-time. • Tax authority has failed to create the appropriate supporting infrastructure/procedure in a timely manner. • VAT return filing system not functioning as planned. • Intentional disregard of VAT obligations by non-resident businesses.	• Regular testing of the VAT filing system. • Targeted communications, notably VAT return due-date reminders and/or request for unresponsive businesses to comply. • Dedicated team to proactively follow up with non-responsive entities and to investigate the underlying causes of non-compliance. • Penalties to incentivise timely filing and payment. Concessional treatment during a transitional period post commencement may be justified. • Audit activities leading to assessments of the VAT due and penalties if applicable. Jurisdictions may consider requesting international assistance in tax recovery if the appropriate legal basis is available (see subsection 6.8). • Consider backstop measures addressed to persistently non-compliant suppliers, e.g. VAT withholding through payment service providers. This topic is analysed in subsection 6.7.
Payment: **Failure to pay the tax, late payment or underpayment**	**Identification:** • Significant number of payments received after the due date. • High volume of enquiries being made on the payment procedure or available payment methods. • Number of payments received not reasonably matching the number of VAT returns filed or the number of registered taxpayers. • VAT-paid not reasonably matching the amounts reported on individual VAT returns. • Overall VAT-paid not reasonably matching the aggregated amounts reported on VAT returns. • Increase in volume of adjustment/corrections on subsequent VAT returns. **Possible cause:** • Tax authority failing to create the appropriate supporting infrastructure/ procedure in a timely manner. • Tax authority failing to create and communicate the payment reference number that the taxpayer has to refer to in its payment (if applicable), in a timely manner. • Payment gateways or systems not functioning as planned.	• Regular testing of payment gateways and systems. • Dedicated team to proactively solve operational problems that may affect the tax authority´s payment gateways and systems. • Taxpayer assistance channels. • Longer payment deadlines. • Targeted communications giving notice of the underpayment. • Automatically add any pending amount to the payment due for the following period. • Issue regulations or guidance to minimise the unclear aspects of the existing law. • Seek international assistance in tax recovery, provided the appropriate legal basis is available (see Section 6.8). • Consider backstop measures addressed to persistently non-compliant suppliers, e.g. VAT withholding through payment service providers. This topic is analysed in subsection 6.7.

Risk	Risk identification / Cause	Elements of treatment strategy
	• Delay in international transfers or payments processes, including currency conversion related delays. • Other operational reasons, e.g. foreign exchange fluctuations, international transfer fees, among others, may lead to shortfalls if not properly addressed. • Intentional disregard of VAT obligations by non-resident businesses.	
Incorrect VAT treatment of the transaction: Non-resident suppliers unable to differentiate between B2B (where there may be no tax collection obligation for non-resident businesses) and B2C (tax collection obligation) transactions.	**Identification:** • High volume of refund claims by domestic businesses. • Third-party data indicating that VAT is not being collected on some supplies. **Possible cause:** • Lack of an efficient mechanism for determining the status of the customer. • Unclear or inconsistent legislation and guidance material leads to an increased risk of non-compliance or unintentional errors in the application of the tax. • Intentional disregard of VAT obligations by non-resident businesses.	• Consistency of a jurisdiction's rules with OECD guidance and international best practices will enhance the ease of compliance considerably. • As will easily understood criteria and indicia to differentiate B2B from B2C transactions… • And clear communication, notably explaining the treatment of B2B transactions under the vendor collection regime. • Introduce a legal presumption that allows businesses to treat the transaction as B2C by default in the absence of any other (predetermined) information, e.g. VAT identification number of the customer. • The VAT identification number, when available, is a good indicator of the customer's business status, or at least as a presumption of that status. Tax authorities are encouraged to develop tools allowing non-resident businesses to easily ascertain their customers' VAT number and to check its validity. • Undertake audits leading to assessments of the VAT due and applicable penalties where B2C transactions (for which VAT is due) were incorrectly treated as B2B (for which no VAT may be due by the non-resident business). This could include action against domestic private consumers fraudulently presenting themselves as business customers to make VAT-free purchases from non-resident businesses
Incorrect VAT treatment of the transaction: Incorrect determination of the transaction as not being subject to taxation under a jurisdiction's vendor collection regime.	**Identification:** • Third-party data showing VAT not being collected on some supplies that are in scope of the vendor collection regime. • Increase in voluntary disclosures. • Increase in volume of adjustment/corrections on subsequent VAT returns. **Possible cause:** • Unclear or inconsistent legislation leads to an increased risk of non-compliance or unintentional errors in the application of the tax. • Intentional disregard of VAT obligations by non-resident businesses.	• Tax authorities should minimise uncertainty by providing robust and clear public guidance and providing the appropriate taxpayer assistance (e.g. though a call centre and relationship managers for the relatively limited number of large online businesses and platforms). • Provide a mechanism facilitating the correction of VAT returns by businesses, e.g. by allowing corrections to be made in the VAT return for the period during which errors were detected (rather than in the original VAT returns). • Encourage voluntary disclosure of errors through an adjusted sanctions regime (e.g. reduced penalties). • Audit activities leading to assessments of the VAT due and penalties if applicable.

Risk	Risk identification / Cause	Elements of treatment strategy
	• For reasons specific to supplies of low-value imported goods see also subsections 5.2.10 and 5.2.11.	• Seek international assistance in EOI and tax recovery, provided the appropriate legal basis is available (see subsection 6.8).

Note: guidance on policy, administrative and IT infrastructure design that makes it easy for non-resident suppliers to comply is presented in Section 5.
Source: OECD analysis.

6.3.3. Maturity phase

This phase comprises the activities required for the successful operation of a jurisdiction's vendor collection regime following the implementation phase. Tax authorities should continue carrying out strategies to manage risks identified in previous phases, as these risks may not have been effectively mitigated. However, priority should shift towards more complex issues.

Table 6.5. Indicative list of risks and related strategies during the maturity phase

Risk	Risk identification / Cause	Elements of treatment strategy
Correct reporting: VAT reported is incorrect (either deliberately or through inadvertent error).	**Identification:** • Comparative analysis of the aggregated value and volume of transactions against suppliers' VAT return information using third-party data to check the integrity of amounts being reported and detect relevant discrepancies. • Expected increases in reported amounts are not evidenced in VAT returns, for instance, in respect of seasonal peak sale events (e.g. "Black Friday" sales), peaks following the launch of new products or peaks following a business's merger with or acquisition of another e-commerce operator. • Benchmarking of expected reporting trends undertaken on similar (competition) entities shows inconsistent patterns of amounts being reported. **Possible cause:** • Internal controls that apply tax classification codes to products have not been correctly applied, particularly to new products or services. • Unintentional errors in the application of the tax. • Intentional disregard for VAT obligations.	• Where suspected incorrect reporting is identified, tax authorities can elect to adopt light touch preventative strategies, such as sending letters asking non-resident businesses to self-assess their system reporting and escalate the approach to compliance (audit) if the entity is unable to provide acceptable explanations for the observed inconstancy in reporting. • Undertaking audits leading to assessments of the VAT due and applicable penalties (if necessary, use administrative co-operation). • Provide possibility to regularise the past (see subsection 5.2.9.6).
Digital Platforms: Entities do not view their enterprise as a digital platform subject to full	**Identification:** • Third-party data (particularly customs data for low-value imported	• Digital platforms that can be subject to full VAT liability should be separately identified prior to and after the commencement of the vendor

Risk	Risk identification / Cause	Elements of treatment strategy
VAT liability and do not take on the VAT obligations of underlying suppliers.	goods) show VAT not being collected on some supplies. • Anticipated VAT registrations by digital platforms not being made. **Possible cause:** • Misunderstanding of full liability rules for digital platforms and the associated VAT obligations for supplies made through them by underlying suppliers. • Intentional disregard for VAT obligations.	collection regime and targeted communication strategies employed. • It is important that tax authorities provide the clearest possible rules and guidance relating to digital platforms, from the outset and an appropriate lead-time. • Taxpayer assistance and client relationship management should be undertaken (ideally by senior officers) with these digital platforms in recognition of their importance in relation to potential VAT revenue. • Consistency of a jurisdiction's rules with OECD guidance and international best practices will further support compliance considerably, as digital platforms will generally already be engaged with other jurisdictions with a similar vendor collection and digital platform full VAT liability regime.
Undervaluation of imported goods, in particular when low-value consignment relief applies	**Identification:** • Low-value imported goods have values declared that are less than the sales price of the items. **Possible cause:** • International logistics practice. • Unclear or inconsistent legislation. • Intentional undervaluation to a value below the customs duty low-value consignment relief threshold to avoid VAT collection by customs authorities at importation.	• Overall, the undervaluation risk for VAT is largely mitigated by the application of VAT at point of sale, whereby the transaction value rather than the declared customs value is the basis for VAT calculation. • Undervaluation risks (e.g. to avoid VAT and/or customs duties at importation) can be policed through joint customs and tax authority operations to test the declared values against transactional data. • VAT can be applied at importation plus penalties whenever deliberate undervaluation is identified. • Customs authorities can utilise available forfeiture powers in respect of taxable goods for which VAT remains unpaid.
Debt	**Identification:** • Assessed debt remains unpaid. **Possible cause:** • Assessed amount is disputed. • Entity believes there is no jurisdictional power to enforce payment. • Payment amount will affect liquidity of business.	• Engage with taxpayer early on how debt payment will be handled. Resolve any disputed issues where possible. • Enable payment arrangements where appropriate. • Use all available domestic debt collection mechanisms, e.g. garnishee of financial transactions, identification of any local assets. • Use available assistance in collection and recovery provided that the appropriate legal basis is available (see subsection 6.8).

Source: OECD analysis.

6.4. Communication strategies for engaging non-resident suppliers and digital platforms

Guide to subsection 6.4

A comprehensive communications and engagement strategy is critical for achieving high compliance levels under a vendor collection regime targeted at non-resident businesses. A strategy that encompasses consultation, outreach, technical and systems guidance, education and awareness is likely to significantly facilitate and enhance compliance by non-resident businesses.

Even though jurisdictions will strive for consistency in the design of their vendor collection regimes for non-resident suppliers and digital platforms, "one-size-does-not-fit-all" and variations will therefore undoubtedly occur. Tax authorities are thus encouraged to effectively communicate the obligations under their jurisdiction's vendor collection regime to non-resident suppliers and digital platforms. This should include communication well in advance of the introduction of the regime, giving appropriate lead-time to non-resident businesses to implement the necessary changes to their business and compliance systems and processes.

Tax authorities are advised to develop a staged communication strategy that allows them to break down their communication into relatively simple messages delivered in a phased approach. Table 6.6 illustrates the main phases for a communications strategy.

Table 6.6. Suggested phases for an effective communications strategy

Phase	Objective
Awareness phase	To communicate a jurisdiction's intention to implement reform that will include an obligation for non-resident suppliers and digital platforms to register and to collect and remit the VAT in that jurisdiction under a vendor collection regime, inviting businesses to review whether this reform will impact them.
Preparation phase	To inform affected non-resident businesses on the process for registration under the vendor collection regime, facilitated by simplified compliance processes, and on their VAT obligation under that regime so that they can implement the necessary change into their internal processes and systems to ensure compliance.
Action phase	To announce that the new regime will shortly take effect and that the affected non-resident businesses should finalise arrangements to comply.
Follow-up phase	Commencing after the start date of the new regime, to inform businesses that have not registered on how they can transition to compliance.

Source: Based on OECD (2019), *Tools and ethics for applied behavioural insights: The BASIC Toolkit* (OECD, 2019[85]).

The following subsections consider specific key features of a successful communications strategy in further detail. Jurisdictions that have limited capacity to develop and implement a comprehensive communications strategy may wish to consider the components outlined below that are likely to be most appropriate in allowing them to reach out rapidly and effectively to the main non-resident businesses at which their vendor collection regime will be targeted. Experience suggests that the assistance of international and regional organisations and representative bodies, as outlined below and in subsections 5.1.3 and 5.1.4, is likely to be particularly useful for tax authorities with limited administrative capacity.

6.4.1. Identifying the target audience of the tax authority's communication efforts: Non-resident suppliers, digital platforms and other relevant stakeholders

> An effective communication plan for the implementation of a vendor collection regime targeted at non-resident businesses requires early identification of the main non-resident businesses and categories of businesses and other stakeholders (digital platforms, transporters, redelivery services, etc.) that are likely to be affected by this reform. Businesses that receive early communications have more time to plan and will be in a better position to modify their systems to assure compliance.

The design and implementation of a vendor collection regime for non-resident suppliers and digital platforms will greatly benefit from the early identification by the tax authorities of the main non-resident suppliers and other stakeholders that are likely to be affected by this reform. The identification of these stakeholders will notably provide a good basis for a well targeted and effective communications strategy. Subsection 6.5 provides further detail on available approaches and data sources to identify the main non-resident businesses that may be subject to compliance obligations under a jurisdiction's vendor collection regime for non-resident suppliers and digital platforms.

Stakeholders other than non-resident suppliers that are likely to be affected by the implementation of a simplified registration and collection regime include:

- Digital platforms that will have compliance obligations under a full VAT liability regime;
- Software developers/providers, including of accounting and tax compliance software;
- Tax compliance service providers, including accounting firms and law practices;
- Specifically, in the area of low-value imported goods, the postal services, express couriers, freight forwarders, customs brokers, and bonded warehouse operators both domestically and internationally.

These non-resident suppliers, digital platforms and other stakeholders, particularly the large online businesses and digital platforms that dominate international e-commerce, are normally represented in a range of international and regional organisations and representative bodies in which they participate actively. Engaging with these organisations and representative bodies will greatly assist tax authorities in identifying the main non-resident businesses and stakeholders that are likely to be affected by the reform and to engage with these actors already from an early stage in the design and implementation process. Engaging with these organisations to reach the main non-resident businesses and other stakeholders quickly and effectively is useful particularly for jurisdictions that may have limited capacity to develop a comprehensive communication strategy. These organisations may include:

- "Business at the OECD", which is the OECD's official partner in engaging with the global business community and through which an extensive network of key stakeholders in international e-commerce has been developed for use by tax authorities.
- Concerning trade in goods, relevant organisations such as the World Customs Organization (WCO), the Universal Postal Union (UPU), International Mailers Advisory Group and the Global

Express Association (GEA) are also likely to be able to assist in reaching out to a wide range of stakeholders.

6.4.2. Communicating effectively during all the phases of design, implementation and operation

To maximise the effectiveness of their communications strategy to support a vendor collection regime for non-resident suppliers and digital platforms, tax authorities are strongly encouraged to consider the following approaches, consistent with their available resources and internal capabilities:

- **Ensure early communication and consultation with non-resident businesses and other stakeholders that are likely to be affected by the reform**, during the policy development and the design and implementation phase.[104] This will not only raise early awareness, but also assist the tax authority in designing the reform to maximise compliance, in identifying the information needs of the affected businesses and in developing a communications strategy that will be most effective in addressing these information needs. The South African Revenue Service (SARS) notably published the draft regulations for its VAT regime for non-resident businesses on its website and invited stakeholder comments. In addition, it directly sent the draft regulations to key stakeholders, such as the then Business and Industry Advisory Committee to the OECD (BIAC, now "Business at OECD"), which was then able to distribute them onwards to potentially in-scope members of its network. SARS built on written consultation through a taxpayer workshop to discuss the major areas of feedback. Ghana, Kenya, Nigeria and Uganda have also maintained regular dialogues with the international business community to consult on the design and implementation of their VAT laws and key administration for non-resident suppliers,
- **Use multi-channel media strategies** to achieve greater coverage and awareness, including the use of social media (e.g. LinkedIn), media releases, presentations to special interest groups and to representative organisations and forums, and the provision of communication material that can be used by a wide range of organisations and stakeholders (e.g. international advisory firms). Standard forms of tax administration communication should also be considered. For example, the Kenya Revenue Authority has utilised a variety of communication channels to reach potential in-scope businesses for its VAT for non-resident suppliers. It has supplemented regular and targeted email campaigns with media engagements and initiatives, including KRA social media handles.
- **Provide easy-to-access, up-to-date comprehensive web guidance** for non-resident businesses through a standalone page on the tax authority's website, which provides direct access to simple-to-use guidance on the operation of the vendor collection and simplified compliance regime for non-resident suppliers and digital platforms and on their obligations under this regime. This guidance should provide linkages to the online portal through which non-resident businesses will be required to register and comply with their obligations under the simplified compliance regime and to any supporting technical guidance. The guidance should also provide advice for digital platforms and intermediaries that clearly explains their responsibilities under the regime.[105] As an

[104] For example, another example is how Australia implemented a mail-out campaign to non-resident businesses in scope of its law using tax intelligence and other third-party data as described in Table 6.7. Over 3 000 letters were sent to potentially eligible non-resident suppliers of digital products and services and of low value goods and as a result there now are close to 2 000 registrants.

[105] Examples of guidance from jurisdictions in Africa include: South African Revenue Service (SARS), *Register for VAT*, https://www.sars.gov.za/businesses-and-employers/my-business-and-tax/register-for-vat/. Further detailed information at: *External Guide: Foreign Suppliers of Electronic Services*, https://www.sars.gov.za/wp-content/uploads/Ops/Guides/VAT-REG-02-G02-Foreign-Suppliers-of-Electronic-Services-External-Guide.pdf, and *Legal Counsel: Value-Added Tax: Frequently Asked Questions: Supplies of Electronic Services*, https://www.sars.gov.za/wp-content/uploads/Ops/Guides/LAPD-VAT-G16-VAT-FAQs-Supplies-of-electronic-services.pdf

example, SARS publishes guidance and news about VAT affecting the obligations of non-resident suppliers via its website where it has a "Frequently Asked Questions" (FAQ) section[106] and via its periodical publication *VAT Connect.*[107] The VAT section of the SARS website also explains the basics of VAT and how it will affect non-resident suppliers. Nigeria has published via its website *Guidelines on Simplified Compliance Regime for Value Added Tax (VAT) for Non-Resident Suppliers*.[108]

- **Give careful consideration to the development of key words and phrases ("metadata")** so that Internet search engines are able to readily point potential registrants to the relevant areas on the tax authority's website. This should include terms that are commonly used by potential registrants. For example, complement local terminology with terms like VAT or value added tax, GST or goods and services tax, sales tax, and other terms that are widely used around the world.
- **Make key communication and guidance material available 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).[109]
- **Develop taxpayer assistance channels**, including the provision of a dedicated e-mail channel for non-resident businesses and phone numbers to a dedicated call centre with appropriate guidance for call centre operators (including standard questions and answers, and escalation channels). Appropriate security protocols should be applied when electronically corresponding or talking with non-resident businesses, especially in relation to their account that may require proof of identity checks (see subsection 5.3.3.1 for more details).
- **Provide adequate internal communications and training for staff** in the tax authority who are required to directly support clients and administer the regime. For instance, Kenya has invested in training and capacity building to enhance the technical skills of its staff when supporting non-resident suppliers to comply with their VAT obligations in the jurisdiction. This investment includes encouraging its staff to participate in initiatives for African tax administrations that the OECD organises in conjunction with ATAF and other international organisations.

A number of jurisdictions have undertaken a broader range of communication actions that may also be useful to consider. These include the following:

- **Partner with stakeholders to host webinars** to deliver presentations about the reform and to allow non-resident businesses to ask questions. Large accounting firms and other intermediaries may be willing to co-host webinars for their clients, which would enable tax authorities to communicate their messages more widely. International and regional multilateral organisations can play an important role in facilitating such communication efforts, including the OECD, World Bank Group, and the African Tax Administration Forum.
- **Use of external public relations service providers** to develop an international public relations campaign whereby key messages are placed in appropriate international media and industry publications to promote awareness and understanding of the changes and businesses' obligations.

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[106] SARS FAQs for non-resident businesses: https://www.sars.gov.za/legal-counsel/legal-counsel-publications/faqs/

[107] SARS *VAT Connect* publication: https://www.sars.gov.za/types-of-tax/value-added-tax/

[108] Nigerian FIRS (2021), *Guidelines on Simplified Compliance Regime for Value Added Tax (VAT) for Non-Resident Suppliers, No. 2021/19*, https://www.firs.gov.ng/wp-content/uploads/2021/10/Guidelines-on-Simplified-Compliance-Regime-of-VAT-for-Non-Resident-Suppliers-15102021.pdf

[109] Examples of (non-English speaking) jurisdictions providing English language guidance include:

- The *Georgia* Revenue Service, *VAT Portal on Digital Services*, https://nr.rs.ge/
- Royal Malaysian Customs *Department*, *Service Tax on Digital Services*, https://mystods.customs.gov.my/

6.5. Potential data sources and other types of information to assist compliance and enforcement actions

Guide to subsection 6.5

Access to data is critical for tax authorities when designing and operating a vendor collection regime targeted at non-resident suppliers and digital platforms, including for modelling the regime and for risk management and audit activities.

Such data can, for instance, be useful for:

- Identifying the population of non-resident suppliers and digital platforms to which consumers make payments or to monitor the value of supplies that a particular non-resident supplier or digital platform is making to consumers in a jurisdiction. Identifying and monitoring these entities will assist tax authorities in conducting targeted communications to non-resident businesses advising them that they are likely subject to VAT registration and collection obligations and setting out the details of the registration and collection regime.
- Estimating the potential average total revenues per supplier in a given year. This will support the determination of a reasonable registration threshold.
- Cross-checking transactional data against the information reported by non-resident suppliers and digital platforms (e.g. in VAT returns) and gained from other sources of information they hold in order to detect non-compliance.
- Making assessments of VAT due from non-resident suppliers and digital platforms that fail to engage with the jurisdiction in response to its communications and engagement strategies.

Access for tax authorities to private individuals' information, to identify consumers of identifiable services and goods for private use, could be legally problematic from a privacy protection perspective and should thus be approached with great care. These concerns arise particularly in respect of B2C online supplies of goods and services that may be inherently sensitive from a privacy perspective (e.g. gambling, healthcare, dating, etc.). Protecting personal details in data should be integral to the way tax authorities collect, manage, share and use data. Keeping pace with technology solutions to protect such personal information must be a priority. Accordingly, strict protocols are required for governing how data is collected and stored, what the data is used for and with whom the data can be shared. See also subsection 5.3.7 on internal risk management.

Data protection legislation: Related to privacy concerns, suppliers must also ensure compliance with data protection laws and regulations when exchanging information with tax authorities. This includes laws and regulations in the supplier's jurisdiction of establishment, the jurisdictions where its customers are located and, if different, the jurisdiction(s) where it stores its records. Many leading digital firms and platforms are based in jurisdictions where data protection laws impose strong controls on the transfer of personal data outside of the jurisdiction's territory. It may be the case that transfers of personal data by businesses in those jurisdictions to tax administrations in other jurisdictions are only permissible under certain conditions and in satisfying strict criteria.[110]

For example, the jurisdiction where a business has its establishment or stores its commercial data could stipulate that such transfers can only take place to jurisdictions that have equivalent or otherwise adequately stringent data protection frameworks. In the absence of such equivalence or adequacy, the jurisdiction of establishment or data storage may still permit transfers of personal data if the business can conclude an enforceable legal agreement or demand other safeguards to require that the tax administration receiving the data in another jurisdiction affords appropriate protection to such personal data.

It would therefore be beneficial for jurisdictions to evaluate and, where appropriate, enhance the robustness of their data protection frameworks and to consider concluding enforceable legal agreements with non-resident businesses or implementing other safeguards to offer them assurance over the protection of personal data that they transfer.

Overall, jurisdictions will have to find the right balance between the potential need for data, on the one hand, and compliance burden, simplicity, data protection and data security considerations, on the other hand. For general policy and design considerations regarding information sharing obligations for digital platforms, see also subsection 2.3.4.1.

6.5.1. Reporting obligations for suppliers and digital platforms

Jurisdictions can request non-resident suppliers and digital platforms to keep transactional records and to provide access to VAT relevant information or to report it to the tax authorities either periodically or on request within a reasonable timeframe and in a readable format (see also subsection 5.2.4).

Tax authorities are encouraged to carefully consider any requirements for non-resident suppliers and digital platforms to provide transactional data and to limit such requests to specific cases. They should limit their requests to the information that is necessary for making VAT determinations. It is not recommended that tax authorities request non-resident suppliers and digital platforms to report granular transactional data as part of the regular VAT return submission process. This would complicate the compliance process considerably and thus defeat the purpose of the simplified compliance approach to a vendor collection regime.

It is therefore advised that tax authorities explore their possible access to the potentially wide range of available third-party sources of transactional data (see next subsection) and consider the usage of such

[110] A prominent example of data protection legislation that imposes strong obligations on many leading digital firms and platforms is the EU's General Data Protection Regulation (GDPR). The EU Commission has issued the following introductory guidance on GDPR, including on the rules governing transfers of personal data to entities in jurisdictions outside the EU:

- *Data protection in the EU*, https://commission.europa.eu/law/law-topic/data-protection/data-protection-eu_en
- *What rules apply if my organisation transfers data outside the EU?*, https://ec.europa.eu/info/law/law-topic/data-protection/reform/rules-business-and-organisations/obligations/what-rules-apply-if-my-organisation-transfers-data-outside-eu_en

data for the administration and compliance risk management of their vendor collection regime for non-resident suppliers and digital platforms. Tax authorities could limit any requests for transactional data to *ad hoc* requests, e.g. to test the accuracy of a business' declaration of total revenues and tax payable in its VAT return as part of a specific tax audit procedure. For example, Angola, Kenya and Nigeria and the Republic of Korea have implemented obligations for non-resident suppliers to report transaction details upon request (see Box 6.1 below).

Box 6.1. Jurisdiction examples: On-demand transaction reporting obligations

Angola[1] announced that, effective from October 2019, an obligation will apply for certain suppliers (which would include non-resident suppliers) to provide a version of the OECD Standard Audit File for Tax (SAF-T) on request by the revenue authority. The SAF-T file includes VAT data. Suppliers are also required to maintain transaction details in digital form for five years and to have these available for immediate inspection by the tax administration within 45 days of request

Kenya[2] requires all taxpayers, including non-resident suppliers of digital services, to keep all documentation that supports tax liabilities for five years from the end of the reporting period that it belongs to. Non-resident suppliers under the simplified compliance regime have an option to keep the records in foreign currencies subject to the Commissioner's approval. These records should be made available for examination upon request as specified in a notice.

Nigeria[3] requires non-resident suppliers to keep reliable and verifiable records that provide a full and accurate representation of the supplies they have made to Nigeria, and such suppliers should make these records available upon request.

Example from outside Africa:

The Republic of Korea[4] has announced that, effective from 1 July 2022, a new obligation will apply for non-resident suppliers of electronic services to maintain electronic service transaction details for five years after the due date of the final VAT return and to submit a transaction statement within 60 days of receiving a request from the Commissioner of the National Tax Service (NTS).

Source:
1.Finance Ministry of Angola, https://www.ucm.minfin.gov.ao/cs/groups/public/documents/document/aw4x/mtcy/~edisp/minfin1172262.pdf
2. Kenya, Sections 23 and 59 of the *Tax Procedures Act No.29 of 2015*, https://kra.go.ke/images/publications/TaxProceduresAct29of2015.pdf
3. Federal Inland Revenue Service (FIRS) of Nigeria, https://www.firs.gov.ng/wp-content/uploads/2021/10/Guidelines-on-Simplified-Compliance-Regime-of-VAT-for-Non-Resident-Suppliers-15102021.pdf
4. Ministry of Finance of the Republic of Korea, https://www.moef.go.kr/

Tax authorities may have limited power to enforce data reporting from businesses located abroad. In order to encourage non-resident suppliers and digital platforms to voluntarily provide the relevant information (i.e. without the need for enforcement measures), tax authorities need to understand the issues that these entities may confront in providing data. In this context, the following aspects need to be considered by tax authorities:

- The nature and extent of the data that businesses are required to transmit to tax authorities should be clearly defined and limited to what is necessary to establish their VAT liability. When a tax authority already has transactional information from a third-party source (see subsection 6.5.2 below) there is in principle no need to require the reporting entity to provide the same information, provided that the tax authority has an appropriate level of confidence in the quality of the third-party data.

- Language differences, format requirements and the degree of granularity of the information requested may introduce complexity if not properly addressed.
- Privacy concerns. Most suppliers access personally identifiable information (PII) from their customers for their business purposes. The type and amount of PII varies from business to business, but it may include: ID or passport information, financial information, biometric information, private personal phone numbers, among others. Customer trust and, in this context, the protection of customers' data are usually crucial for business success. Financial information (such as credit and debit card numbers and banking accounts) is considered particularly sensitive because of the direct monetary consequences of any potential data breach, and such information is therefore usually subject to special security measures. This can lead to suppliers being unable or reluctant to share transactional PII data, particularly when the relevance of PII data for tax purposes is not clear.
- Data protection frameworks. As the introduction to this subsection 6.5 explains, suppliers must also ensure compliance with data protection laws and regulations when exchanging information with tax authorities. Transfers of personal data by non-resident businesses to tax administrations in the jurisdictions of their customers may only be permissible under certain conditions and in satisfying strict criteria in those businesses' jurisdictions of establishment or where they store their data.

6.5.2. Third-party data

Experience from jurisdictions that operate a vendor collection regime for non-resident suppliers and digital platforms confirms the importance of data obtained from third parties in administering such a regime, notably domestic sources in the financial or banking system and domestic sources engaged in goods trading such as customs authorities, postal services and express carriers. Digital platforms are a particularly important sources of information, given their central role in global digital trade.

This subsection discusses the main potential third-party sources of data that can be used to support the administration and compliance risk management of a vendor collection regime for non-resident suppliers and digital platforms. These third-party data are likely to provide considerable insights for a tax authority into the supplies that are in scope of its jurisdiction's vendor collection regime. It highlights in particular the potential and importance of domestic information sources, which have the important advantage that tax authorities have greater capacity to enforce compliance on them than on information sources that are located abroad.

African jurisdictions that have not yet introduced a legal framework to establish the right for their tax authorities to access such third-party information, are advised to take the appropriate legislative action to do so.

6.5.2.1. Entities involved in the financial sector

Tax authorities potentially have access locally to aggregate data on payments made by consumers in their jurisdiction to specific non-resident businesses and digital platforms, including the main businesses involved in digital trade.[111] Additionally, they may have access through EOI instruments to information on offshore bank accounts to which these transactional amounts are paid.

[111] According to a recent OECD report, access to bank information is hindered by bank secrecy in only two out of 125 jurisdictions reviewed by the Global Forum on Transparency and Exchange of Information for Tax Purposes so far. See OECD (2020), *Tax Transparency and Exchange of Information in Times of COVID-19*, https://www.oecd.org/tax/transparency/documents/global-forum-annual-report-2020.pdf

Relevant entities in this context comprise state agencies and private entities involved in the financial sector, such as regulatory agencies, financial intelligence units, banks, etc. Payment intermediaries can play a particularly important reporting role by providing information to the tax authorities regarding the financial flow in respect of transactions that are, or may be, in scope of a jurisdiction's vendor collection regime. This information may be provided at the request of the tax authorities or as a result of periodic reporting obligations. Box 6.2 lists examples of third-party data sources in the financial sector, used by different jurisdictions.

Credit and debit card data and other financial data on payments made to non-resident suppliers and digital platforms will normally be critical for tax authorities to identify the non-resident businesses that are normally within the scope of a vendor collection regime. This is due to the fact that settlement of e-commerce transactions is predominantly made through credit and debit cards or through electronic payment methods based on credit and debit card systems and similar means of payment. Transactions of this nature are generally evidenced in the banking or financial system, providing tax authorities with highly useful data for audit and control purposes.

Enlisting banks and other payment intermediaries in the VAT information reporting process can present a number of challenges, including:

- There may be legal limitations to tax authorities' ability to access VAT-relevant financial information from payment intermediaries.
- Payment intermediaries may have only limited information about the VAT-relevant aspects of the underlying supplies for which payments are made. They may even (often) have no information at all on specific VAT-relevant elements such as whether the payer and payee are effectively the customer and the supplier for VAT purposes, the VAT-nature of the underlying transaction, or the recipient's customer status for VAT purposes (business or private consumer).

While these reporting obligations may constitute a valuable source of information for VAT purposes, tax authorities may therefore wish to carefully consider the following approaches in designing such a reporting obligation:

- To respect the principle of proportionality in weighing the costs incurred by financial intermediaries to comply and the benefits expected by the tax authorities from the use of this information. An excess of information might be difficult for tax authorities to manage and create an unnecessary compliance burden for payment intermediaries.
- To require, in principle, only the reporting of information that is available to the payment intermediaries in the normal course of their business.

Tax authorities are strongly encouraged to make every possible effort to facilitate compliance with reporting obligations through fluid communication channels, publicly available detailed guidance and responses to frequently asked questions, and by implementing the appropriate IT infrastructure for the information exchange along with detailed guidance on the associated IT specifications for reporting entities.

Box 6.2. Jurisdiction examples: Third-party data sources in the financial sector

- **The Kenya Revenue Authority** has powers to obtain information about account holders in Kenya from banks, trusts and other financial institutions. This includes the holdings in Kenya of both foreigners and Kenyans. This information may be used to ascertain such persons' tax liability under any taxation law.[1]
- **The South African Revenue Service** has similar access to the financial information of taxpayers from banks and financial institutions (such as brokers, certain collective investment vehicles and certain insurance companies) and this information is provided to SARS automatically under an automatic exchange of information compulsory reporting regime. SARS is thus able to monitor and check the information provided (or not provided) by taxpayers.[2]
- The **Australian Taxation Office** has access to information held in AUSTRAC, which is Australia's financial intelligence unit. Through this information, it has traced funds flowing to drivers and renters from overseas to local banks from which they are distributed in order to identify unregistered business activity such as taxi-style drivers operating through sharing economy digital platforms. Thus far, the ATO has been able to use this information to identify a large portion of these drivers.[3]
- The **European Union** introduced a harmonised reporting obligation for Payment Service Providers (PSPs). It is meant as a tool to better control VAT compliance and VAT fraud and to support the implementation of the EU's e-commerce VAT regime that entered into force on 1 July 2021. The EU reporting system package for PSPs will enter into force on 1 January 2024.[4] It will cover essentially international cross-border payments, corresponding mainly, but not exclusively, to cross-border B2C supplies of goods, services, and intangibles. The collected information will include the identification of the payee and payment details but will not include the underlying transaction details nor indicia of identification belonging to the payer. Assuming that a specified number of transactions provides an indication of business activity carried out by the payee, the reporting obligation will cover only those payees receiving more than 25 cross-border payments during a calendar quarter. Authorised national tax officers will have access to the new and specific database created with the reported information.
- Banks in **Chile** are required to provide quarterly information to the Chilean tax administration (SII) regarding payments made through credit cards, debit cards or similar means to non-resident suppliers and digital platforms. Using this information, the SII has determined (as of September 2020) that the platforms registered under the Chilean simplified compliance regime represented 90% of the total number of individual transactions and nearly 80% of the monies paid abroad by credit or debit cards through the Chilean banking system.[5]

Source:
1. Kenya (2018), *Tax Procedures Act No.29 of 2015*, Part IX: "Enforcement", Section 59: "Production of records", National Council for Law Reporting, Nairobi, https://kra.go.ke/images/publications/TaxProceduresAct29of2015.pdf
2. South Africa, *Government Gazette No 35090 (Notice No 173) 29 Feb 2012*, https://www.sars.gov.za/wp-content/uploads/Legal/SecLegis/LAPD-LSec-IT-GN-2012-03-Notice-173-GG-35090-29-February-2012.pdf
3. OECD (2017), *Technology Tools to Tackle Tax Evasion and Tax Fraud* (OECD, 2017[87]).
4. For more information, see the EU Council webpage: *E-commerce: Council adopts new rules for exchange of VAT payment data* at https://www.consilium.europa.eu/en/press/press-releases/2020/02/18/e-commerce-council-adopts-new-rules-for-exchange-of-vat-payment-data/
5. Chilean Tax Administration (Servicio de Impuestos Internos), https://www.sii.cl//noticias/2020/021020noti02er.htm

6.5.2.2. Entities involved in goods trade

These comprise state agencies or private entities involved in goods trade, such as customs authorities, postal services and express carriers. Existing customs data have also been used to identify the main non-resident businesses making online sales of low-value imported goods to local consumers. Box 6.3 gives an example of on-request data reporting obligations for postal service providers.

Box 6.3. Jurisdiction example: Reporting by postal service providers

Austria's tax authority may request postal service providers (including express couriers) to report on non-resident suppliers that send goods to recipients in Austria. The reported data includes the name and address of the supplier and the number of parcels sent, insofar as this data is available to the postal service provider.

Source: OECD research.

6.5.2.3. Digital platforms

These comprise online marketplaces and other digital platforms, where these are not already subject to a full VAT liability regime under domestic law. Readers can refer to subsections 2.3.4 and 4.3 for detailed analysis on reporting by platforms and to Box 6.4 for an example of a digital platform reporting regime.

Box 6.4. Jurisdiction example: Data reporting regime for digital platforms

Austria applies a platform-reporting regime to complement its full VAT liability regime for digital platforms. Platforms are required to electronically provide predetermined data to identify underlying suppliers and their respective turnover from supplies to consumers in Austria made via the respective platform. The obligation is limited to supplies for which the platform is not fully liable. The reporting regime aims at facilitating the detection of non-compliant suppliers and the application of enforcement measures. It also has a preventive effect, as taxpayers are aware that their activity is not unnoticed by the tax administration. A joint and several liability for digital platforms in certain limited predefined cases complements this regime.

Source: Austrian Federal Ministry of Finance, https://www.bmf.gv.at/en/topics/taxation/vat-assessment-refund-n/Recording-Obligations-for-Electronic-Interfaces-(Platforms)-.html#1.2

As pointed out in Section 4, especially the growth of sharing and gig economy platforms presents significant opportunities for tax authorities, as it may bring activities previously carried out in the informal cash economy onto digital platforms, where transactions and related payments are recorded in electronic form. If leveraged in the right way, this can lead to greater transparency and minimise compliance burdens for both tax authorities and taxpayers.

At the same time, data on the activities carried out through these platforms may not be readily available to tax authorities and/or these activities may not be self-reported by taxpayers. This is because the development of the sharing and gig economy entails a shift from traditional work relations under employment contracts to the provision of services by individuals on an independent basis, which is not typically subject to third-party reporting. These developments present risks of distorting competition with traditional businesses and reducing declared taxes.

Against that background, a number of jurisdictions have already introduced measures requiring platform operators to report revenues received by the sharing and gig economy service providers that operate through their platforms to the tax authorities (see e.g. the Austrian platform reporting regime described in Box 6.4), while others are planning to introduce similar measures in the near future.

The OECD has developed Model Rules for the introduction of domestic reporting obligations upon sharing and gig economy platforms facilitating rental of immovable property or personal services[112] and for the exchange of this information between jurisdictions, which have subsequently been complemented with optional modules to cover also the sale of goods and the rental of means of transportation via platforms. The Model Rules aim to overcome the challenges that governments may face in connection with the enforcement of domestic reporting requirements when the platform operator is not located in their jurisdiction. They also aim to minimise risks of proliferation of different domestic reporting requirements, which may lead to increased costs and create undue obstacles to businesses development. See Box 6.5 and Annex B for more detail.

Box 6.5. OECD Model Reporting Rules for Digital Platforms

Model Rules for Reporting by Platform Operators with respect to Sellers in the Sharing and Gig Economy (2020)

The OECD Model Reporting Rules for sharing and gig economy platform operators have been developed to support the introduction by interested jurisdictions of an obligation for resident sharing and gig economy platform operators to collect information on the income realised by sellers offering accommodation, transport, and personal services through their platform, and to report this information to the tax authority in that jurisdiction.

The Model Rules have been designed primarily to facilitate and support compliance by sharing and gig economy service providers with their income tax obligations, while ensuring a level-playing field with traditional businesses. However, the Model Rules also highlight the potential use of the reported information for VAT purposes, especially in cases where the relevant services are subject to VAT in the residence jurisdiction of the sharing and gig economy provider (which applies to many typical sharing and gig economy services), and in cases that involve rental of immovable property (including holiday rental) which are typically subject to VAT in the jurisdiction where the immovable property is located.

To ensure tax authorities get access to information on income earned by resident platform sellers, including from platforms that are located in other jurisdictions, and to facilitate compliance for these platforms, the Model Rules provide that each platform operator reports information to the tax authorities of the jurisdiction in which it is resident. The competent authorities of this jurisdiction will then exchange the information with other partner jurisdictions to the extent that it relates to transactions involving sellers that are resident in, or immovable property located in, such jurisdictions. This approach provides a legal basis for the reporting requirements, helps address data privacy concerns and makes it easier for each tax authority to ensure compliance by sellers.

Complemented by Model Reporting Rules for Digital Platforms – International Exchange Framework and Optional Module for Sale of Goods (2021)

The 2020 Model Rules were updated in 2021 to provide the basis for (a) the legal framework for the automatic exchange of information collected under these Model Rules and (b) an optional module allowing a jurisdiction's reporting requirements under these rules to also cover the sale of goods and the rental of means of transportation. The information collected and exchanged on the sale of goods

[112] A personal service for purposes of the Model Rules is defined as a service involving time- or task-based work performed by one or more individuals at the request of a user unless such work is purely ancillary to the overall transaction. This definition includes a wide scope of services, such as transportation and delivery services, manual labour, tutoring, copywriting, data manipulation as well as clerical, legal or accounting tasks, provided they are carried out following a specific request from a particular (set of) user(s).

and the rental of means of transportation under this extended scope may also be relevant for VAT purposes.

Annex B provides further details on the Model Rules, especially on their possible role in supporting VAT compliance in the sharing and gig economy.

Source: OECD (2020), *Model Rules for Reporting by Platform Operators with respect to Sellers in the Sharing and Gig Economy* (OECD, 2020[88]); OECD (2021), *Model Reporting Rules for Digital Platforms – International Exchange Framework and Optional Module for Sale of Goods* (OECD, 2021[89]).

6.5.3. Data analytics strategies

A number of tax authorities have adopted data analytics strategies in order to obtain and process data that are not normally available through regular reporting or record-keeping obligations.

Early adopters of a vendor collection regime for non-resident suppliers and digital platforms carried out Internet profiling and used other available third-party data to help identify those non-resident businesses and digital platforms that are likely to fall within the scope of the regime.

Box 6.6. Jurisdiction examples: Data analytics strategies

- **Austria** uses Internet monitoring that utilises different Internet scraping tools (web harvesting or web data extraction), some of which are open source and others which are custom-made. The result of this work feeds into compliance measures such as letters to presumptive taxpayers and information campaigns.
- **Belgium** uses Internet scraping and data mining, in conjunction with other data analytics tools, including a 'Forensic Toolkit' to collect and cull data in a forensically based fashion; Accounting Command Language to analyse semi-structured data that allows importing of data from accounting packages to create a "standard audit file" and to perform a range of automated checks; and an e-discovery solution to analyse unstructured data such as e-mail and PDF documents for risk assessment purposes. E-discovery solutions are packages that may integrate data acquisition, data conversion, data indexing, advanced analytics and information presentation in order for users to analyse large volumes of unstructured information, e.g. for forensic information analysis.
- **Finland** has legislation that allows for audits and collection of data aimed at identifying sharing economy actors, as well as the monitoring of online credit/debit card payments to detect unregistered remote sellers. Data are filtered and clustered by using scripts. Where a significant volume of payments is identified as being made to an unknown person, this can be investigated to determine if the person is an unregistered business.
- **Japan** uses a general search engine to gather information regarding information-providing services offered through the Internet, such as fee-charging websites, in order to identify suspected online businesses. After detecting a specific suspicious company, comprehensive information is collected through the Internet that enables a comprehensive Internet-based search. Thus, a variety of data is collated in a database and matched against taxpayers in the tax authority's system. This matching system enables the tax authority to visualise the risks for each taxpayer.
- In **Spain**, publicly available sources of information (websites, social networks) have been used to detect tax infringements such as unregistered economic activities, and under-reported values for supplies (e.g. information posted on websites has been used as a source to check actual prices against prices reported by taxpayers to the tax authorities).

- The **United Kingdom** uses a product that automates the collation and filtering of data posted on social media and websites ("COSAIN"). The tool can notably be used to monitor trends within a geographic area or specific business sector. These types of tools are expected to allow more robust analysis of the e-commerce sector by tax authorities, by collating and filtering relevant data from key social media and e-commerce websites.

Source: OECD (2017), *Technology Tools to Tackle Tax Evasion and Tax Fraud* (OECD, 2017[87]).

Jurisdictions have also used lists available from commercial data web scraping entities that detail the top websites (by category) used by customers (see also Table 6.7). Although this does not necessarily prove that there is a VAT obligation, it can assist in the modelling of businesses that will be required to register under a vendor collection regime and will help with the targeting of compliance actions (e.g. communications). Box 6.6 gives examples of data analytics strategies applied by different jurisdictions.

Test purchases ("mystery shopping") are another approach used by some jurisdictions to obtain relevant information, data and insights about taxpayers' VAT compliance behaviour (see Box 6.7).

Box 6.7. Jurisdiction example: Australia's mystery shopping strategy

Australia has implemented a "mystery shopping" strategy to gather information on non-resident business and to monitor the GST collection on supplies of goods and services by non-resident businesses to consumers in Australia. The ATO selectively makes online purchases to test whether non-resident vendors are complying with Australia's GST laws. The intended purpose of the mystery shopping strategy is to:

- Identify the correct contact and financial details of suppliers;
- Match purchase details to third party financial transactional data where the formal identity of the operator of an e-commerce website is uncertain;
- Identify the currency that the transaction is made with;
- Test if GST is correctly calculated and charged at the point of sale;
- Obtain evidence of the operation of a fully liable digital platform, by both purchasing and then reselling digital products or low-value goods through the platform;
- Investigate community referrals, particularly those made by domestic businesses where non-resident businesses are alleged to be not charging GST;
- Investigate if registered non-residents that are not lodging GST returns are charging GST on their supplies;
- Ensure that, for B2B supplies, suppliers request evidence of GST registration before excluding GST from the sale price of goods and/or services.

The strategy can also source additional information specific to the transactional arrangements, business identity and logistics of e-commerce businesses that supply services and intangibles, or low-value imported goods:

- For services and intangibles:
  - Subscription details, including the formal identity of the entity offering the subscription services.
- For low-value goods:
  - Supply chain participants, particularly intermediaries, such as "redeliverers";
  - Intelligence on parcel delivery and warehousing typologies;
  - The purchase value of items in comparison to declared the customs values.

Source: Australian Taxation Office.

Tax authorities' proper use of the information is essential to obtaining the full benefit from the use of data analytics and risk analysis. For example, inadequate risk governance and knowledge management may result in different parts of the tax authority using different approaches for the same cases. Another common problem arises from the partial use or the failure to use the results of the analysis due to the inability to make these results available to the appropriate tax officials.

Annex F provides further detailed guidance on data analytics strategies, including tools such as data acquisition; data conversion; data indexing; descriptive analysis and crosschecks; predictive and prescriptive analysis, and rule-based systems.

6.5.4. Exchange of information provisions

Exchange of Information ("EOI") provisions in tax treaties or other legal bases, notably the Multilateral Convention on Mutual Administrative Assistance in Tax Matters (MAAC), may be employed to obtain information about a non-resident business and any other relevant information that other jurisdictions may hold. This information can be helpful notably for identifying vendors and purchasers, for monitoring the value of sales/imports, and for assessing whether the proper amounts of VAT have been collected from purchasers and remitted to the tax authorities in the taxing jurisdiction.[113] Please refer to subsection 6.8 for a detailed analysis on this topic.

6.5.5. Summary of potential data sources

When viewed collectively, the data that can be collected through a variety of different sources as outlined in Table 6.7 are likely to provide a comprehensive picture of the non-resident businesses that have obligations under a vendor collection regime for non-resident suppliers and digital platforms.

Table 6.7. Summary of potential data sources to assist tax authorities

Source	Data	Limitations/Risks	Opportunities
Financial institutions, credit card companies/networks, and payment service providers	Transactional data for payments made to specific non-resident suppliers and digital platforms.	The data may be unrefined and may require significant manipulation to create meaningful information, and it may be highly sensitive from a privacy and data protection perspective.	Data can be analysed to support risk assessment as well as audit and enforcement actions.
Registration lists held by other jurisdictions with a similar regime[1]	List of non-resident suppliers and digital platforms registered under a similar VAT regime in other jurisdictions.	Only some jurisdictions maintain a public register (e.g. Japan, Indonesia, Thailand and Norway; see also Box 6.16). Regimes might differ.	Utilisation of exchange-of-information provisions in tax treaties or the Multilateral Convention on Mutual Administrative Assistance in Tax Matters (MAAC) may be explored to obtain this information.
Internet profiling	Search engine results that identify non-resident businesses supplying services, intangibles or goods to customers in your jurisdiction.	Often manual process (e.g. search "Subscription TV Services"). Resource intensive.	Can provide detailed contact information for enhanced communication and engagement strategies.

[113] OECD (2015), *Addressing the Tax Challenges of the Digital Economy, Action 1 - 2015 Final Report, OECD/G20 Base Erosion and Profit Shifting Project*, OECD Publishing, Paris, https://doi.org/10.1787/9789264241046-en. See page 209.

Source	Data	Limitations/Risks	Opportunities
Website scraping	Extraction of dynamic data from websites to estimate the importance of websites' activities (globally, regionally, nationally) based on the number of visits made by Internet users. E.g. "Alexa" or "SimilarWeb".	Data are limited to website visits (traffic) rather than value of sales to customers in the jurisdiction.	Commercially available. May still be more efficient than using own resources. Will identify the top websites, by category, being used by Internet users in your jurisdiction.
Third-party commercial data solutions	Data collected by specialised firms from banks and other sources and used by these firms for economic and commercial analysis.	Normally fee-based. May be provided under restricted terms and conditions.	Can identify the main non-resident (online) suppliers and digital platforms, by category, selling to customers in your jurisdiction.
"Financial Intelligence Units" reports[2]	Identify international funds transfers.	May not capture all payments.	Can reveal both aggregate and full transactional data for individual non-resident suppliers and digital platforms to which payments are made.
Businesses' published financial reports and websites	Company financial reporting.	May include aggregated data on total international sales.	Can provide insight into the nature of the business and sales volumes. Can provide details of business address and key contacts.
Exchange of information (EOI) provisions	Provides a legal framework for jurisdictions to co-operate across borders (MAAC, tax treaties, regional frameworks for administrative co-operation).	Can be time consuming. Instruments may not provide a sufficient legal basis to respond to information request (subject to limitations, reservations).	May provide a legal basis for obtaining lists of non-resident suppliers and digital platforms registered under vendor collection regimes in other jurisdictions and for obtaining VAT relevant information about a business to support risk assessment, audit and enforcement actions.
Data reporting obligations on non-resident suppliers and digital platforms	Aggregated or transactional data on international supplies into the jurisdiction.	The data may be unrefined and require significant manipulation to create meaningful information. Will require significant IT capacity to receive, store and make use of the data. Data protection and privacy laws may restrict the level of detail that can be provided.	Data can be analysed to support risk assessment as well as audit and enforcement actions.

Notes:
1. The decision whether to publish the names of non-resident suppliers and platforms on a VAT register should consider the benefits and risks of such an approach. The provision of public lists may incentivise business to register. However, providing too much information (such as a VAT or Tax Identification Number) might be incompatible with privacy laws and provide opportunity for fraud from the appropriation of compliant suppliers' VAT registration numbers by fraudulent operators using these numbers to import low-value goods free of VAT (see subsection 6.7.8.2).
2. The Egmont Group maintains a list of such "Financial Intelligence Units". Please see:
The Egmont Group, *Members by region*, https://egmontgroup.org/members-by-region/
Source: OECD research.

6.6. The potential role of programmes of co-operative compliance

A co-operative tax compliance programme aims to build a relationship of mutual trust between taxpayers and the tax authorities to facilitate tax compliance while protecting tax revenues.

The concept of "co-operative compliance" in a taxation context has its origin in the *Study into the Role of Tax Intermediaries* (OECD, 2008[90]) conducted by the OECD's Forum on Tax Administration in 2008. The study addressed the topic of aggressive tax planning and analysed the tripartite relationship between tax authorities, taxpayers and tax intermediaries. It concluded that there was significant scope to influence the "demand side" of aggressive tax planning arrangements in relation to large corporate taxpayers. It encouraged taxpayers and tax authorities to engage in a relationship based on co-operation and trust. The study spelled out how more co-operative relationships between taxpayers and tax authorities could be established and described a conceptual framework for these relationships, which it termed "*the enhanced relationship"*. It recommended that tax authorities aim to establish a tax environment in which trust and co-operation could develop so that enhanced relationships with large corporate taxpayers and tax advisers could be established.

The report described two pillars as the basis for enhanced relationships between large corporate taxpayers and tax authorities, as follows:

- In dealings with taxpayers, tax authorities demonstrate understanding based on commercial awareness, impartiality, proportionality, openness through disclosure and transparency, and responsiveness; and
- In dealings with tax authorities, taxpayers provide disclosure and transparency.

Later work carried out by the Forum on Tax Administration, contained in the report *Co-operative Compliance: A Framework: From Enhanced Relationship To Co-operative Compliance*, found that while those two pillars were still valid, significant new issues had emerged as these approaches had matured and become more widespread (OECD, 2013[91]). One of these was the development of compliance risk management strategies by tax authorities that focus more broadly on effectively influencing and improving taxpayer compliance behaviour. This work noted that the development of co-operative relationships with large businesses was embedded in these strategies. In addition, businesses' internal tax control frameworks had emerged as a key tool to disclosure and transparency.

Based on a consensus view of jurisdictions participating in this work, the report coined the term "*co-operative compliance"* to describe the concept more accurately as it not only references the process of co-operation but also demonstrates its goal as part of the tax authorities' compliance risk management strategy: compliance leading to payment of the right amount of tax at the right time.

In a cross-border context, mutual trust may greatly benefit both parties. On the one hand, the taxpayer provides complete disclosures that include relevant information and tax risks and is transparent to the tax authority. Taxpayer transparency will ease the tax authorities' task of risk analysis and allow them to allocate resources (e.g. tax audits) to taxpayers or economic activities whose tax risks are higher. On the other hand, taxpayers' commitment to disclosure and information transparency may significantly reduce the extent to which the tax authorities review taxpayers' obligations or seek to audit the returns they submit, thereby markedly increasing taxpayers' legal certainty.

Such good practice was developed in jurisdictions where a strong trust relationship already exists between the tax authorities and most large local taxpayers. Box 6.8 presents recent experiences in co-operative compliance and Box 6.9 an example of co-operative compliance as used in the United Kingdom.

Practical commitments from businesses in terms of transparency can include the following:

- To provide information in an accurate and timely manner when requested by the tax authorities, either upon specific request/tax control procedure or to comply with existing reporting obligations. This disclosure commitment must be balanced against the legal limitations on providing personal information to third parties and to the tax authorities, such as laws on data protection.

- To establish an internal tax control framework (TCF) to prevent, detect and deter tax risks at their earliest stage. The implementation and the practical application of the TCF may be monitored by the tax authorities (OECD, 2016[92]).[114]
- To use appropriate communication channels with the tax authorities to raise relevant tax issues before submitting the tax return or fulfilling other tax obligations.
- To raise tax authorities' awareness of distortions of competition detected in the market due to non-compliance.

Tax authorities in such a co-operative framework must, in return, offer the appropriate transparency in the application and interpretation of the law and in their decision-making criteria. Tax authorities should also commit themselves to offering general taxpayer guidance. For this purpose, tax authorities' measures to increase transparency can include the following:

- Provide permanent and easy-to-access assistance to the taxpayer in addressing whatever doubts or concerns it may have when interpreting the law. Providing information and assistance in English and in the language(s) of the jurisdiction's main trading partners in addition to the national language(s) is particularly important in achieving high levels of compliance from non-resident businesses. It is important to note in this context that English will often have been the default language for the development of the underlying technology for accounting and tax compliance systems, even in non-English speaking jurisdictions. Making relevant information available in English can thus contribute considerably to facilitating ease of compliance.
- Provide tax rules in downloadable electronic format.
- Provide early and complete information of legislative changes and of any relevant case law or administrative guidance, especially when the criteria on which authorities and judges base decisions differ from previous criteria.
- Create and maintain an easily accessible and up-to-date channel for questions and answers.
- Maintain easily accessible and responsive communication channels such as e-mail address, telephone contact points, etc.
- Involve the relevant stakeholders in the law-making process, so that they may offer their opinions and suggestions before the law is approved. This commitment can take the shape of public consultations, studies of impact and the like.
- Establish permanent fora where businesses and tax authorities can regularly meet to share their experiences, concerns and proposals to improve the management of the tax system.

To prevent subsequent misunderstandings, this exercise in mutual transparency is ideally put into practice before the submission of VAT returns, so that taxpayers can make decisions with full information in their hands. The aim of this early dialogue and exercise of transparency is that there should be no surprises regarding tax obligations, either for the tax authorities or for the taxpayers, thus also avoiding the risk of costly and burdensome litigation.

[114] Chapters 2, 3 and 4 of *Co-operative Compliance: A Framework* highlight the value of internal tax control frameworks, especially when this internal system is monitored by the tax authorities.

Box 6.8. Recent experiences in co-operative compliance

Chapter 2 of the OECD report *Co-operative Compliance: A Framework: From Enhanced Relationship To Co-operative Compliance* identified more than 20 jurisdictions[115] worldwide that at the time the report was published had some kind of co-operative compliance programme in tax matters, either formal (in the shape of explicit regulations) or informal (in the shape of regular actions) (OECD, 2013[91]).

The co-operative compliance programmes worldwide are not alike. Each jurisdiction implements such programmes according to its particular framework in terms of the size of taxpayer businesses, the most relevant economic activities in the country, the predominant tax in terms of revenues, the capacity of the tax authorities to fulfil their commitments, the voluntary or mandatory disclosure rules, and whether entry into the programme is based upon application or invitation, etc. (OECD, 2013[91]). Regarding co-operative compliance programmes, one size does not fit all.

Co-operative compliance programmes worldwide include mostly large companies, as these companies have the resources needed to create an internal tax control framework and to maintain contacts with the tax authorities on a regular basis.

Generally speaking, co-operative compliance programmes initially have largely focused on direct taxation of large multinational companies (transfer pricing, profit allocation for corporate tax purposes, fixed establishment, etc.). Against the background of the growing international dimension of VAT-compliance, particularly in the context of cross-border digital trade growth, however, there is also a growing interest to apply co-operative compliance approaches to support VAT compliance by non-resident suppliers and digital platforms.

A co-operative approach to VAT policy design has notably been embraced by the OECD[116] and the European Union[117] that have created working groups and fora, along with frequent conferences and events, to facilitate consultation between business community representatives and the participating jurisdictions.

[115] The Table 2.1 in Chapter 2 of the report mentions Australia; Austria; Canada; Denmark; Finland; France; Germany; Hong Kong, China; Hungary; Ireland; Italy; Japan; Netherlands; New Zealand; Norway; Portugal; Russian Federation; Singapore; Slovenia; South Africa; Spain; Sweden; United Kingdom and United States.

[116] At the OECD, Working Party No. 9 (WP9) brings together tax officials from member jurisdictions for policy debate and development of internationally agreed standards in the area of VAT/GST. The OECD hosts regular meetings for WP9 bringing together VAT officials of member jurisdictions and business representatives and academia to consult on issues that are relevant to WP9's work. Every 18 months, the OECD hosts the Global Forum on VAT, gathering VAT officials from OECD member countries and non-OECD economies and international organisations worldwide together with representatives from global business and academia. For more information, see: https://www.oecd.org/ctp/consumption/vat-global-forum.htm

[117] In the European Union, the VAT Forum offers a regular discussion platform where businesses and VAT authorities meet to discuss how the implementation of the VAT legislation can be improved in practice. This has included meetings and working papers devoted to co-operative compliance approaches, among others, such as a cross-border rulings project, double taxation dialogue, or a guide on administrative co-operation between Member States and businesses. For more information, see: https://ec.europa.eu/taxation_customs/business/vat/eu-vat-forum_en
Furthermore, under the FISCALIS budget program, regular conferences and workshops are devoted to VAT. For example, ahead of the implementation of the VAT e-commerce legislative package that entered into force in mid-2021, two workshops were held gathering over 100 representatives of tax authorities, businesses and academia, to discuss a wide variety of concerns, interpretations, practical difficulties, etc., regarding the implementation of the future VAT legislation. As a result of this permanent dialogue, a set of practical Explanatory notes was published by the EU Commission. For additional information, see: European Commission (2020), *Explanatory notes on VAT e-commerce rules*, https://ec.europa.eu/taxation_customs/system/files/2020-12/vatecommerceexplanatory_28102020_en.pdf

The results of the International Survey on Revenue Administration (ISORA) deployed during 2016 and covering fiscal years 2014 and 2015 indicate that a high percentage of the respondent countries (133), including countries from North Africa and sub-Saharan Africa, make cooperative compliance a high priority compared to other compliance approaches (Crandall, 2016[93]).

The publication of lists of businesses that agree to co-operative compliance arrangements may help to promote engagement in such arrangements. Public recognition of a positive attitude towards compliance can serve as an important incentive for businesses in this respect.

Box 6.9. Jurisdiction example: United Kingdom's compliance agreements with online marketplaces

The **United Kingdom** has published guidance for online marketplaces in co-operating with the tax administration (HMRC) for the purposes of VAT compliance. The agreement is intended to foster a collaborative relationship between the tax administration and online marketplaces to promote VAT compliance by users of the marketplaces which is underpinned by a set of legal obligations on the online marketplaces and a set of legal powers of the tax administration. The co-operation agreement includes commitments for collaborative working arrangements, exchanges of data and timeliness of responses to evidence of non-compliance.

To encourage marketplaces to engage in this co-operative compliance arrangement, the tax administration publishes the list of all online marketplaces that sign up to this agreement. In the event that a signatory does not comply with this agreement the tax administration will remove it from the list.

After the introduction of a full liability regime for platforms in the United Kingdom in January 2021, the compliance agreements remain especially relevant for types of sales that may fall outside the scope of this regime.

Source: UK HM Revenue & Customs, *Tackling online VAT fraud and error - the role of online marketplaces in co-operating with HMRC (The agreement)*, https://www.gov.uk/government/publications/hmrc-and-online-marketplaces-agreement-to-promote-vat-compliance/tackling-online-vat-fraud-and-error-the-role-of-online-marketplaces-in-co-operating-with-hmrc-the-agreement

6.7. Enforcement and related measures to address non-compliance

Guide to subsection 6.7.

Despite the efforts of tax authorities to facilitate compliance by non-resident suppliers and digital platforms, non-compliant conduct can nevertheless occur. To address and discourage such non-compliance, appropriate enforcement measures should be adopted and implemented.

When tax authorities can demonstrate effective enforcement of prevailing law, the behaviour of potentially non-compliant taxpayers can be influenced when they recognise the adverse consequences of non-compliance.

6.7.1. VAT registration and assessment by tax authorities

Most tax authorities already have laws that allow the compulsory registration and default assessment of VAT liabilities where taxpayers refuse to comply with their VAT obligations. In the same manner, these consequences can be applied to non-resident suppliers and digital platforms that refuse to comply with their obligations under a jurisdiction's vendor collection regime for VAT on international supplies of services, intangibles, and low-value imported goods. These actions may notably be considered as compliance actions of last resort following a tax authority's audit activity.

Throughout the audit process tax authorities may wish to provide the opportunity to non-resident businesses to either engage or re-engage willingly. This approach often has a positive impact on future compliance by the taxpayer. However, if a non-resident chooses not to comply, tax authorities should be prepared, and have a legal basis to register the entity for VAT purposes, calculate the VAT liability and issue an assessment, impose an administrative penalty and, where necessary, take available recovery action for the debt.

6.7.2. Interest charges

The primary objective of regimes requiring the payment of interest on tax payments in arrears is to ensure that governments receive the present value of taxes that are legally due by compensating them for the deprivation of the use of tax revenues that are not paid on time (Waerzeggers, 2019[94]). Taxes paid after the due date have a negative net financial impact on tax revenues. As the public treasury expects to obtain revenues at the proper time to use them for public investment and expenditure, late payment must be discouraged and the financial consequences compensated, as in the case of any creditor whose scheduled loan repayments are belatedly settled. In addition, requiring compensation from taxpayers that pay their taxes late avoids distortion of competition with compliant taxpayers.

The legal responses to late tax payments vary notably across jurisdictions. In some jurisdictions, an above-market interest rate is applied to the late payments. In other jurisdictions, specific fixed surcharges based on a percentage of the overdue amounts are applicable. The surcharge percentage may vary depending on how long the payment has been overdue. A mixed system including interest rates and surcharges is also applicable in certain jurisdictions. In some jurisdictions, specific interest rates or surcharges apply only when the taxpayer makes a late payment as a result of a spontaneous regularisation, whereas harsher penalties are applied to tax shortfalls discovered by the tax authorities. In other jurisdictions, when the tax authority identifies the unpaid tax, a combination of increased interest rates and penalties may be applied.

To avoid discrimination and unfair distortion of competition in favour of non-established taxpayers, the domestic legal framework for discouraging late tax payments should apply equally to all taxpayers in the same manner regardless of whether they are established in the taxing jurisdiction. Prescribing clear rules in general tax law and ensuring public awareness of the consequences of late payments are recommended regardless of the taxpayer’s residence.

6.7.3. Administrative penalties

An administrative penalty is a non-criminal remedy for a party’s violation of laws or regulations. Penalties are often intended to achieve greater compliance by deterring certain undesirable behaviours (Waerzeggers, 2019[94]). This subsection focuses on monetary sanctions or fines.

These sanctions are most appropriate for addressing non-compliant behaviours that are easily detectable and in situations where they can be consistently enforced (Waerzeggers, 2019[94]). This could be the case for domestic customers deliberately misrepresenting themselves as businesses in order to avoid VAT charges.

The imposition of administrative penalties in non-compliance cases that are of a less egregious nature enables such cases to be taken out of the criminal justice system, thus easing the burden on the criminal courts and ensuring faster and more efficient resolution of such cases. In addition, administrative offences typically require a lower standard of proof than criminal offences and therefore can have a greater deterrent effect as non-compliant behaviours are penalized more consistently and predictably (Waerzeggers, 2019[94]).

In principle, administrative penalties applicable to non-resident suppliers and digital platforms under a simplified compliance regime should follow the same fundamental principles that are applicable to domestic taxpayers. When no specific penalty provisions exist in current legislation or when the existing provisions are not clear, jurisdictions are advised to adopt legal provisions explicitly providing that penalties may be imposed also on non-resident businesses for infringements of domestic obligations, when they fall within the scope of the obligations.

6.7.4. Criminal prosecution

In response to, or to prevent, serious infractions, jurisdictions may consider taking proportionate measures including the application of criminal sanctions.

Most taxpayers comply with their obligations. However, some of them may persevere in being non-compliant and use any means to evade their tax obligations. It is in respect of those taxpayers, for whom support and monitoring does not improve compliance, that criminal law may play an important role (OECD, 2021[95]).

Tax evasion is usually considered a criminal offence across jurisdictions. However, the specific domestic criminal law provisions vary notably worldwide, as the defined actions and criminal sanctions will not be the same in all jurisdictions (OECD, 2021[95]).

Box 6.10. Use of terminology 'Evasion'

There is no common OECD definition of the term evasion. However, this concept is covered in the OECD's *Glossary of Tax Terms*[118], as follow:

- Evasion: A term that is difficult to define but which is generally used to mean illegal arrangements where liability to tax is hidden or ignored, i.e. the taxpayer pays less tax than it is legally obligated to pay by hiding income or information from tax authorities.

The foregoing definition is used for illustrative purposes only. It might not reflect the specific definitions that may exist in a national context.

Evasion could include the falsification or suppression of evidence or making false statements that result in VAT not being remitted to a jurisdiction or that lead to inappropriate refunds being obtained from a jurisdiction.[119]

In the context of a simplified compliance regime, evasion could include the following behaviours of non-resident suppliers or digital platforms:

- Charging VAT to final consumers and deliberately failing to remit such tax to the tax authorities as required;
- Not charging and remitting VAT by fraudulently treating supplies as out of scope of the vendor collection regime;
- Fraudulently making input VAT refund claims, if applicable, e.g. under a separate refund procedure for non-resident businesses or through the regular (domestic) procedure.

Jurisdictions should assert their powers to prosecute serious VAT offences committed under a simplified compliance regime. International co-operation is likely to be necessary for the practical application of these measures. This includes the use of a number of tools, such as information sharing and evidence collection, witness questioning, execution of seizure orders, and even joint investigation.

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[118] OECD Glossary of Tax Terms is available at https://www.oecd.org/ctp/glossaryoftaxterms.htm

[119] The Guidelines: Chapter 4, subsection D "Application of the Guidelines in cases of evasion and avoidance", paragraph 4.27, page 109.

The appropriate legal basis for such mutual co-operation between jurisdictions may be included, for instance, in bilateral or multilateral tax conventions, exchange of information agreements, mutual assistance packages and agreements.[120] Box 6.11 provides an overview of the main legal instruments for international co-operation in criminal matters. This is without prejudice to bilateral and regional conventions on mutual legal assistance in criminal matters where applicable. In the absence of a specific convention, jurisdictions may apply the principle of reciprocity in evaluating their willingness to co-operate in practice.

It is important to note that international requests for co-operation in connection with tax crimes can face legal challenges based on the invocation by the requested party (or by the taxpayer under investigation once aware of the request) of the principle of double incrimination. According to this principle, the requested jurisdiction could co-operate only insofar as the same conduct is considered a tax crime under its domestic criminal laws.

Box 6.11. Instruments for International Co-operation in Criminal Matters

Model Treaty on Mutual Assistance in Criminal Matters

The UN Model Treaty on Mutual Assistance in Criminal Matters ("MT")[121] aims to provide a framework for jurisdictions interested in negotiating and concluding bilateral agreements to improve co-operation in matters of crime prevention and criminal justice.

According to the MT, Parties shall afford to each other the widest possible measure of mutual assistance in investigations or court proceedings in respect of offences the punishment of which, at the time of the request for assistance, falls within the jurisdiction of the judicial authorities of the requesting State.[122]

The MT does not apply, among other areas, to the arrest or detention of any person with a view to the extradition of that person.

OECD Model Tax Information Exchange Agreement

The OECD Model TIEA provides for assistance in exchange of information that is foreseeably relevant, among other areas, to the investigation or prosecution of tax matters. Therefore, TIEAs that follow the Model Agreement also apply to criminal tax matters.[123]

[120] See Principle 9 of OECD (2021), *Fighting Tax Crime – The Ten Global Principles, Second Edition*, https://doi.org/10.1787/006a6512-en. This publication mentions the following co-operation agreements: information sharing agreements (such as TIEAs), agreements for exchange of information and administrative assistance, bilateral tax treaties and other instruments (such as the Multilateral Convention on Mutual Administrative Assistance in Tax Matters), as well as agreements for co-operation in using investigative and coercive powers (such as Mutual Legal Assistance Treaties).

[121] See *Model Treaty on Mutual Assistance in Criminal Matters*, https://www.unodc.org/pdf/model_treaty_mutual_assistance_criminal_matters.pdf

[122] Mutual assistance may include: (a) taking evidence or statements from persons; (b) assisting in the availability of detained persons or others to give evidence or assist investigations; (c) effecting service of judicial documents; (d) executing searches and seizures; (e) examining objects and sites; (f) providing information and evidentiary items; (g) providing originals or certified copies of relevant documents and records, including bank, financial, corporate or business records.

[123] See OECD *Agreement on Exchange of Information on Tax Matters*, https://www.oecd.org/ctp/exchange-of-tax-information/2082215.pdf

OECD Model Tax Convention on Income and on Capital (MTC)

Article 26(2) of the OECD MTC[124] provides that parties may exchange information for tax crime purposes as well as "for other purposes" (including criminal matters). In the latter case, the exchange is restricted to a case where such information may be used for the same other purpose under laws of the supplying state States, and the competent authority of the supplying state authorises such use.

Convention on Mutual Administrative Assistance in Tax Matters (MAAC)

The MAAC includes the same provisions of the MTC under its Articles 22(1) –sharing for criminal tax matters- and 22(4) –sharing for other purposes-.

United Nations Convention against Organised Crime ("Palermo Convention")

The Palermo Convention applies to tax crimes insofar as the conduct is committed by a structured group of three or more persons in order to obtain a financial benefit, and that the tax criminal offence is punishable by a period of imprisonment of at least four years. In this case, the Convention provides international cooperation mechanisms for mutual legal assistance, including on sharing of information and on asset recovery.

Egmont Group of Financial Intelligence Units

As tax crimes are usually a predicate offence for money laundering, investigators may access the informal information-sharing mechanisms of the Egmont Group of Financial Intelligence Units when the case involves money laundering predicated on tax crimes.[125]

International Criminal Police Organisation ('Interpol')

Interpol[126] is the world's largest international police organisation, with 194 member countries.[127] Interpol aims to ensure and promote the widest possible mutual assistance between all criminal police authorities and to establish and develop all institutions likely to contribute effectively to the prevention and suppression of ordinary law crimes.

Interpol provides for a wide number of co-operation instruments, including exchange of information through the General Secretariat; notices[128] and diffusions[129]; specialised teams and police trainings; and criminal intelligence analysis.

Source: Chapter 4 of the OECD report (2012), *International Co-operation against Tax Crimes and Other Financial Crimes: A catalogue of the main instruments*, (OECD, 2012[96]).

[124] See OECD (2019), *Model Tax Convention on Income and on Capital 2017 (Full Version)*, OECD Publishing, Paris, https://www.oecd.org/ctp/model-tax-convention-on-income-and-on-capital-full-version-9a5b369e-en.htm

[125] Refer to Principle 7 of OECD (2021), *Fighting Tax Crime – The Ten Global Principles, Second Edition*, which develops the concept of predicate offences. See: https://doi.org/10.1787/006a6512-en

[126] Interpol's structure, aims and objectives are outlined in its Constitution, the Organisation's main legal document, which came into force in 1956. In addition to the Constitution, a number of other fundamental texts make up Interpol's legal framework. These include (a) The General Regulations; (b) Rules of the Procedure of the General Assembly; (c) Rules of the Procedure of the Executive Committee; (d) Financial regulations; (e) Rules governing the processing of information; (f) Rules on the Control of Information and access to Interpol's File.

[127] See list of Interpol member countries on its website at: https://www.interpol.int/Who-we-are/Member-countries

[128] Interpol Notices are international alerts allowing police in member countries to share critical crime-related information. Notices are published by Interpol's General Secretariat at the request of National Central Bureaus (NCBs) and authorised entities.

[129] A diffusion is less formal than a notice but is also used to request the arrest or location of individual or additional information in relation to a police investigation. A diffusion is circulated directly by an NCB to the member countries of their choice, or to the entire Interpol membership.

6.7.5. Debt recovery considerations for non-residents

The collection of VAT debts is a major challenge for tax authorities in many jurisdictions. The OECD has also acknowledged that tax debt management can be particularly challenging when it involves the recovery of debts owed in one jurisdiction where the debtors and the assets are located in another jurisdiction (OECD, 2020[97]). Whatever the underlying cause, where voluntary compliance cannot be achieved through direct contact with a debtor, then national powers to take direct action can be limited. In general, such powers only apply within a jurisdiction and debts are not directly enforceable in another jurisdiction.

Co-operation and collaboration between tax authorities has become ever more critical in an age of globalisation and the field of debt collection is no exception. The nature of e-commerce, where supplies of services, intangibles and of low-value goods are increasingly made from outside the jurisdiction, leads to an increasingly important share of jurisdictions' VAT taxpayer populations being located abroad. The only assets available to service a tax debt may then also be located abroad and outside of the direct legal reach of the taxing jurisdiction. While these assets often may not have been identifiable in the past, in recent years the ability to access information on financial assets held by taxpayers abroad has increased markedly. Under the Common Reporting Standard (CRS), in particular, information was exchanged between more than 100 jurisdictions in respect of more than 111 million financial accounts in 2021, with a total value exceeding EUR 11 trillion (OECD, 2022[98]). The CRS has shown the extent of financial assets held outside the jurisdiction of tax residence and has become an important source of information in some jurisdictions for tax debt collection purposes.[130]

Box 6.12. The Common Reporting Standard

The OECD Standard for Automatic Exchange of Financial Account Information in Tax Matters, the so-called Common Reporting Standard (CRS), developed in response to the G20 request and approved by the OECD Council on 15 July 2014, calls on jurisdictions to obtain information from their financial institutions and to automatically exchange that information with other jurisdictions on an annual basis. It sets out the financial account information to be exchanged, the financial institutions required to report, the different types of accounts and taxpayers covered (i.e. in general, taxpayers/account holders that may have tax obligations in another jurisdiction with which an agreement is in place, pursuant to which there is an obligation to provide information), as well as common due diligence procedures to be followed by financial institutions (OECD, 2014[99]). The first exchanges took place in September 2017 involving around 50 jurisdictions. A similar number of jurisdictions began exchange in September 2018 and currently over 100 jurisdictions now exchange information on financial accounts under the CRS annually.

Source: Table 1.2 in OECD (2020) *Tax debt management network: Enhancing international tax debt management* (OECD, 2020[97]);OECD (2014) *Standard for Automatic Exchange of Financial Account Information in Tax Matters* (OECD, 2014[99]).

6.7.5.1 Freezing of any identified domestic assets

Just because a supplier or digital platform is not resident in a jurisdiction, does not automatically mean that it has no assets there. Tax authorities can use available third-party arrangements with other government and non-government entities to identify assets such as property, IT proxy servers, and even local bank accounts in some instances. Where these assets exist, tax authorities may have the power to apply in court to obtain freezing orders pending settlement of outstanding tax debt, allowing them a bargaining

[130] The ability of a tax authority to use such information for collection purposes will depend on that jurisdiction's domestic legal framework. For example, some tax authorities do not have the legal authority to use CRS information for collection purposes.

position which may be particular important where non-resident taxpayers doubt the tax authority's power to recover assessed VAT debt from them.

Box 6.13. Jurisdiction example

In **Australia**, the Commissioner will generally apply to the court for a freezing order where it is concluded that actions of certain tax debtors to dispose of or deal with assets present an unacceptable level of risk to payment of the tax liability or the enforcement of a judgment. This can include assets held by third parties which are under the control of taxpayers or where assets have been transferred in sham transactions. Freezing orders are only used in high-risk cases where the amount of the debt is also significant, given the substantial costs of taking such action. This may vary depending on several factors, including the complexity of the matter and the extent of litigation required. To justify a freezing order there must be, in the view of the court, a real risk that in the absence of an injunction, any assets, wherever located, will be dealt with such that the debt cannot be recovered. Consequently, the Commissioner as an applicant for a freezing order must demonstrate a good arguable case against the tax debtor.

Source: OECD (2020) *Tax debt management network: Enhancing international tax debt management* (OECD, 2020[97]).

6.7.5.2. Garnishment of financial transactions

Many tax authorities have garnishee powers that allow them to seize assets of taxpayers to recover debt.

Garnishee notices can be issued to:

- A bank or other financial institution, allowing possible access to current, savings or credit card accounts;
- An employer, to access wages of the debtor;
- Debtors of the taxpayer;
- The taxpayer's superannuation fund, although it will not be effective until the benefit is attached;
- Life insurance policies, although not effective until moneys become payable;
- A company in which the taxpayer holds shares, any payable dividends;
- Sale proceeds of property, in respect of equity in the taxpayer's property.

For example, South Africa has powers under its tax administration laws to garnish payments by persons paying sums to taxpayers that have a tax debt.[131] Under these rules it is possible for a senior tax administrator to give notice and require any person who holds money (including a pension, salary, wage or other remuneration) for or owed to a taxpayer to pay it to SARS in satisfaction of a tax debt owed by the taxpayer. Nigeria possesses a garnishment power in substance, which it terms "substitution". Substitution allows FIRS to recover a taxpayer's debt from third parties within its jurisdiction, such as banks and payment service providers, that have custody of assets belonging to the taxpayer or that otherwise owe sums to that taxpayer. The obligation to submit assets to FIRS crystallises upon service of a notice to the third party and provided that it does not lodge any successful objections within a stipulated time. In addition,

[131] Government of South Africa (2012), *Act 28 of 2011: Tax Administration Act, 2011*, https://www.gov.za/documents/tax-administration-act. See Chapter 11, Part D, "Collection of tax debt from third parties".

Nigeria's "distrain" legislation permits FIRS to seize a non-resident taxpayer's property in Nigeria and recover the debt by disposing of such property after 14 days in its custody to generate sales proceeds.[132]

Other African countries have similar powers to garnish amounts owed by a taxpayer from that taxpayer's debtors. Examples include Angola, Kenya, Seychelles, Uganda, Zambia and Zimbabwe[133]. Not all jurisdictions' laws extend to the ability to garnish third parties outside their borders. Reciprocal administrative powers of other states may assist in this context. The South African debt powers specifically recognise the ability to recover tax debts on behalf of foreign governments under international treaties.[134] The exercise of such powers can be legally complicated.

Box 6.14. Jurisdiction example: Garnishment as an enforcement tool in Jamaica

In its continuing efforts to identify and bring tax evaders and avoiders to book, the Tax Administration of **Jamaica** (TAJ) has introduced another strategy to bolster its enforcement and compliance activities with the introduction of Garnishment. Garnishment refers to a process where a notice is served on a person for the purpose of legally seizing money belonging to a debtor. Garnishment has always existed under the laws of Jamaica.

The concept is incorporated into the Tax Collection Act (the TCA). Where taxes are owed, Section 40B of the TCA allows the Commissioner General, TAJ, to issue a Notice of Garnishment and have it served on a third party. Garnishment will be done only when the Commissioner General is unable or unlikely to be able to collect from the tax debtor himself. Garnishment may be pursued where the taxpayer owes taxes and the Commissioner General is unable to collect from the tax debtor and is unable to make a satisfactory arrangement for the payment.

The Commissioner General must determine or have reasonable cause to believe that a third party holds, controls or has custody of money belonging to the tax debtor or the third party is liable to make a payment to the tax debtor or the third party will, within one year, be liable to make a payment to the tax debtor. Outstanding money is recovered using a Garnishment Notice which informs a third party that he/she is required to pay over to the Commissioner General, monies belonging or due to the tax debtor, for the satisfaction of the tax debtor's debt.

Source: Jamaica Ministry of Justice, The Tax Collection Act (2013), https://www.mof.gov.jm/wp-content/uploads/the-tax-collection-amendment-act-2013-1.pdf; see also the press release *"Garnishment Policy now in effect at TAJ"*, https://www.bogleandcompany.com/index.php?option=com_content&view=article&id=75:garnishment-policy-now-in-effect-at-taj&catid=16&Itemid=204#:~:text=Where%20taxes%20are%20owed%2C%20Section,from%20the%20tax%20debtor%20himself

A significant challenge in adopting a garnishee approach to non-resident businesses is that it has to be applied to transactional amounts. This in effect means that the garnishee may need to remain in place for an extended period until the sum of transactions subject to the garnishee reaches the tax debt sought to be recovered. Another issue to consider, which will depend on national laws, is whether garnishee action

[132] Federal Republic of Nigeria, *Federal Inland Revenue Service (Establishment) Act 2007 No.13*, https://firs.gov.ng/wp-content/uploads/2021/01/FIRS_ESTABLISHMENT_ACT.pdf. See Section 31 "Power of substitution", and Section 33 "Power to distrain".

[133] Government of Zimbabwe, *Chapter 23:12: Value Added Tax Act*, https://www.zimra.co.zw/downloads/category/17-acts?download=187:value-added-tax-act-chapter-23-12-updated&start=20. The VAT Act sets out the Zimbabwe Revenue Authority's garnishment powers under Section 48, "Power to appoint agent".

[134] Government of South Africa (2012), *Act 28 of 2011: Tax Administration Act, 2011*, https://www.gov.za/documents/tax-administration-act. See Part E, Section 185.

can be applied to money that is in a foreign currency. For example, the term “money” in Australia’s taxation law (general garnishee power) does not include foreign currency.

6.7.5.3. Administrative co-operation with a view to enforcing VAT collection (debt recovery)

This topic relates to the utilisation of assistance in recovery articles in tax treaties and the Multilateral Convention on Mutual Administrative Assistance in Tax Matters (MAAC) and is discussed in detail in subsections 6.8.2 and 6.8.3.

6.7.6. Payment intermediary withholding regime as a backstop to deal with non-compliant suppliers

6.7.6.1. Introduction and evaluation

VAT withholding schemes are fairly common in some regions of the world. The objective of these schemes is to ensure VAT collection at points in the supply chain where there is greater informality or in sectors that are particularly vulnerable to evasion. To achieve this objective, tax authorities designate agents to withhold the VAT due on taxable supplies by domestic suppliers from the payments made for these supplies and remit it to the tax authority. This can be considered as an advance payment of the suppliers’ VAT obligation, which may correspond to all or just a portion of the VAT due on the supplies in question (depending on the VAT withholding rate).

Similarly, payment intermediaries could, in principle, play a role in the collection of VAT from non-resident suppliers and digital platforms by assuming the obligation to withhold VAT due (in whole or in part) on supplies made by these businesses when they process the payments for these supplies, and to remit the withheld tax to the taxing jurisdiction’s treasury. In practice, such a withholding system may often either require the payment intermediary to withhold a part of the remittance or to charge the VAT due in addition to the price of the transaction, i.e. a mark-up on the sales price.

Research and experience show that the use of withholding schemes to collect VAT via financial intermediaries present considerable challenges in an international context, which make them unsuitable as the primary tool for the collection of VAT on international supplies of services, intangibles and low-value imported goods by non-resident businesses. A withholding scheme could, however, be considered as a targeted fall-back enforcement option under a vendor collection regime against persistently non-compliant non-resident suppliers and digital platforms.

Difficulties that jurisdictions may encounter when using financial intermediaries for withholding VAT on behalf of vendors include: the need for highly sophisticated financial systems and similar sophistication in auditing them; the difficulty of tracking the VAT component on large composite payment amounts across international borders; the volume of transactions to be traced; and the lack of knowledge on the part of financial intermediaries of the precise nature of the transactions that vendors and purchasers are engaging. This absence of knowledge is because payments infrastructure in most jurisdictions generally does not capture granular detail about the product that is the subject of a sale. See subsection 6.7.6.2 below.

6.7.6.2. Challenges faced by financial intermediaries under a withholding regime

The principal challenges and practical difficulties that financial intermediaries may encounter under a withholding obligation in respect of payments made by customers for international supplies of services, intangibles and low-value imported goods by non-resident businesses include the following:

- **Critical lack of VAT-relevant data.** Financial intermediaries generally have only limited access to information regarding the underlying transactions for which they facilitate payments and therefore they rarely possess the transactional data needed to make a correct VAT withholding decision.

  During the payment process, financial intermediaries typically collect and store payment-relevant data such as the vendor and the purchaser account information (name, address, bank details). Information collected by traditional financial institutions, such as retail banks and credit card companies, will generally be limited to what is necessary to validate a credit or debit card's authenticity or to confirm that sufficient funds (or credit) are available on the purchaser's account to pay for the purchase. Information collected will generally not include the nature of the underlying transaction (sale of goods or of services, other transfers), the nature of the items being sold, the place where they are delivered or their tax treatment. Emerging new types of payment intermediaries may not collect more information, unless they are strongly connected to the vendor and have access to the sale data.[135] This information will often be largely inadequate to determine whether a payment relates to a transaction that is subject to VAT in the jurisdiction from where it originates, let alone to make a correct determination of the VAT liability where a payment is made as consideration for a transaction that is subject to VAT.

Among other items, a VAT withholding agent will need to know the following:

- Whether the payment is made as consideration for a transaction (supply of services, intangibles, goods) that may be subject to VAT;
- When the payment is made as consideration for a supply that may be subject to VAT, the nature of the goods, services or intangibles for which the payment is made, as well as;
- The VAT status of the payment recipient (taxable business or private individual); and
- The location and VAT status of the person making the payment (resident or not; business or private individual).

These elements are critical for determining:

- Whether the payment relates to a supply that is subject to a VAT-withholding obligation, which includes determining the taxable business status of the supplier and determining the place of taxation of the underlying supply.
- The amount of VAT to be withheld, which requires knowing the applicable rate (standard rate or reduced rate) and the possible application of exemptions or other specific or preferential regimes. This is particularly challenging for payments relating to complex supplies involving a mix of goods and services that may be subject to different rates and treatments.

  The payment infrastructure that banks and other financial intermediaries use for executing international payments does not generally permit routine inclusion of the type of detailed transactional information that is required to make these VAT determinations.

  Even if they were to have access to these data, the task of analysing each set of these data will generally be far too complex to reach a correct withholding decision for the vast volumes of payments that they process on a daily basis.

  The complexity for financial intermediaries of determining the correct VAT treatment of payments that may be subject to a withholding obligation creates considerable risks of both under-taxation

[135] OECD (2015), *Addressing the Tax Challenges of the Digital Economy, Action 1 - 2015 Final Report, OECD/G20 Base Erosion and Profit Shifting Project,* OECD Publishing, Paris, https://doi.org/10.1787/9789264241046-en. See page 208.

and of over-taxation or double taxation, with the potential effect of inadvertently infringing the taxing rights of other jurisdictions.[136]

- **Implementation and operational costs for financial intermediaries**. In all models for financial intermediary withholding, the banks and payment service providers (PSP) can incur considerable implementation and operational costs, which they may decide to pass on to consumers, suppliers or tax authorities. In addition to building and implementing a withholding mechanism, financial intermediaries can also face significant compliance burdens in relation to tax audits and monitoring to ensure that any transactional reporting processes adhere to jurisdictions' privacy and data protection laws.
- **Business systems difficulties**. The accounting and reporting systems of both non-resident and domestic business customers have been found to face considerable difficulties in reconciling the correct accounting treatment of transactions where VAT has been withheld by a third-party financial intermediary. This has a notable impact on the ability of accounting software programming to effectively model the consequences of transactions for cash flow and for creditor and contingent liability balances.

  Further administrative complexity and compliance costs are likely to arise where withholding agents are not able to distinguish between payments made by taxable businesses and private individuals and where VAT is thus withheld on payments made by both. This is likely to create considerable complexity for domestic businesses in the absence of a clear and transparent mechanism for them to determine whether VAT has been withheld or not from their payments for purchases to non-resident businesses (and whether they may have a reverse charge obligation) and, if so, to support their claims for the deduction of input VAT that has been withheld by the financial intermediary.
- **Difficulties in making corrections, including in processing refunds**. The processing of VAT refunds following restitution by a supplier or a platform of amounts paid by consumers due to corrections, cancellations of purchase orders or returned items creates significant challenges when the VAT was withheld by a financial intermediary under a withholding obligation. Because the supplier never actually received the portion of the proceeds relating to VAT, it may object to having to issue refunds to consumers that include the VAT. Financial intermediaries that withhold or charge the VAT in their role as withholding agents may experience significant challenges in identifying and verifying the validity of requests they receive from consumers and suppliers to process VAT refunds. The tax authority may be faced with the difficult challenge of verifying the considerable volumes of requests for refunds of VAT that may have been remitted by financial intermediaries as withholding agents but that the administration may not be able to reconcile with the refund requests they receive. These requests for VAT corrections or refunds are likely to be significant particularly in respect of online sales, where consumers often return purchased items to the suppliers.
- **Risks of evasion and avoidance**. Consumers may often have the means to avoid and evade VAT payment obligations, especially through the use of credit or debit cards and other payment instruments that are issued or administered by banks, financial institutions and other PSPs outside traditional, domestic banking. The avoidance opportunities available to consumers include the increasing number of alternative online payment options such as digital wallets administered by non-resident PSPs and the use of cryptocurrencies. Gift cards and vouchers offer an additional

[136] This could, for instance, be the case where a consumer uses a bank card with a financial institution in its own jurisdiction to pay for purchases that are not subject to VAT in that jurisdiction, e.g. a hotel booking in a foreign country, through the supplier's website or via a digital platform. Or the consumer may purchase goods for delivery, perhaps as a gift, to someone resident in another jurisdiction. Undue taxation may also occur when payments are made between private individuals in relation to transactions that are outside the scope of VAT (for example, consumer-to-consumer (C2C) transactions).

means of avoiding financial intermediary withholding.[137] The possibility of circumventing VAT law and obtaining lower prices may create an incentive to shift the use of payment services away from the domestic to foreign financial service providers or providers that may outside traditional, regulated financial markets.

- **Structure of the financial system**. It may be more straightforward to enforce a financial intermediary withholding model in a jurisdiction with a heavily regulated financial services industry, including a restricted number of participants in its retail-banking sector. However, the global trend in most jurisdictions is directed at the reform of their financial services markets to promote a more competitive, sustainable and less state-regulated environment involving many players in the retail banking sector.

[137] Vouchers are among the alternative payment methods that may often be used in an online sales environment. A voucher is an instrument that gives consumers access to goods or services under defined conditions. Businesses increasingly offer them to consumers in both online retail and traditional commerce. Financial intermediaries normally do not intervene in a payment that is made by means of a voucher. As with other types of alternative payment methods, tax authorities that rely on a VAT withholding obligation for VAT collection on international supplies will confront practical difficulties in connection with the collection of VAT on purchases through vouchers, with respect to which neither they nor financial intermediaries have meaningful information or control. For more details on vouchers, see also subsection 5.2.9.7.

Box 6.15. The list-based approach to financial intermediary VAT withholding

A number of jurisdictions around the world have taken steps to introduce VAT collection through withholding by financial intermediaries in respect of international transactions. These are typically targeted at online retail (B2C) sales made by non-resident online sellers and digital platforms. These regimes have typically sought to overcome the different challenges for financial intermediaries in making correct taxing decisions, through a relatively simple but blunt mechanism for deciding whether to withhold VAT on a consumer payment. This involves the tax authorities producing a list of non-resident suppliers or digital platforms that make sales to consumers in their jurisdiction. The tax authorities then mandate that financial intermediaries withhold a specific percentage on consumer payments to businesses on the list as a proxy for VAT. The financial intermediaries will then send the amount they withhold directly to the tax authorities.[138] The percentage would generally be the standard VAT rate in the jurisdiction of withholding. In most instances, jurisdictions aim to restrict these lists to non-resident suppliers of services, principally "digital" services, and to digital platforms facilitating these services. There are few if any examples of jurisdictions seeking to undertake a similar exercise for VAT withholding on supplies of low-value imported goods.

Major challenges with the approach of maintaining an in-scope list of non-resident suppliers relate to ensuring it is sufficiently comprehensive and up-to-date and to guarding against inadvertent over-taxation or double taxation of different transactions. Although listings of in-scope non-resident suppliers will contain many household names and recognised providers of remote international B2C supplies, it is almost impossible for tax authorities to ensure that the listing remains sufficiently comprehensive and up-to-date at all times. In any event, jurisdictions must dedicate resources to ensuring they update such lists at regular intervals. Risks of double taxation and over-taxation will occur in relation to suppliers that appear on the in-scope list but that also make supplies that fall outside the scope of the jurisdiction's VAT withholding regime, e.g., if the regime targets only services but a supplier also supplies large volumes of imported goods to consumers. Suppliers that make reduced- and zero-rated supplies face similar risks because financial intermediaries will withhold VAT at a single rate, usually the standard rate.

This list-based approach to financial intermediary VAT withholding may create significant administrative burden and unintentional operational costs due to the volume of requests for refunds that suppliers, platforms and consumers make as a consequence of over- and double taxation. Suppliers and platforms, for their respective parts could experience high levels of administrative inefficiency because financial intermediaries are unable to achieve the correct taxing result through withholding. This would be not least due to the burden and cash-flow impacts of the obligation to make frequent refund applications to recover funds that financial intermediaries incorrectly withheld. Such experiences could in turn have a longer-term detrimental effect on jurisdictions' international trade relationships and on their attractiveness for business investment.

The challenges faced by financial intermediary withholding regimes as highlighted in this overview make such a regime less suitable and sustainable as a jurisdiction's primary mechanism for the collection of VAT on international trade. They create undue challenges for financial intermediaries, tax authorities and non-established taxpayers that are willing to comply and whose economic activities are carried out in many jurisdictions and subject to widely differing rules.

[138] In some instances, rather than financial intermediaries withholding a part of the remittance to cover VAT, the purchaser faces a supplementary charge.

6.7.6.3. Conclusions

Given the many challenges described in the previous subsection, the application of a financial intermediary withholding regime is not recommended as a jurisdiction's primary approach to collecting VAT from non-resident suppliers. Nevertheless, if compliance risk treatment strategies undertaken by a tax authority are unsuccessful in engaging non-resident businesses or digital platforms in the VAT collection process, it may be reasonable for it to seek to enforce tax collection by requiring financial intermediaries to withhold and account for the VAT on sales by non-compliant businesses. A targeted use (i.e. directed only at an identified list of persistently non-compliant businesses) of this measure may limit the practical difficulties identified above.

Jurisdictions analysing whether to introduce this type of collection mechanism should consider:

- Prioritising the vendor collection regime for non-resident suppliers and digital platforms as the basis of their regime applicable to VAT on international digital trade.
- Using financial intermediary withholding mechanisms as an ultimate fall-back option to address persistent non-compliance by non-resident suppliers and digital platforms, as determined by the tax authority in the course of their compliance monitoring duties.

6.7.7. Enforcement options unique to low-value imported goods

The physical nature of the goods may provide further enforcement possibilities. Customs authorities typically have powers where import duty and VAT for imported goods remain unpaid. They may, for instance, be allowed to forfeit and destroy or sell these goods at auctions to recover part of the unpaid tax. Malaysia's customs law,[139] for instance, provides that goods on which customs duty has not been paid and therefore are not cleared within the stipulated timeframe, can be sold. Such type of powers could be also used to enforce the VAT collection under a vendor collection regime.

6.7.8. Other measures

6.7.8.1. Website blocking

Certain jurisdictions have enacted provisions that allow tax authorities or other government bodies to block the access to non-resident suppliers' and platforms' websites as a last resort in cases of non-compliance. This measure would essentially block consumers from having online access to digital services or platforms from a company that is found to be non-compliant with the domestic VAT regime.

On the technical side, there are different ways to block access, all of which present different challenges in their practical application.[140]

Jurisdictions contemplating the adoption of this measure should consider, amongst others, the following issues:

- Possibility of circumvention: The technique used for the application of this measure may be evaded by the non-compliant non-resident actors, by users in the taxing jurisdictions, or both. This may negatively impact the effectiveness of the measure.

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[139] Government of Malaysia, *Laws of Malaysia: Act 235: Customs Act 1967*, http://www.customs.gov.my/ms/PERUNDANGAN%20GAZETTE/CUSTOMS%20ACT%201967.pdf. See Section 74.

[140] See Internet Society (2017), *Internet Society Perspectives on Internet Content Blocking: An Overview*, https://www.internetsociety.org/wp-content/uploads/2017/03/ContentBlockingOverview.pdf. This analysis describes a number of content blocking techniques oriented at illegal content.

- Potential collateral damage: Since websites are often housed within cloud services, blocking one could have ripple effects that block many others in the process, impacting the broader Internet ecosystem. Blocking the access to a particular service may have unintended consequences on businesses relying on the blocked service for their normal operation (e.g. payment service providers).
- Privacy concerns: Several types of content blocking require the examination of the user´s traffic, including encrypted traffic. Users' privacy may be affected during the process.[141]
- Potential breach of international trade agreements: The application of this measure only to non-resident business, i.e. not upon domestic businesses, may be inconsistent with "national treatment" clauses.

6.7.8.2. Public VAT registers

Public VAT registers can be beneficial in incentivising non-resident suppliers and digital platforms to register and in providing confidence to domestic businesses and customers about the compliance of foreign competitors.

Some jurisdictions periodically publish the lists of registered non-resident suppliers and digital platforms on their tax authorities' websites. This measure aims at creating awareness by final consumers and is usually complemented with schemes that allow interested parties to report the activities carried out by non-registered businesses.

Box 6.16. Jurisdiction examples: Public VAT registers

South Africa maintains a VAT register that is electronically searchable. The categories of search include verification of a registration VAT number; verification of whether a person is registered for VAT; and certain services for advanced searches for and of VAT-registered businesses.

Japan maintains a VAT register to incentivise non-resident suppliers to register and to provide confidence to domestic businesses and customers about the compliance of foreign competitors. Additionally the register can be used by Japanese businesses to check if they are eligible to claim a purchase tax credit[1] in instances where they receive supplies of electronic services that are not services classified as "B2B electronic services" that are subject to a reverse charge.

Following specific requirements under national law, **Indonesia** requires the appointment of entities as "Tax Collectors" before they can legally apply and collect VAT on behalf of the Directorate General of Taxes. Indonesia periodically publishes the lists of the appointed companies.

The United Kingdom publishes the list of marketplaces that sign up to its co-operative compliance agreements for online marketplaces, as described in more detail in subsection 6.6.

Thailand's Revenue Department provides a registration list of non-resident businesses.

1. Japan's National Tax Agency (revised in 2016), Revision of Consumption Taxation on Cross-border Supplies of Services at https://www.nta.go.jp/english/taxes/consumption_tax/cross-kokugai-en.pdf

Source: Japan's registered foreign business list at: https://www.nta.go.jp/publication/pamph/shohi/cross/touroku.pdf; Indonesia's VAT on Imported Digital Products at: https://pajak.go.id/en/digitaltax; Thailand's registration list at: https://eservice.rd.go.th/rd-ves-web/search/company; South Africa's "VAT Vendor Search" portal at: https://secure.sarsefiling.co.za/vatvendorsearch.aspx

It should be noted, however, that publishing the actual VAT registration numbers of non-resident suppliers and digital platforms that have registered under a simplified compliance regime can create significant fraud risks, particularly where this regime applies to the collection of VAT on low-value imported goods. The

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141 Ibid.

importance of the VAT registration number in customs authorities' verification processes may create an incentive for fraudulent suppliers to appropriate the registration numbers of compliant suppliers and inscribe them on consignments to evade inspection for import VAT by customs authorities (see also subsection 5.2.11). This may justify publishing only limited details in a public VAT register, such as the trading and legal names of VAT-registered non-resident businesses, without including VAT registration numbers.

6.8. The role of international administrative co-operation in enhancing enforcement

Guide to subsection 6.8.

The International VAT/GST Guidelines recommend that jurisdictions take appropriate steps towards making greater use of existing OECD instruments and other legal instruments for international administrative co-operation to support the effective collection of VAT in a cross-border context.

6.8.1. Legal bases

The use of international administrative co-operation tools in tax matters requires the existence of a legal basis between the requesting and the requested jurisdiction. The following instruments may provide such a legal basis for administrative co-operation for tax authorities to obtain VAT-relevant data, e.g. in respect of non-resident suppliers and digital platforms under a vendor collection regime. These instruments are not mutually exclusive.

- **Multilateral conventions**, in particular the Multilateral Convention on Mutual Administrative Assistance in Tax Matters (OECD; Council of Europe, 2011[100]) ("MAAC"; See subsection 6.8.2). The MAAC is the most comprehensive multilateral instrument available for all forms of tax co-operation to address tax evasion and avoidance. It provides for all possible forms of administrative co-operation between states in the assessment and collection of taxes. This co-operation ranges from exchange of information, including automatic exchanges, to the recovery of foreign tax claims.
- **Bilateral tax conventions**. Most bilateral double taxation treaties that provide a legal basis for the exchange of information and mutual assistance in tax matters follow the OECD Model Tax Convention (or the UN Model Tax Convention, similar to the OECD Model) (OECD, 2017[101]).[142]
- **Regional frameworks**. For example, the EU framework for administrative co-operation.[143] In Africa, as part of its support to members, ATAF has developed an exchange of information instrument open to signature by its members: the Agreement on Mutual Assistance in Tax Matters (AMATM). Six African countries have already signed the AMATM (Lesotho, Liberia, Mozambique, Nigeria, South Africa, and Uganda), and it entered into force following ratification by five Parties as required by the Article 15.2 of the Agreement. All present signatories except for Liberia have ratified the Agreement and the date it entered into force was 23 September 2017.[144]
- **Tax information exchange agreements** (TIEAs). A Model Tax Information Exchange Agreement was released by the OECD in 2002.[145] TIEAs following the Model provide for assistance in exchange of information that is foreseeably relevant to the determination, assessment and collection of taxes covered by the agreement, the recovery and enforcement of tax claims, or the investigation or prosecution of tax matters.

Each of these legal instruments designates the competent authorities in each jurisdiction to receive and respond to requests for assistance in tax matters. In most cases, jurisdictions have not designated a specific competent authority for VAT-related requests. It is therefore important to make clear in the request that the request is intended for the authorities in charge of the VAT.

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[142] Article 26 of the OECD Model Tax Convention provides for exchange of information. Article 27 of the Convention provides for assistance in the collection of taxes. Although the "taxes covered" by the Model generally are limited to "taxes on income and on capital" (Article 2), Article 26 and Article 27 both provide that their scope "is not restricted by Articles 1 and 2." Accordingly, obligations imposed by these Articles relating to exchange of information and assistance may apply to taxes other than those on income and capital, such as value added taxes. However, prior to initiating an exchange of information for VAT, the content of the bilateral tax convention must be analysed to ensure that VAT or consumption taxes in general are not excluded from clauses on administrative co-operation. It must be noted, in this respect, that this extension of the scope of Articles 26 and 27 to taxes not covered by the Convention was adopted only in 2000. Double tax treaties adopted before 2000 and not revised since then do not normally allow for the exchange of information and assistance in tax collection for VAT. Modern double taxation treaties, on the contrary, today regularly provide a basis for requesting information and other types of administrative co-operation in VAT.

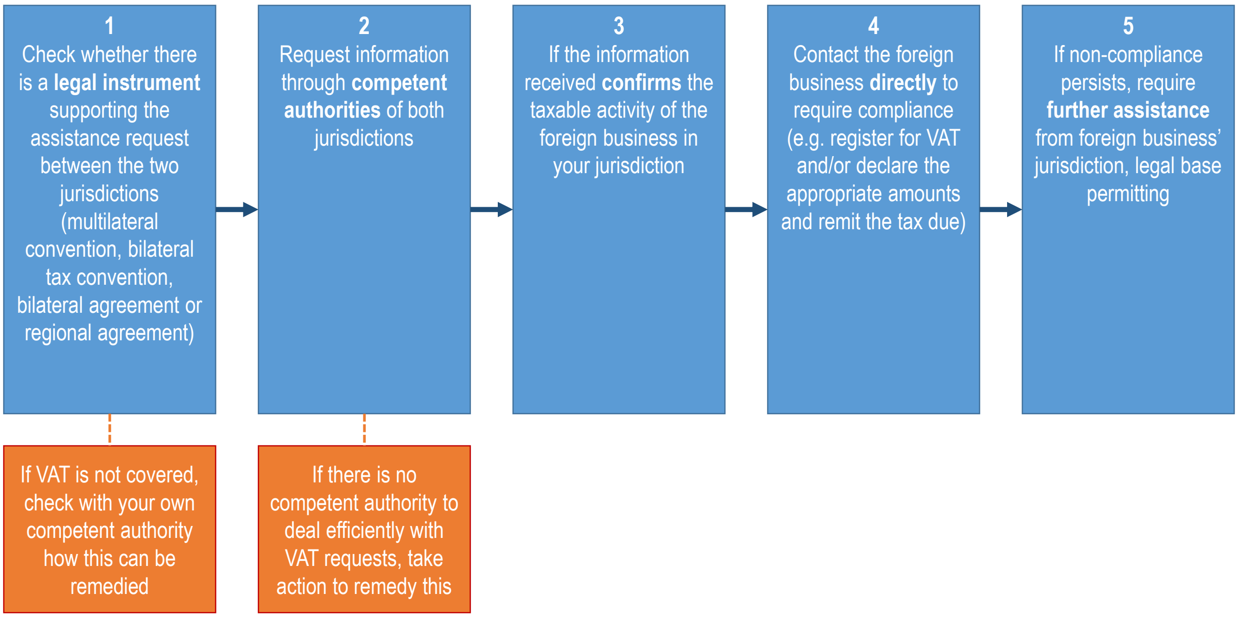
[143] An example of a high level of regional administrative co-operation in tax recovery is the EU framework for administrative cooperation. The legal base is provided in *Council Directive (EU) 2010/24 of 16 March 2010* and *Council Regulation (EU) 904/2010 of 7 October 2010 on administrative co-operation and combating fraud in the field of value added tax* at, respectively:

- https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32010L0024&qid=1623751946210;and
- https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02010R0904-20200101&qid=1623166725429

[144] Article 15.2 of the Agreement states, "This Agreement shall enter into force thirty (30) calendar days after five of the Member States have submitted their instrument of ratification to the Executive Secretary."

[145] Please see: https://www.oecd.org/ctp/exchange-of-tax-information/taxinformationexchangeagreementstieas.htm

Figure 6.7. Basic process to request assistance on tax matters from a foreign tax authority



Source: OECD analysis.

6.8.2. General features of the main forms of co-operation

6.8.2.1. Exchange of information (general requirements)

Exchange of information may require that certain conditions are met, depending on the legal basis. Some of those requirements are designed to avoid unnecessary burdens on other tax authorities to gather information that the requesting tax authorities could have obtained by themselves or that have little or no potential relevance in terms of protection of their tax revenues.

Typically, two conditions must be met:

- The request has a foreseeable relevance[146] in terms of potential use to discover tax shortfalls or tax infringements; and
- The requesting tax authorities have previously exhausted their domestic sources of information before asking for other tax authorities' co-operation.

The foreseeable relevance of the request of information can be established when, at the time of the request, the requesting authority considers that, in accordance with its national law, there is a reasonable possibility that the requested information is relevant to the tax affairs of one or several identified taxpayers.

The foreseeable relevance condition should avoid so-called "fishing expeditions", i.e. requests of information that lack a clear scope and defined purpose and are therefore unlikely to be relevant for the tax affairs of a given person or an ascertainable group of given persons. The boundaries between foreseeable relevance and fishing expeditions are easy to establish in theory but can be difficult to

[146] See Article 4.1 of the MAAC and Article 26 of the OECD Model Tax Convention.

ascertain in practice. A case-by-case examination of the information requests must be made in order to appreciate the foreseeable relevance for tax control purposes.[147]

In order to establish the foreseeable relevance of the information they are requesting, the requesting tax authorities should provide explanations about the intended use of the requested information and why they consider that the requested information is controlled by a person subject to the jurisdiction of the requested authority.

In some cases, the requesting tax authority may have no prior individual identification details for the person(s) whose information is sought but describe a group of taxpayers who cannot be identified individually by name or otherwise on the basis of a common set of characteristics. These types of "group requests" will normally meet the standard of foreseeable relevance when the requesting tax authority describes the common set of characteristics shared by the group members and offers explanations about the potential non-compliance patterns of the group members to the requested authority.

The possibility of carrying out group requests under the standard of foreseeable relevance is of particular importance in pursuing VAT compliance in a cross-border context. This is because the relevant information may be under the control of a non-resident taxpayer (e.g. a digital platform operator) and may relate to groups of suppliers/sellers sharing tax risk patterns and whose individual prior identification details would be impossible to establish by the requesting authorities.

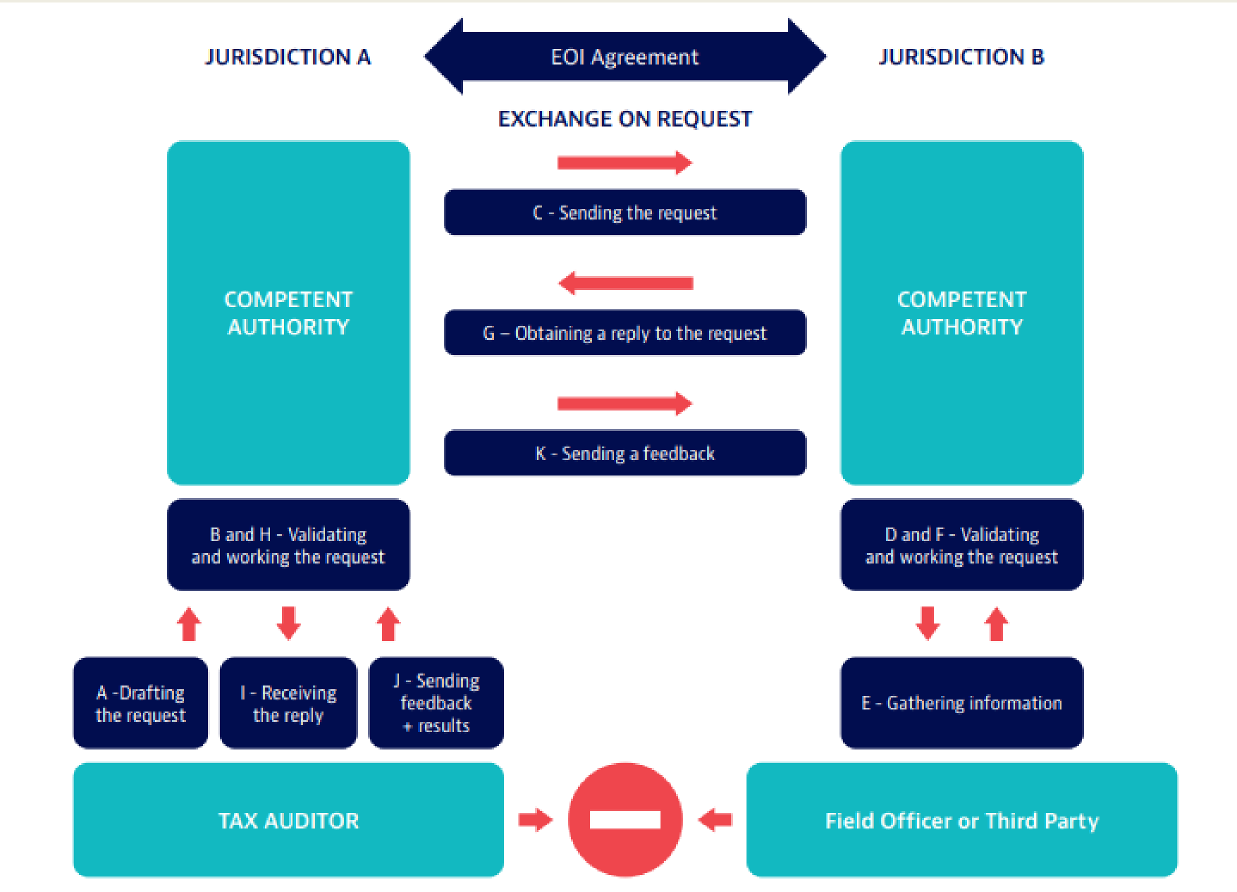
[147] For a deeper analysis of the concept of foreseeable relevance, see the commentaries to Article 26 of the OECD Model Tax Convention. A notable recent example of the interpretation of the concept of '"foreseeable relevance"' regarding international requests of information is the case decided on 6 October 2020 by the Court of Justice of the European Union in the cases C-245/19 and C-246/19, *État luxembourgeois vs. B* and *État luxembourgeois vs. B, C, D and F.C.*, available at https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:62019CA0245&rid=1. The Court considered foreseeable relevance of a request of information possible, for instance, where such a request indicates (1) the identity of the person who has the information in question; (2) the taxpayer subject to the investigation that originated the request for information exchange; and (3) the period to which the latter extends. If the request refers to contracts, invoices or payments then, even where not precisely identified, these can be foreseeably relevant if delimited by criteria based: first, on the fact that they were respectively executed or made by the person who possesses the information; second, in the circumstance that they were formalised during the period to which said investigation refers; and third, in their relationship with the investigated taxpayer.

Box 6.17. Model manual on exchange of information for tax purposes

The Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum), the World Bank Group and the African Development Bank have jointly published a new version of the Manual on Exchange of Information.

It presents the legal and practical tools available for the exchange of information (EOI) to help jurisdictions reap the benefits from international co-operation. It describes the key principles governing EOI and how the different forms of EOI can assist in the detection of tax evasion and avoidance. This EOI manual has been developed to provide a detailed guide to assist jurisdictions, regardless of their stage of implementation of EOI, to put in place the necessary processes and procedures or to improve existing ones to ensure effective EOI. The previous version of the manual, issued in 2013 by the Global Forum and the World Bank Group, was dedicated to the exchange of information on request and to the spontaneous exchange of information. This new edition covers a broader range of exchange of information tools, such as simultaneous tax examinations allowing two or more jurisdictions to conduct simultaneous audits of person(s) of common or complementary interest, or tax examinations abroad to collect information in a foreign jurisdiction. The model manual can easily be tailored to address a jurisdiction's specific needs. It also provides checklists and various template letters to deal with the main forms of communications carried out by EOI units.

The following diagram is an example from the manual demonstrating the process of requesting information from another jurisdiction.



Source: OECD (2021), *Model Manual on Exchange of Information for Tax Purposes* (OECD, 2021[102]).

6.8.2.2. Administrative co-operation with a view to enforcing VAT collection (debt recovery)

Debt recovery may be needed, for instance, when the taxpayer submitted a timely and valid VAT return under a vendor collection regime but failed to pay the tax due (e.g. it requested to pay in instalments but did not fulfil its duty), or where the tax authorities carried out a control procedure as a result of which a tax assessment was made along with a VAT payment obligation. While recovering VAT debts from domestic sellers is not without challenges, enforced debt recovery for unpaid VAT of non-resident taxpayers raises additional challenges for tax authorities.

When a non-resident business is unwilling to pay the VAT it owes, the main difficulty in enforcing collection of the tax due is that the taxpayer may have no assets in the taxing jurisdiction. If such assets (e.g. financial assets, immovable property, intangible property, commercial credits, etc.) do exist, the tax authority may seize them as collateral or freeze them to force settlement. In the absence of sufficient assets in the jurisdiction where VAT is due, the tax authorities in this jurisdiction might have to rely on administrative co-operation from those tax authorities where the taxpayer is established or where the taxpayer has assets that authorities might seize.

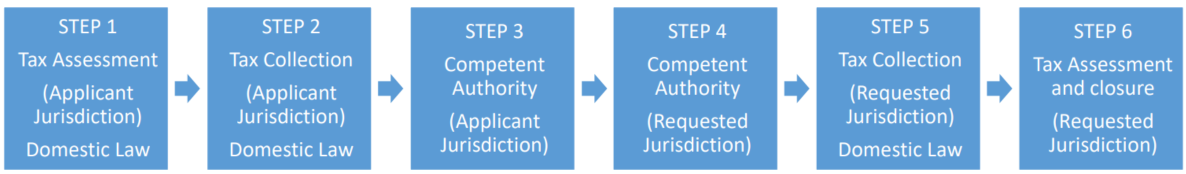
International administrative co-operation tools for enforced tax debt collection typically cover:

- Requests of information that the requested authority can obtain according to its domestic law and that may be useful for tax collection purposes.
- Requests to notify a taxpayer of tax assessments and orders for VAT payment made by the applicant authority, so that the taxpayer's right of appeal is respected at all times.
- Requests for other tax authorities to take effective action to enforce recovery of unpaid VAT debts. This may take the form of stronger sanctions such as enforced seizures of taxpayers' assets (financial assets, commercial credits, properties, etc.) and typically will require the prior exhausting of any recovery actions in the taxing jurisdiction before requesting the international administrative co-operation.

By analogy to the analysis of procedures in connection with the exchange of information, such requests must be based on an existing agreement between the requesting tax authorities' jurisdiction and the requested tax authorities' jurisdiction covering mutual assistance for VAT recovery actions. In case of surcharges, administrative penalties, late payment interest, etc., the instrument that provides legal basis for the request should include these specific concepts within its scope.

The process of engaging another jurisdiction to provide assistance in recovery is relatively straightforward, subject to relevant international agreements and domestic law in the requested jurisdictions being in place (see Figure 6.8).

Figure 6.8. Steps in assistance in recovery



In Step 6, the requested jurisdiction reports on the measures taken and the final result. If the recovery was successful, the amounts recovered are transferred to the applicant jurisdiction.

Source: OECD (2020), *Tax debt management network: Enhancing international tax debt management* (OECD, 2020[97]).

Regarding the potential risks of taxpayers taking actions to avoid tax debt recovery measures (e.g. transfer of financial assets to other jurisdictions or to third parties before the VAT debt is definitively assessed), or where there are no assets to seize in the country where VAT is due, cautionary measures may be requested from other tax authorities (see also subsection 6.7.5).

It is important to note that some jurisdictions have made reservations to existing legal instruments with respect to their obligations to provide assistance in recovery. Table 6.9 lists relevant reservations made by African jurisdictions.

6.8.2.3. Joint audits

There is no internationally agreed legal concept of joint audits. Broadly speaking, joint audits are a tool for administrative co-operation in tax matters combining selected existing tools that are employed in connection with such co-operation. These include: exchange of information, compliance management activities focused on one taxpayer or a group of taxpayers simultaneously performed by more than one set of tax authorities and, occasionally, in the presence of tax officers from different jurisdictions performing tax audit and compliance controls together in a particular jurisdiction.[148] The Multilateral Convention on Mutual Administrative Assistance in Tax Matters (see subsection 6.8.3) among other instruments (see subsection 6.8.1), enables and facilitates joint audits by providing the legal basis for the different forms of assistance. Reservations on joint audits are not allowed as such under the MAAC. However, the reservations that are allowed by the MAAC may limit the applicability of this tool for VAT purposes.

Generally speaking, joint audits have been more widely considered in the context of direct tax compliance than in the audit of consumption taxes.[149] One of the reasons why joint audits have been considered primarily in direct rather than indirect taxation is the higher risk of double taxation or non-taxation arising out of transfer pricing disputes, questions of residence or permanent establishment, etc. and the need to prepare for a Multilateral Agreement Procedure (MAP).

A VAT joint audit may be considered as a possible enforcement option when this tool adds value compared to other administrative co-operation tools, and where there is a common or complementary interest of the concerned jurisdictions in the fiscal affairs of one or more related taxpayers. One of the main advantages of a joint audit compared to other co-operation tools is the possibility of reaching a common conclusion between tax authorities on the examined facts and, as far as possible, on their tax consequences. The effectiveness of a VAT audit can be increased significantly if the jurisdiction of residence of a supplier (or

[148] In the OECD's 2010 *Joint Audit Report*, available at https://www.oecd.org/tax/administration/45988932.pdf, a joint audit is described as two or more jurisdictions joining together to form a single audit team to examine an issue(s)/transaction(s) of one or more related taxable persons (both legal entities and individuals) with international business activities, perhaps including international transactions involving related affiliated companies operating in the participating jurisdictions, and in which the jurisdictions have a common or complementary interest. In such a situation, the taxpayer would present and share relevant information with the joint audit jurisdictions and the team would include Competent Authority representatives from each jurisdiction. A joint audit can be activated for all compliance activities that can be accommodated through: (1) the competent authority process outlined in the tax treaties between the participating revenue bodies, and (2) the legal framework that guides the limits of collaboration between the participating parties.

[149] The OECD devoted two main documents to "Joint Tax Audits":

- OECD (2010), *Joint Audit Report*, https://www.oecd.org/tax/administration/45988932.pdf; and
- OECD (2019), *Joint Audits 2019 – Enhancing Tax Co-operation and Improving Tax Certainty*, https://dx.doi.org/10.1787/17bfa30d-en

The 2010 report was produced by a group of 13 countries of the Forum of Tax Administrations (FTA), in a context of their prior experiences with other administrative co-operation tools. At the time of the report's publication, however, no country had any experience with joint audits. The 2019 report was produced by seven members of the FTA and is focused on direct taxation.

where the VAT-relevant information is held) takes part in it. Joint audits also have the potential to reduce compliance costs for businesses if jurisdictions audit together rather than each jurisdiction separately.

6.8.3. Multilateral Convention on Mutual Administrative Assistance in Tax Matters[150]

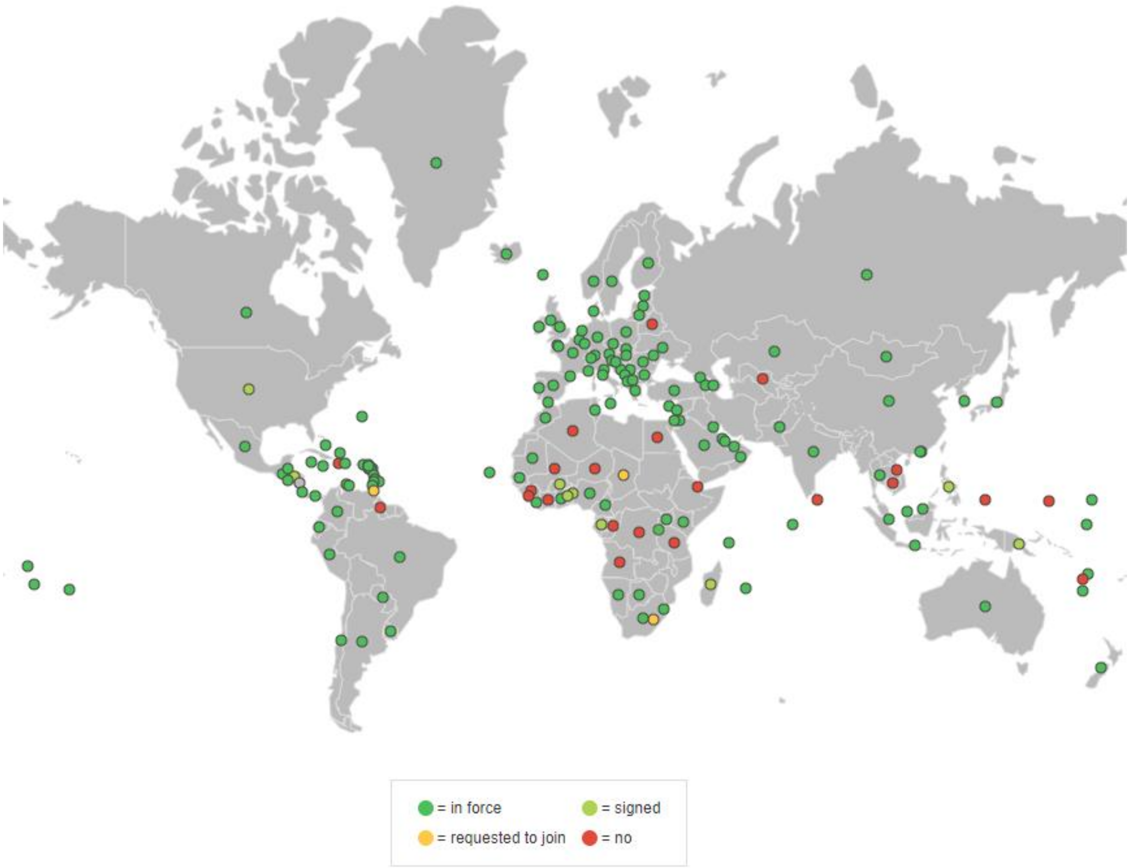
The Multilateral Convention on Mutual Administrative Assistance in Tax Matters (MAAC) is the most comprehensive multilateral instrument available for all forms of tax co-operation to address tax evasion and avoidance. It provides for all possible forms of administrative co-operation between jurisdictions in the assessment and collection of taxes. This co-operation ranges from exchange of information, including automatic exchanges, to the recovery of foreign tax claims. It can also facilitate joint audits.

The MAAC was developed jointly by the OECD and the Council of Europe in 1988. It was amended by the 2010 Protocol, which opened the MAAC to all jurisdictions and aligned it to the international standards on transparency and exchange of information for tax purposes (OECD; Council of Europe, 2011[100]). As of December 2022, 146 global jurisdictions participate in the MAAC,[151] including 17 jurisdictions covered by territorial extension. In Africa, a significant number of jurisdictions are parties to the MAAC (please refer to Table 6.9 below).

[150] This subsection is based on Chapter 4.A.3 of: OECD (2012), *International Co-operation against Tax Crimes and Other Financial Crimes*. *A catalogue of the main instruments*, https://www.oecd.org/ctp/exchange-of-tax-information/international-co-operation-against-tax-crimes-and-other-financial-crimes-a-catalogue-of-the-main-instruments.pdf

[151] For an updated list of jurisdictions' status in participating in the Convention application, see: http://www.oecd.org/tax/exchange-of-tax-information/Status_of_convention.pdf

Figure 6.9. Map of parties to the MAAC



Note: Status as of December 2022.
Source: Tax cooperation element of the "Taxation" section of the OECD *Compare your country* database: https://www1.compareyourcountry.org/tax-cooperation/en/0/623/default

Box 6.18. A Toolkit for Becoming a Party to the Multilateral Convention on Mutual Administrative Assistance in Tax Matters

The Secretariat of the Global Forum on Transparency and Exchange of Information for Tax Purposes (the Global Forum) has produced *A Toolkit for Becoming a Party to the Multilateral Convention on Mutual Administrative Assistance in Tax Matters* (OECD, 2020[103]).

This toolkit was developed in the context of the COVID-19 crisis, as tax co-operation is certainly expected to be instrumental for the post-COVID-19 recovery and fiscal consolidation.

This toolkit provides detailed guidance for jurisdictions preparing to join the MAAC. It outlines the benefits of joining the MAAC, provides an overview of its main provisions, its relationship with other treaties and legal instruments that facilitate administrative co-operation in tax matters, and a step-by-step guide to becoming a Party to it, from the preparation stage including providing answers to the confidentiality questionnaire to the signature and deposit of instruments of ratification, acceptance or approval. It also contains other technical and logistic aspects. The toolkit highlights the key role of the Co-ordinating Body and the technical assistance that the Global Forum can provide to its members when joining the Convention. Jurisdictions may make use of this toolkit during different stages of the process.

The toolkit on becoming a party to the MAAC is divided into five parts that are organised as follows:

- **Section 1** briefly highlights the origin and purpose of the MAAC as well as the importance of the 2010 Protocol in opening it up for signature and ratification for jurisdictions that are not members of the OECD or the CoE. It also explores the key benefits that a jurisdiction can derive from joining the MAAC even where it already has a network of bilateral treaties and legal instruments to facilitate the administrative assistance in tax matters.
- **Section 2** outlines the key provisions of the MAAC. It draws special attention to the different forms of assistance that it can facilitate and provides examples on how jurisdictions have been using it, both for exchange of information (EOI) and beyond. This part also elaborates on the composition, role, functions and operation of the Co-ordinating Body and of the OECD and the CoE as the Depositaries, in the implementation of the Convention.
- **Section 3** details the procedure for becoming a Party to the MAAC with reference to the templates used in practice, providing examples on how to meet the requirements when preparing the request as well as the steps and substantive requirements for joining it.
- **Section 4** briefly highlights the critical role that the MAAC plays in the implementation of the Common Reporting Standard (CRS) for the automatic exchange of financial account information and the Base Erosion and Profit Shifting (BEPS) Actions relating to tax transparency, particularly Country-by-Country Reporting (CbC Reporting).
- **Section 5** highlights the logistics and financial aspects of becoming a Party to the MAAC.
- The Annexes contain the relevant templates and annotated documents related to the process of joining the MAAC as well as useful resources.

6.8.3.1. Forms of co-operation

The MAAC states that the Parties shall provide administrative assistance to each other in tax matters (Article 1). It is intended to have a very wide scope as it “covers all forms of compulsory payments to general government … with the sole exception of those customs duties and all other import-export duties and taxes which are covered by the international *Convention on Mutual Administrative Assistance for the prevention, investigation and repression of customs offences*, prepared under the auspices of the Customs

Co-operation Council." Commentary to Article 2, paragraph 25 (emphasis supplied) (OECD; Council of Europe, 2011[100]).

The MAAC is of special importance for this Toolkit, as it explicitly includes VAT among the taxes covered by its provisions (Article 2, paragraph 1.b.iii.C). It should be noted though that Article 30 of the MAAC allows the subscribing jurisdiction to reserve the right not to provide any form of assistance in relation to the taxes of other Parties in any of the categories listed in Article 2.1.b of the MAAC, which includes general consumption taxes such as VAT. Prior to sending an assistance request based on the MAAC, jurisdictions are therefore advised to check the existence of reservations for the assistance related to VAT (see the next subsection).

The main types of administrative co-operation tools under the MAAC are:[152]

- **Exchange of information** (Chapter III, Section I, Articles 4-10). The Parties shall exchange any information that is foreseeably relevant for the administration or enforcement of their domestic laws concerning the taxes covered by the MAAC. The MAAC allows information to be exchanged upon request (Article 5), automatically (Article 6) or spontaneously (Article 7). The Convention also provides for simultaneous tax examinations (Article 8) and tax examinations abroad (Article 9).
- **Exchange of information on request** (Article 5). At the request of the applicant State, the requested State shall provide the applicant State with any information that is foreseeably relevant for the administration or enforcement of their domestic laws concerning the taxes covered by the MAAC which concerns particular persons or transactions (Article 5, paragraph 1). If the information available in the tax files of the requested State is not sufficient to enable it to comply with the request for information, that State shall take all relevant measures to provide the applicant State with the information requested (Article 5, paragraph 2).
- **Automatic exchange of information** (Article 6). Two or more Parties shall automatically exchange information with respect to categories of cases and in accordance with procedures, which they shall determine by mutual agreement.
- **Spontaneous exchange of information** (Article 7). A Party shall, without prior request, forward to another Party information of which it has knowledge in the circumstances set forth in Article 7, paragraph 1.
- **Simultaneous tax examinations** (Article 8). A simultaneous tax examination is an arrangement between two or more Parties to examine simultaneously, each in its own territory, the tax affairs of a person or persons in which they have a common or related interest, with a view to exchanging any relevant information which they so obtain (Article 8, paragraph 2). The MAAC provides that cases and procedures for simultaneous tax examinations shall be determined by consultations between the Parties, at the request of one of them (Article 8, paragraph 1).
- **Tax examinations abroad** (Article 9). At the request of the competent authority of the applicant State, the competent authority of the requested State may allow representatives of the competent authority of the applicant State to be present at the appropriate part of a tax examination in the requested State. All decisions with respect to the conduct of the tax examination shall be made by the requested State.
- **Assistance in recovery** (Chapter III, Section II, Articles 11-16). Under Article 11, paragraph 1, at the request of the applicant State, the requested State shall take the necessary steps to recover tax claims of the first-mentioned State as if they were its own tax claims, except in relation to time-limits which are governed solely by the laws of the applicant State (Article 14) and in relation to priority (Article 15). This shall apply only to tax claims, which form the subject of an instrument permitting their enforcement in the applicant State, and, unless otherwise agreed between the Parties concerned, which are not contested. Therefore, where the claim is against a person who is not a resident of the applicant State,

[152] See Articles 4 to 17 of the MAAC.

the assistance in recovery shall only apply, unless otherwise agreed between the Parties concerned, where the claim may no longer be contested (Article 11, paragraph 2).

- At the request of the applicant State, the requested State shall, with a view to the recovery of an amount of tax, take measures of conservancy even if the claim is contested or is not yet the subject of an instrument permitting enforcement (Article 12).
- **Service of documents** (Chapter III, Section III, Article 17). At the request of the applicant State, the requested State shall serve upon the addressee documents, including those relating to judicial decisions, which emanate from the applicant State and which relate to a tax covered by the MAAC. The requested State shall effect service of documents: a) by a method prescribed by its domestic laws for the service of documents of a substantially similar nature; b) to the extent possible, by a particular method requested by the applicant State or the closest to such method available under its own laws. A Party may effect service of documents directly through the post on a person within the territory of another Party.

The instrument can be used (Article 3) by the competent authorities designated by the Parties for the purposes of administrative assistance under the Convention, listed in Annex B to the Convention.[153]

The contents of the request and information to be provided by the applicant State are indicated in Article 18 of the MAAC.

Specific provisions apply to any request for assistance in recovery under Section II of the MAAC (Article 13).

Article 21 sets limits to the obligation to provide assistance. However, a requested State shall not decline to supply information to a treaty partner solely because the information is held by a bank or other financial institution (Article 21, paragraph 4).

Any information obtained by a Party under the MAAC shall be treated as secret and protected in the same manner as information obtained under the domestic law of that Party and, to the extent needed to ensure the necessary level of protection of personal data, in accordance with the safeguards that may be specified by the supplying Party as required under its domestic law (Article 22, paragraph 1).

Information shall be disclosed only to persons or authorities (including courts and administrative or supervisory bodies) concerned with the assessment, collection or recovery of, the enforcement or prosecution in respect of, or the determination of appeals in relation to, taxes of that Party, or the oversight of the above. Only the persons or authorities mentioned above may use the information and then only for such purposes (Article 22, paragraph 2).[154]

The MAAC states that the possibilities of assistance provided by it do not limit, nor are they limited by, those contained in existing or future international agreements or other arrangements between the Parties concerned or other instruments which relate to co-operation in tax matters (Article 27, paragraph 1).

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[153] Annex B of the Convention is available at:
https://rm.coe.int/CoERMPublicCommonSearchServices/DisplayDCTMContent?documentId=090000168066660d
Most of the Parties designated as competent authority the Minister of Finance, commissioner of the tax authority, or an authorised representative of these persons. A more detailed and updated list of competent authorities, including name and contact details of tax officials directly in charge of dealing with requests of assistance is available to the Parties to the Convention.

[154] Notwithstanding, information received by a Party may be shared with other law enforcement authorities and used for other purposes when such information may be used for such other purposes under the laws of the supplying Party and the competent authority of that Party authorises such use (Article 22, paragraph 4).

6.8.3.2. Status of the MAAC in Africa – Parties and reservations concerning VAT

The purpose of the MAAC is to facilitate the provision of mutual administrative assistance in the field of taxes, including VAT. However, it acknowledges that a State may not, for practical, constitutional or political reasons, be able at the time of signature to provide to other States the full assistance envisaged by the Convention. The MAAC acknowledges that some States, while able to provide information concerning income, profits, capital gains and net wealth taxes levied at central government level, a minimum requirement for acceding to the Convention, may not be able to do so in relation to such taxes imposed by subordinate levels of government or to other particular types of tax. Similarly, while able to provide assistance in the establishment of liability to tax, they may not be able to do so in the recovery of tax claims or service of documents in relation to all or any particular type of tax.

In order to allow States facing these constraints to participate in the Convention, article 30 enables a State to sign the MAAC with reservations about the type of tax to be covered or the type of assistance to be provided, so that it may limit its participation in the provision of mutual assistance under the MAAC to certain taxes or certain forms of assistance. There are limits on what reservations can be made, as the MAAC allows only the reservations referred to in Table 6.8. There is recognition that were States able to make whatever reservations they liked, without any restriction, this would detract from the multilateral nature of the Convention, as well as from the principle of reciprocity. The MAAC therefore sets out a system under which States are able to negotiate reservations within stated limits. This seeks to ensure the necessary minimum degree of uniformity of Parties' rights and obligations, facilitating implementation, interpretation and settlement of any disputes; and at the same time gives Parties the degree of flexibility which they need.

Table 6.8. Reservations allowed by the Multilateral Convention on Mutual Administrative Assistance in Tax Matters

Article	Reservation
Art. 30 (1) (a)	Not to provide any form of assistance in relation to one or more taxes of other Parties.
Art. 30 (1) (b)	Not to provide assistance in the recovery of any tax claim, or in the recovery of an administrative fine, for all taxes or only for taxes in one or more specific categories.
Art. 30 (1) (c)	Not to provide assistance in respect of any tax claim, which is in existence at the date of entry into force of the Convention in respect of that State or, where a reservation has previously been made, at the date of withdrawal of such a reservation in relation to taxes in the category in question.
Art. 30 (1) (d)	Not to provide assistance in the service of documents for all taxes or only for taxes in one or more specific categories.
Art. 30 (1) (e)	Not to permit the direct service of documents through the postal service.
Art. 30 (1) (f)	To apply paragraph 7 of Article 28 of the Convention exclusively for administrative assistance related to taxable periods beginning on or after 1 January of the third year preceding the one in which the Convention, as amended by the 2010 Protocol, entered into force in respect of a Party, or where there is no taxable period, for administrative assistance related to charges to tax arising on or after 1 January of the third year preceding the one in which the Convention, as amended by the 2010 Protocol, entered into force in respect of a Party.

Source: OECD/Council of Europe (2011), *Multilateral Convention on Mutual Administrative Assistance in Tax Matters* (OECD; Council of Europe, 2011[100]).

The MAAC makes it clear (Art. 22) that if a Party declared that it reserves the right not to provide any form of assistance in relation to certain taxes, any other Party obtaining information from that Party shall not use it for the purpose of a tax in a category subject to the reservation, unless this use is authorised by the competent authority of the first-mentioned Party. Similarly, the Party making such a reservation shall not use information obtained under this Convention for the purpose of a tax in a category subject to the reservation.

The table below summarises some relevant reservations made by African jurisdictions and its effects as regards general consumption taxes, i.e. VAT. Annex G provides further information on OECD member countries.

Table 6.9. Reservations under Art. 30 (1) (a), (b) and (d) from African jurisdictions[1,2]

	VAT covered by the MAAC[3]	Reservations[4] to the application of the MAAC to VAT[5]		
		Reservation to provide assistance in the exchange of information based on Art. 30 (1) (a)	Reservation to provide assistance in the recovery of VAT claims or administrative fines based on Art. 30 (1) (b)	Reservation to provide assistance in the service of documents based on Art. 30 (1) (d)
Botswana[6]	Yes			Reservation
Cabo Verde	Yes			
Cameroon	Yes		Reservation	
Eswatini	Yes			
Ghana	Yes			
Kenya	Yes			
Liberia	Yes			
Mauritania	Yes		Reservation	Reservation
Mauritius	Yes			
Morocco	No	No assistance	No assistance	No assistance
Namibia	Yes			
Nigeria	Yes		Reservation	
Rwanda	Yes			Reservation
Senegal[7]	No	No assistance	No assistance	No assistance
Seychelles	No	No assistance	No assistance	No assistance
Tunisia	Yes			
Uganda	Yes			Reservation

In this table:
"Reservation" means that the country is a party to the MAAC and applies the MAAC to VAT but has a reservation regarding certain elements of its application, i.e. assistance in the recovery of VAT claims or administrative fines (Column 4) and/or to provide assistance in the service of documents (Column 5).
"No assistance" means that the country reserves the right not to provide any kind of assistance for VAT purposes.
Notes:
1. Unless otherwise stated, this table refers to participants for which the MAAC has entered into force following the signature of either the original convention and its protocol or the amended convention, and subsequent deposit of the instrument of ratification, acceptance or approval. More detail can be found at https://www.oecd.org/tax/exchange-of-tax-information/Status_of_convention.pdf. Original text for the reservations in place can be found at https://www.coe.int/en/web/conventions/full-list?module=declarations-by-treaty&numSte=127&codeNature=0

2. Benin, Burkina Faso, Gabon and Togo are signatories but not Parties to the MAAC yet.

3. According to paragraph 2 of Article 2 of the MAAC, the participant jurisdictions' existing taxes to which the MAAC shall apply are listed in Annex A to the Convention. These are the taxes in relation to which a Party to the MAAC expects to receive assistance and should not include a tax in respect of which such jurisdiction has made a reservation under paragraph 1, sub-paragraph a, of Article 30 of the MAAC (see also note 4). In this respect, if a Party has included VAT in its list of covered taxes, then it can no longer lodge a reservation under paragraph 1, sub-paragraph a, of Article 30 of the MAAC to exclude any form of administrative assistance in relation to VAT.

4. Article 30 (1) (a) to (f) enables a State to sign the MAAC with reservations about the type of tax to be covered or the type of assistance to be provided, so that it may limit its participation in the provision of mutual assistance under the MAAC to certain taxes or certain forms of assistance. This table shows reservations provided by Art. 30 (1) (a), (b) and (d) of the MAAC. Reservations shown for Art. 30 (1) (a) in this table are those concerning forms of assistance other than those covered by (b) and (d) i.e. exchange of information, simultaneous tax examinations and tax examinations abroad.

5. Even if a State does not include a general consumption tax, such as VAT, as a tax covered by the Convention under paragraph 2 of Article 2 of the MAAC, it still is committed to providing administrative assistance in relation to such a tax of other States, unless it makes a reservation under paragraph 1 of Article 30 of the MAAC. On the other hand, if a State includes its VAT under the scope of the Convention, it may still reserve the right not to provide certain forms of assistance related to this tax.

6. Botswana. Reservation under Art. 30 (1) (d) of the MAAC does not apply to the service of documents as described in Art. 17 (3) of the Convention, which provides that '*A Party may effect service of documents directly through the post on a person within the territory of another Party'*.

7. Senegal. Although Senegal has not lodged a reservation under Art. 30 (1) (d), it has reserved the right not to provide any kind of assistance for VAT purposes.

Source: OECD analysis, based on OECD/Council of Europe, *Reservations and Declarations for Treaty No.127 – Multilateral Convention on Mutual Administrative Assistance in Tax Matters* (status as at 1 December 2022) (OECD; Council of Europe, n.d.[104]).

Some African jurisdictions have reserved the right not to provide assistance in recovery under the Convention, as the table above shows. A reservation made under the Convention does not necessarily mean as a matter of international law, though, that the Convention cannot be used as a legal basis for such assistance. As set out in the Commentary to the Convention "Even where a Contracting State has entered a general reservation under Article 30 against providing administrative assistance to other Parties, for one particular type of tax or one form of assistance, that State is not prevented from providing such assistance in particular cases if it so wishes." (OECD; Council of Europe, 2011[100]). Rather, domestic law and practice in relation to international treaties will determine the scope and application of the reservations. For instance, some jurisdictions may not be able to render assistance in recovery under their national law.

Box 6.19. Status of the MAAC in OECD member countries

Many of the largest firms and platforms operating in the digital economy, though by no means all, are based in OECD member countries. Tax administrations in Africa will therefore have a strong interest in understanding the status of the MAAC across the OECD membership.

Research shows that all OECD member countries have signed the Convention and it has entered into force in all of these countries. Almost all OECD member countries provide administrative assistance on VAT. At the time of publication, only three OECD member countries (Israel, Luxembourg and Switzerland) have expressed a general reservation on VAT and do not provide any kind of assistance in this area under the Convention. A limited number of other OECD member countries have made reservations on specific components of administrative co-operation in the area of VAT, i.e. on the assistance in the recovery of VAT claims (Austria, Canada, Chile, Colombia Costa Rica, Germany and the United States) and on the provision of assistance in the service of documents (Chile, Colombia Costa Rica, and the United States).

Annex G provides further information on the extent to which OECD member countries provide administrative cooperation on VAT under the MAAC.

Source: OECD (2022), *Consumption Tax Trends 2022* (OECD, 2022[105]).

6.8.4. Making use of the MAAC to obtain compliance by non-residents

The OECD International VAT/GST Guidelines stress that it is necessary to reinforce taxing authorities' enforcement capacity through enhanced international co-operation in tax administration in the field of indirect taxes. It is recommended that jurisdictions take appropriate steps towards making greater use of these and other available legal instruments for international administrative co-operation to ensure the effective collection of VAT particularly on business-to-consumer supplies by non-residents. This could for instance include:

- Gather information from other jurisdictions about non-resident suppliers and digital platforms, including contact person and address details, so as to assure that correspondence can be correctly addressed.
- Ensure that other jurisdictions are aware that you are engaging on VAT matters with businesses that are resident in these jurisdictions.
- Spontaneously share information in relation to the non-resident businesses that have registered for VAT purposes under the jurisdiction's vendor collection regime and seek reciprocal information from other jurisdictions.
- Advise the residence jurisdiction of a business about non-compliance by this business with its VAT obligations in your jurisdiction, and what actions you have undertaken. Co-operation with the jurisdiction of residence of a business can help to nudge a change in the compliance behaviour of this business, when it realises that it is not out of reach from tax authorities in other jurisdictions.
- Inform other jurisdictions where you have identified non-compliance by businesses with their VAT obligations in those jurisdictions and seek reciprocal information.
- Source bank account and transactional information in relation to the accounts into which credit card transaction amounts are paid and the details of transactions representing payments from consumers in your own jurisdiction.
- Identify any assets owned by non-resident businesses in your own jurisdiction.
- Seek assistance in recovery of tax debt within the scope of the MAAC.

6.8.5. The ATAF African Agreement on Mutual Assistance in Tax Matters (AMATM)

In addition to the MAAC, which can facilitate regional exchanges between African countries, ATAF has developed an EOI agreement open to signature by its members: the Agreement on Mutual Assistance in Tax Matters (AMATM). Table 6.10 provides guidance on the ratification process of the AMATM.

The Agreement is divided into specific aspects of assistance in tax matters that concern co-operation between tax administrations. In view of the growth of cross border trade and investment, Member States have a growing interest in the reciprocal supply of information and mutual agreement procedures on the basis of which the administration of their respective domestic tax laws may be enhanced.

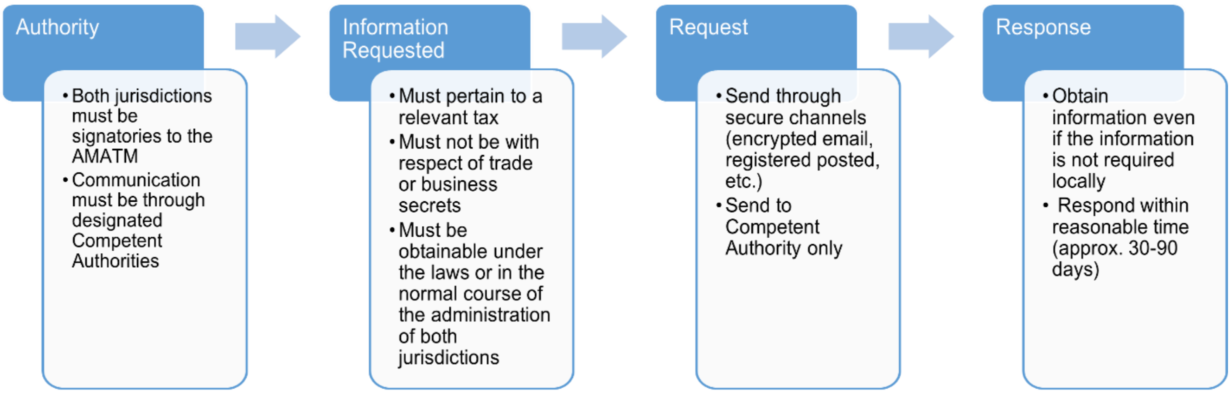
The Articles on exchange of information and assistance in collection are based on the approach of the United Nations Model Convention between Developed and Developing Countries and the OECD Model Tax Convention on Income and on Capital. Figure 6.10 illustrates the process for requesting information under the AMATM.

Table 6.10. Indicative Guide for African Countries to Ratification of the AMATM

Step 1	Final, approved texts of the AMATM Agreement are forwarded to all ATAF member countries
Step 2	The member country develops a submission for Ministerial / Cabinet consideration and approval
Step 3	Signing process: a) The President of the member country / Finance Minister ratifies the AMATM Agreement by signing the signatory page. Alternatively, the Head of the Revenue Administration is delegated to sign the AMATM Agreement, and b) The signatory to the AMATM Agreement also signs a *Note Verbale* confirming the member country's intention to be bound by Article 15 of the AMATM Agreement. *Normally there is a Presidential Minute whereby the President authorises signature by a named individual such as the Minister or Head of Revenue Authority.*
Step 4	A copy of the signed Agreement and the accompanying Note Verbale are scanned and e-mailed to the ATAF Secretariat
Step 5	The original, signed AMATM Agreement, together with the signed *Note Verbale* is forwarded to the ATAF Secretariat via the embassy or high commission accredited in the Republic of South Africa
Step 6	Upon receipt, the embassy or high commission delivers the documents to the ATAF Secretariat
Step 7	The ATAF Secretariat formally acknowledges receipt of the signed Instrument of Ratification to the Head of the Revenue Administration
Step 8	The forthcoming meeting of the ATAF Council is notified of the deposit of the Instrument of Ratification

Source: ATAF Secretariat.

Figure 6.10. Request for Information under the AMATM



Source: ATAF Secretariat.

7 Checklists to support the implementation of the recommended policy framework for the collection of VAT on digital trade

Introduction

Sections 2 and 3 of this Toolkit set out the recommended policy framework for the effective collection of VAT on supplies of services, intangibles and low-value imported goods, from non-resident suppliers and digital platforms. This policy framework focuses on the VAT challenges resulting from digital trade growth, particularly the collection of VAT on online (Internet) sales. Sections 5 and 6 provide detailed guidance on the administrative and operational implementation of the recommended policies, including the development of a simplified registration and collection regime with the necessary supporting IT infrastructure (online portal) and on strategies to enhance and enforce compliance, targeted at non-resident suppliers and digital platforms.

This Section provides checklists to assist tax policy officials and administrators in designing policies and in developing legislative and administrative reform to implement the policy principles and guidance set out in this Toolkit, with references to the relevant components of the Toolkit. These checklists outline the main aspects for tax policy officials and administrators to consider in making the necessary key policy decisions and in integrating these policies into their VAT and broader legal and administrative frameworks.

The checklists focus on the two main areas where digital trade growth creates the most pressing challenges for VAT compliance and administration, namely:

- The collection of VAT on supplies of services and intangibles (including online supplies) by non-resident suppliers (including online sellers, online marketplaces and other digital platforms) – Checklist 1.
- The collection of VAT on supplies of low-value imported goods by non-resident suppliers (including online sellers, online marketplaces and other digital platforms) – Checklist 2.

Checklists 1 and 2, which concentrate on the policy perspective, are complemented with two checklists that summarise core aspects of the approach to implementing the simplified registration and collection regime and the supporting operational and IT infrastructure (Checklist 3) and to enhancing compliance and enforcement (Checklist 4). These checklists concentrate primarily on supplies by non-resident suppliers to final consumers (B2C), as opposed to business-to-business (B2B)[155] supplies, as that is the area that causes the main challenges and revenue risks for tax authorities. For jurisdictions that do not distinguish between B2C and B2B supplies, the Toolkit and the checklists in this Section, provide guidance on the possible application of the relevant policy options in such a context, where appropriate.

The checklists in this Section focus primarily on VAT design and administration. However, in respect to the collection of VAT on supplies of low-value imported goods, there are likely to be implications for customs rules and procedures that also require consideration. More generally, a VAT regime often does not operate in isolation from other tax or procedural rules and can sometimes defer to these and other areas of law and regulation, as is often the case for the administration of penalties, to give an example. International legal frameworks to which jurisdictions may be party, such as free trade agreements, may also compel jurisdictions to act in accordance with legally binding standards, which in turn could limit their ability to frame VAT rules that target non-resident businesses. Therefore, it is important that jurisdictions, in considering VAT reform, carefully consider the interaction of potential changes with other rules, including those associated with binding international obligations. Jurisdictions may need to effectuate changes to their wider regulatory framework to support VAT reform.

Legislative design can be a complex process. Successful implementation of new rules will require incorporating them effectively into an existing set of rules that will often be lengthy and the product of decades of complex amendments and superseding clauses. There is not an easy one-size-fits-all standard solution for implementing the recommended solutions for the collection of VAT on digital trade into an

[155] Guidance for B2B supplies is included in Sections 2 and 3 of the Toolkit.

existing VAT and legal framework. This Toolkit therefore emphasises that it is neither possible nor desirable to provide model legislation that tax authorities can or should simply transpose into national legislation. Jurisdictions should remain aware, therefore, that the guidance in this Section is not prescriptive and they should treat it as non-exhaustive “checklists” to support policy design rather than as “models”. The checklists include references to the most relevant components of the Toolkit that provide further detailed guidance in respect of the relevant checklist item.

Checklist 1: Designing a policy framework, legislation and administration for international supplies of services and intangibles

Key to abbreviations in the legislative checklist:

Law (P) = Primary law

Law (S) = Secondary law

Admin = Administrative processes, infrastructure and guidance

☑ = Would generally be used as primary source to regulate the relevant issue

COMPONENTS OF VAT LEGISLATION / ADMINISTRATION AND GUIDANCE	Law (P)	Law (S)	Admin	Main Toolkit references
ESTABLISHING THE RIGHT TO IMPOSE VAT: PLACE-OF-TAXATION RULE				
Where a jurisdiction's VAT regime distinguishes between B2B and B2C supplies: **B2C supplies: place-of-taxation rule by reference to the consumer's usual residence** • Such a rule explicitly or implicitly establishes the jurisdiction's right to impose VAT on supplies of services and intangibles to final consumers (B2C supplies) that have their usual residence in that jurisdiction. • This rule could generally apply to all types of supplies of services and intangibles other than "on-the-spot" supplies, i.e. the rule can apply to all supplies that can normally be supplied remotely. • The location of the supplier is in principle not relevant for determining the jurisdiction's right to impose VAT on these supplies. The jurisdiction's right to impose VAT on these B2C supplies is determined only by reference to the consumer's usual residence. The location of the supplier is important mainly for determining the mechanism to collect the VAT on these B2C	☑	-	-	**Subsection** 2.1 (page 56)

COMPONENTS OF VAT LEGISLATION / ADMINISTRATION AND GUIDANCE	Law (P)	Law (S)	Admin	Main Toolkit references
supplies of services and intangibles. Where the supplier is not located in the jurisdiction of taxation, this Toolkit recommends the application of a simplified registration and collection regime (“simplified compliance regime” for short) for collecting the VAT on B2C supplies of services and intangibles.				
Defining “consumer” and “usual residence”				
• By way of example, for the application of this place-of-taxation rule, “usual residence” could be defined by reference to a definition that the jurisdiction typically uses to determine residence across taxes (e.g. for personal income tax) or possibly also definitions that the jurisdiction uses in other areas of public administration, and a “consumer” as: ○ A person or entity that is not a business registered for VAT; or ○ A business that is registered for VAT but is not making a purchase connected to its business activity (e.g. the purchase is fully for the personal use of the business owner or management); or ○ A VAT-registered business that only makes VAT-exempt supplies. Note that this may be challenging to apply in practice: a jurisdiction may wish to limit the scope of this criterion to business categories with a high-risk profile.				**Subsection** 2.1.3 (page 61)
B2B supplies: place-of-taxation rule by reference to the customer location				**Subsection** 2.1.4 (page 68)
• Standard guidance is to establish a jurisdiction’s right to impose VAT on B2B supplies of services and intangibles by reference to the customer location (i.e. the place where the customer has located its permanent business presence). • If a customer has establishments in more than one jurisdiction (“multiple location entity” or “MLE”), the taxing rights are assigned to the jurisdiction(s) where the establishment(s) using the service or intangible is (are) located. Three approaches are available for determining that establishment of an MLE: (i) direct use; (ii) direct delivery and (iii) recharge method (see subsection 2.1.4 for further detail).				
Where a jurisdiction’s VAT regime does not distinguish between B2B and B2C supplies:				
• That jurisdiction may wish to implement a place-of-taxation rule for supplies of services and intangibles principally by reference to the “location of the customer”. The jurisdiction could then define the “location of the customer” (in primary or secondary legislation) as the “consumer’s usual residence” where the customer is a private individual and as the “place of permanent business presence or establishment” where the customer is a business.				

COMPONENTS OF VAT LEGISLATION / ADMINISTRATION AND GUIDANCE	Law (P)	Law (S)	Admin	Main Toolkit references
Ensuring the VAT-free treatment of “outbound” supplies • The jurisdiction that implements a place-of-taxation rule by reference to the consumer’s usual residence must ensure that supplies to a consumer that has its usual residence outside this jurisdiction are relieved of any VAT. This is normally achieved by treating such a supply as not taxable, “zero-rated” or “free of VAT”, with a right to input VAT recovery for the supplier. Such treatment is crucial to avoid double taxation and competitive disadvantage for exporters from VAT in the exporting jurisdiction increasing the price of their exports.				
DEFINITIONS AND SPECIAL PROVISIONS TO SUPPORT THE PLACE-OF-TAXATION RULE				
Criteria and indicia for determining the consumer’s usual residence • It is advised to provide clear and easily identifiable indicia for determining a consumer’s usual residence, in secondary legislation and administrative guidance. • These criteria could include information that is normally provided by customers to their suppliers or to digital platforms facilitating the supply, such as: ○ The customer’s billing address; ○ The customer’s bank details, such as the location of the bank account used for payment; ○ The customer’s credit card information, including the credit card Bank Identification Number (BIN). • Jurisdictions may require that those criteria for determining of the consumer’s usual residence be further supported by appropriate indicia of residence, which may include: ○ The contact telephone number; ○ Location of the customer telephone landline through which a service is supplied; ○ The Internet Protocol (IP) address of the device used to make the online purchase or to download digital content; ○ Mobile Country Code (MCC) of the International Mobile Subscriber Identity (IMSI) stored on the Subscriber Identity Module (SIM) card used where a customer orders by mobile phone;	-	☑	☑	**Subsection** 2.1.3.1 (page 61)

COMPONENTS OF VAT LEGISLATION / ADMINISTRATION AND GUIDANCE	Law (P)	Law (S)	Admin	Main Toolkit references
○ The customer's trading history, which could include information on the predominant place of consumption, language of digital content supplied, or other commercially relevant information, such as a loyalty card or subscription numbers. • It is advised to provide clear guidance for suppliers and digital platforms on what is required to evidence the determination of the place of usual residence of their customers. This could include: ○ Requiring that the supplier or digital platform evidence its determination of the place of taxation on the basis of two non-contradictory, pieces of information/indicia. Note, however, that emerging international practice often considers one piece of information sufficient, especially for lower-value transactions or supplies by small businesses. ○ Providing certainty that compliant businesses that have made reasonable efforts to determine and evidence their consumers' usual residence, should in principle expect challenges only in case of abuse ("safe harbour").				
Clarifying the scope of the supplies of services and intangibles for which the place of taxation is determined by reference to the customer's location: • It is assumed that the jurisdiction's VAT rules already include a general definition of what constitutes a supply of a service or intangible. Some jurisdictions express the basic concept of services and intangibles in their rules through a "negative" definition that articulates what they are not. For example, defining services and intangibles as "anything other than goods, and real or immovable property". • If a jurisdiction opts for a broad approach, it could indicate that the place of taxation is determined by reference to the consumer's usual residence (B2C only) or to the customer location (B2B, or B2B as well as B2C where a jurisdiction does not distinguish between both) for all services and intangibles as defined in the VAT law. The jurisdiction may wish to complement this with exceptions for the supplies it wishes to exclude, for instance: ○ "On-the-spot" supplies, i.e. services that are physically supplied and consumed at the same location such as services that are physically performed on the person (e.g. hairdressing, massage, beauty therapy, physiotherapy); restaurant and catering services, entry to cinema, etc. The place of taxation for these services is typically determined by reference to the place of performance or the supplier's location. ○ Supplies of services connected with immovable or movable property (for which the place of taxation may be determined by reference to the location of the property).	☑	☑	☑	**Subsection** 2.2.2.4 (page 85) **Subsections** 2.1.3.2 and 2.1.5.2 (pages 67 and 70)

COMPONENTS OF VAT LEGISLATION / ADMINISTRATION AND GUIDANCE	Law (P)	Law (S)	Admin	Main Toolkit references
• If a jurisdiction wishes to apply a targeted approach for determining the place of taxation of services and intangibles by reference to the customer's location, then its VAT law should provide a legal basis upon which suppliers or digital platforms can determine whether a category of services or intangibles is in scope of this place-of-taxation rule. ○ In practice, this may mean that the primary law delegates authority for the tax authority to issue secondary legislation or guidance setting out in detail for which supplies the place of taxation is determined by reference to the customer's location. ○ Tax authorities in jurisdictions that adopt this approach typically use such a delegation to produce guidance setting out the broad principles for determining the scope of the place-of-taxation rule by reference to the customer's location, and complement this with an extensive list indicating the categories of services and intangibles for which the place-of-taxation rule applies and potentially also a negative list indicating categories of services and intangibles for which the place-of-taxation rule does not apply. ○ A jurisdiction may for instance wish to apply this place-of-taxation rule only to a defined subset of "digital" or "electronic" services and "digital products". They must then carefully define these types or categories of services and intangibles, possibly complemented with a non-exhaustive list of services and intangibles. The disadvantage of this approach is that it will require a continuous updating of definitions and the lists of services and intangibles that are in scope to reflect the continuous and rapid evolution of digital trade.				
VAT LIABILITY – REGISTRATION AND COLLECTION MECHANISM				
Simplified VAT registration and collection regime for non-resident suppliers and digital platforms • A jurisdiction's primary VAT legislation will normally make it clear that a business has an obligation to register for VAT when it makes supplies that are subject to VAT in that jurisdiction, subject to specific conditions (incl. a possible VAT registration threshold). • This Toolkit recommends that jurisdictions implement a simplified registration and collection regime (simplified compliance regime) for non-resident suppliers of services and intangibles to final consumers that have their usual residence in the taxing jurisdiction, and for digital platforms that facilitate these supplies, i.e.B2C supplies. Such a simplified compliance regime limits the associated compliance obligations to what is strictly necessary for the effective collection of the VAT on these supplies. It is recommended that primary legislation set out the scope and key elements of such a simplified compliance regime. Jurisdictions	☑	☑	☑	**Policy** **Subsection** 2.2 (page 70)

COMPONENTS OF VAT LEGISLATION / ADMINISTRATION AND GUIDANCE	Law (P)	Law (S)	Admin	Main Toolkit references
could achieve this through supporting provisions to the main existing provisions on standard registration and liability for the tax. Key elements and information include: ○ Defining the scope of the simplified compliance regime. Jurisdictions may for instance wish to apply the simplified compliance regime exclusively to supplies by non-resident businesses of services and intangibles for which the place of taxation is determined by reference to the consumer's usual residence. Alternatively, jurisdictions may wish to extend the scope of the regime (perhaps progressively) to a wider range of supplies of services and intangibles by non-resident suppliers and digital platforms. ○ Jurisdictions may wish to limit the application of the simplified compliance regime to suppliers that are not established in the jurisdiction of taxation nor have any other physical presence in that jurisdiction. This excludes, for instance, a supplier that makes supplies through a business that it carries on within the jurisdiction. Such a supplier could be subject to the normal VAT registration and collection regime. ○ It is recognised that a jurisdiction may wish to extend the scope of the simplified compliance regime beyond supplies to final consumers (B2C), for instance to supplies to businesses located in that jurisdiction if the jurisdiction's VAT regime does not distinguish between B2C and B2B supplies. This "all in" approach would reduce certain elements of the administrative compliance burden for non-resident suppliers, notably the need for determining the customer status. However, at the same time, to safeguard neutrality, it is important that VAT-registered business customers be granted an input VAT deduction under the same rules and conditions as if they acquired the service or intangible from a resident supplier. This will need to be complemented with appropriate safeguards to minimise risks of revenue losses from business customers claiming deduction of the VAT incurred on their purchases from non-resident suppliers that is not remitted by these suppliers to the tax authorities. Note: Jurisdictions are advised to anticipate the potential later extension of the simplified compliance regime to supplies of low-value imported goods by non-resident suppliers, when designing the simplified compliance regime for supplies of services and intangibles (see Checklist 2).				**Administration** **Subsection** 5.2 (page 182) **Operational and IT infrastructure** **Subsection** 5.3 (page 222)
Establishing the main features of the simplified VAT registration and collection regime • This could simply include reference to supporting legislation and guidance, which outlines the key features and operation if the primary legislation does not do so in detail. Core components of this guidance include the following (see Checklist 3 for further detail):				**Subsections** 2.2.2.2 and 2.2.2.3 (pages 81 and 83)

COMPONENTS OF VAT LEGISLATION / ADMINISTRATION AND GUIDANCE	Law (P)	Law (S)	Admin	Main Toolkit references
○ Registration procedure, including the elements of the online registration application, information requested for registration, and documentation. ○ Invoicing, including the possible simplification or elimination of invoicing requirements for B2C supplies of services and intangibles. Checklist 3 provides detailed considerations for jurisdictions that adopt an approach whereby, a simplified compliance regime applies to both B2B and B2C supplies. ○ Return procedures, including potential simplifications regarding format and content, and possibility to file electronically. ○ Payments, including accepted payment methods. ○ Record-keeping. ○ Input tax recovery/refunds, including whether non-resident suppliers that register under the simplified compliance regime have the right to deduction and/or refund of any VAT incurred in the jurisdiction of taxation under that regime. ○ Possibility for standard VAT registration. • Jurisdictions may need to further include cross-references to additional legislation, such as legislation that establishes criteria for registration forms that the tax authority can issue, and to guidance that specifies the format and information requirements of these forms.				
If the simplified compliance regime is applied only to B2C supplies: How should suppliers and digital platforms determine their customers' status (business or private consumer)? • Jurisdictions typically allow suppliers and digital platforms to rely on one or more indicia to establish their customer's status. Such indicia that are widely used include the following: ○ An identification number, such as a VAT registration number or a business tax identification number indicating the business identity and registration of the customer; ○ A certificate issued by the customer's competent tax authority, which indicates the business identity and registration of the customer; ○ Information available in commercial registers;	☑	☑	☑	**Policy** **Subsection** 2.2.1 (page 72) **Administration** **Subsection** 5.1.5.1 (page 181)

COMPONENTS OF VAT LEGISLATION / ADMINISTRATION AND GUIDANCE	Law (P)	Law (S)	Admin	Main Toolkit references
○ Commercial indicia, such as the nature of the supply, the value of the supply, the customer's trading history with the supplier or digital platform, and digital certificates, which separately or collectively may indicate whether the customer is a business or a private consumer. • Where a supplier or digital platform acting in good faith and having made reasonable efforts, is not able to obtain the appropriate documentation to establish the status of its customer, this could lead to a presumption that this is a private consumer (i.e. a non-business customer).				
Assessing whether a supplier's revenue exceeds the VAT registration threshold • Several jurisdictions have adopted registration thresholds in connection with VAT obligations as a means to minimise the risk of disproportionate administrative and compliance costs for businesses (notably small and micro businesses) and tax authorities. A jurisdiction may wish to consider implementing a registration threshold for non-resident suppliers and digital platforms under the simplified registration and collection regime set at the same level as for domestic suppliers. • Jurisdictions that decide to implement a registration threshold for non-resident suppliers and digital platforms under the simplified registration and collection regime may consider excluding supplies that would generate no net VAT revenues from the calculation of the threshold, such as VAT-exempt or zero-rated supplies and B2B supplies that are subject to a reverse charge regime in the jurisdiction of taxation.	☑	☑	☑	**Policy** **Subsection** 2.2.2.5 (page 90) **Administration** **Subsection** 5.2.1.2 (page 185)
VAT reduced-rated (including zero-rated) and exempt supplies of services and intangibles • Where transactions in scope of a simplified compliance regime can be subject to special VAT treatments (e.g. reduced VAT rates or exemptions), the VAT return and reporting process under this regime should be designed to allow disaggregated reporting for each of the applicable VAT rates or special treatments. Jurisdictions will have to decide whether they require registration under the simplified compliance regime for non-resident businesses that exclusively make exempt supplies and whether they require registrants that make taxable as well as exempt supplies to report these exempt supplies under the simplified compliance regime. • A jurisdiction may need to review whether its existing VAT rules provide for preferential treatment of supplies, such as exemptions and reduced rates, which are subject to conditions that may not be obtainable for non-resident suppliers (e.g. regulatory approvals for certain educational, health or financial supplies).	☑	☑	☑	**Subsection** 5.2.9.2 (page 204)

COMPONENTS OF VAT LEGISLATION / ADMINISTRATION AND GUIDANCE	Law (P)	Law (S)	Admin	Main Toolkit references
○ Where this is the case, the jurisdiction may wish to exclude such types of supplies from the simplified compliance regime, and thus apply the standard registration and collection rules. Alternatively, it may consider delegating authority to the tax authorities to permit, at their discretion, non-resident businesses to make certain supplies on an equivalent preferential basis (e.g. exempt or apply a reduced rate under the simplified registration and collection regime). **Other special schemes, including special margin schemes** • Jurisdictions should consider whether any special margin schemes, such as for gambling or travel related services, should be brought into the scope of a simplified compliance regime.				
Rules on tax agents • Compliance for non-resident suppliers and digital platforms could be further facilitated by allowing such suppliers or digital platforms to appoint a third-party service provider to act on their behalf in carrying out certain procedures, such as submitting returns. On the other hand, it is not recommended that jurisdictions impose a requirement for a local fiscal representative under a simplified compliance regime. • Jurisdictions that have implemented a requirement for non-resident suppliers or digital platforms to appoint a tax agent (or a fiscal representative) to comply with their VAT obligations in that jurisdiction could amend these provisions to abolish the requirement for such a tax agent for non-resident suppliers and digital platforms that have registered under the simplified compliance regime, or to make such appointment optional under the simplified compliance regime.	☑	☑	-	**Subsection** 2.2.2.6 (page 91)
Establishing a full VAT liability regime for digital platforms • Jurisdictions that follow the recommendation to implement a full VAT liability regime for digital platform operators are advised to introduce appropriate provisions in their legislation setting out the circumstances in which an entity that meets the definition of a digital platform is fully liable for collecting and accounting for the VAT on supplies of services and intangibles carried out by underlying suppliers through their platform. • A jurisdiction could characterise a digital platform, for instance, as an entity providing a service (a "website", "Internet portal", "gateway", "online store" or "marketplace") that: ○ Enables entities to make supplies to consumers through the platform; and	☑	☑	☑	**Policy** **Subsection** 2.3.3 (page 95) **Administration** **Subsection** 5.2 (page 182)

COMPONENTS OF VAT LEGISLATION / ADMINISTRATION AND GUIDANCE	Law (P)	Law (S)	Admin	Main Toolkit references

  - Delivers its service by means of electronic communication. This may require a definition of "electronic communication" or a reference to the relevant definition in another area of law.
- Full VAT liability provisions should set out the criteria for determining whether digital platforms perform sufficient critical functions to assume such liability. These critical functions typically include at least one of the following:
  - Controlling the terms and conditions of the underlying transactions (e.g. price, payment terms, delivery conditions) and imposing these on participants in the supply (buyers, sellers, transporters).
  - Involvement in the authorisation and processing of payments (either directly or indirectly through arrangements with third parties, including collection of payments from customers and transmission of payments to sellers).
  - Involvement in the delivery process or in the fulfilment of the supply (including influence over the conditions of delivery; transmission of approval to suppliers).
- Jurisdictions are advised to identify the platforms that are in principle excluded from the full liability regime because they do not perform sufficient critical functions to assume full VAT liability. This is for instance the case for platforms that perform only the following functions:
  - A telecommunications service (the only purpose of the service being to provide carriage of electronic communications); or
  - Data storage; or
  - A service consisting of one or more of the following:
    - Providing access to a payment system;
    - Processing payments;
    - Providing multiple-purpose vouchers (noting that VAT will in principle apply upon the redemption of these types of vouchers).
- The full VAT liability regime must clearly identify the scope of the supplies for which the qualifying digital platforms will have full VAT liability, in particular:
  - Whether the regime applies to all supplies of services and intangibles carried out over such platforms (plus, potentially, supplies of goods; see Checklist 2) or only to a subset of services and intangibles (for instance the supplies of services and intangibles for which the place of taxation is determined by reference to the customer's usual residence).

COMPONENTS OF VAT LEGISLATION / ADMINISTRATION AND GUIDANCE	Law (P)	Law (S)	Admin	Main Toolkit references
○ Whether the regime applies only to supplies by non-resident underlying suppliers or to all supplies that are within the scope of the regime regardless of the location of the underlying supplier. • This provision could be complemented with an option for platforms and intermediaries that do not meet the conditions for full VAT liability to voluntarily take on such full VAT liability for the supplies made by underlying suppliers through their platform. • Under a full VAT liability regime, the digital platform is treated as the supplier for VAT purposes in respect of the supplies that it facilitates for the underlying suppliers. The digital platform should thus register under the simplified compliance regime and generally comply with its obligations under this regime as if it were itself the supplier in respect of the supplies for which it has VAT liability under the full liability regime (subject to specific requirements e.g. in respect of reporting of the supplies for which the platform has full liability). • Note: Jurisdictions should consider the potential later extension of the full VAT liability regime for digital platforms to supplies of low-value imported goods, when designing such a regime (see Checklist 2 below).				
Consequential amendments to primary VAT laws, where certain definitions, special rules and schedules permit divergence from these laws • Where appropriate, jurisdictions should review their existing body of VAT laws to ensure that any exceptions to these provisions under the simplified registration and collection regime and under the full liability regime for digital platforms are properly reflected in primary law.	☑	☑	-	Entry for checklist purposes only

Checklist 2: Designing a policy framework, legislation and administration for imports of low-value goods – Extending the vendor collection regime to supplies of low-value imported goods by non-resident businesses

<u>Key to abbreviations in the legislative checklist</u>:

Law (P) = Primary law

Law (S) = Secondary law

Admin = Administrative processes, infrastructure and guidance

☑ = Would generally be used as primary source to regulate the relevant issue

COMPONENTS OF VAT LEGISLATION / ADMINISTRATION AND GUIDANCE	Law (P)	Law (S)	Admin	Main Toolkit references
REFORMING PRIMARY LEGISLATION TO TRANSFER THE RESPONSIBILITY TO COLLECT VAT ON LOW-VALUE IMPORTS				
Reforming primary legislation for VAT and for customs processes to transfer VAT collection responsibilities for low-value imported goods to non-resident suppliers and digital platforms • This checklist concentrates exclusively on the design of an effective solution for jurisdictions to consider in addressing the challenge of collecting VAT on the rising volume of imports of low-value goods sold by non-resident suppliers to final consumers as a consequence of digital trade growth. In short, this solution consists of: ○ Extending the vendor collection regime for online supplies of services and intangibles to also cover supplies of low-value imported goods, i.e. making the supplier ("vendor") of these goods or the digital platform that intervenes in the supply, liable for collecting the VAT at the point of sale and remitting it to the jurisdiction of importation. ○ Relieving customs authorities from the task of collecting VAT on imports of the low-value goods that are subject to the vendor collection obligation for non-resident suppliers and digital platforms.	☑	-	-	**Subsection** 3.2.2 (page 120)

COMPONENTS OF VAT LEGISLATION / ADMINISTRATION AND GUIDANCE	Law (P)	Law (S)	Admin	Main Toolkit references
• This vendor collection solution focuses on the importation of low-value goods that are sold online to final consumers (B2C supplies) by non-resident businesses as this is the area that creates the main administrative challenges and revenue risks. ○ Many jurisdictions have implemented VAT simplification measures for commercial (B2B) importation of goods, which help to minimise cash-flow disruption and administrative burdens with respect to B2B transactions. These usually include some form of "postponed accounting" for VAT. ○ Some jurisdictions' VAT frameworks do not distinction between B2B and B2C supplies or do not offer VAT simplification measures for commercial (B2B) importation of goods. Such jurisdictions could consider including both B2B and B2C imports within the scope of their vendor collection regime for low-value imported goods. • To achieve the outcome outlined above, jurisdictions will need to revise their existing primary VAT and customs legislation to: ○ Relieve customs authorities of the obligation to act as the principal collector of VAT on imports of low-value goods as defined by law. ○ Impose registration and collection obligations on non-resident businesses that supply the imported low-value goods to final consumers in the jurisdiction of importation and on digital platforms that facilitate such supplies. It is recommended to extend the simplified registration and collection regime, for supplies of services and intangibles by non-resident suppliers and digital platforms, as described above to facilitate the collection of VAT on imports of low-value goods from non-resident suppliers and digital platforms. • Primary legislation will generally need to refer to supporting legislation to define the scope of the regime and its various operational features. • These laws will essentially need to establish that a supplier, or digital platform as defined by law, will be liable for the VAT due on the imported goods or consignments that meet the following main criteria: ○ Individually have a customs value that is equal to or less than the relevant threshold (usually customs duty relief threshold). ○ Are for delivery to an address in the jurisdiction of importation. ○ Are sold to a final consumer (B2C), in the case of regimes that only apply to B2C supplies. ○ Are outside the jurisdiction of importation at the point of sale (note that a possible expansion to include goods sold by a non-resident business but delivered through a "fulfilment house" in the jurisdiction of taxation is discussed below).				

COMPONENTS OF VAT LEGISLATION / ADMINISTRATION AND GUIDANCE	Law (P)	Law (S)	Admin	Main Toolkit references
• The core elements to consider are outlined in the following sections of this checklist.				
DESIGNING A VENDOR COLLECTION REGIME TO COLLECT VAT ON SUPPLIES OF LOW-VALUE IMPORTED GOODS FROM NON-RESIDENT SUPPLIERS AND DIGITAL PLATFORMS				
Defining the low-value goods within the scope of the regime • The solution described in this checklist is aimed at securing the collection of VAT on the importation of low-value goods sold to final consumers by non-resident businesses. It transfers the obligation to collect and remit the VAT on the low-value imported goods as defined above to the non-resident supplier of the goods or to a digital platform (or another intermediary such as a "redeliverer") as described below. The central elements in defining the scope of the regime are thus the customer status of the purchaser (final consumer) and the value of the imported goods by reference to the customs value (low-value): ○ To define the customer status, the same approach can be applied as set out in the checklist for services and intangibles. ○ As regards the value of the imported goods, jurisdictions are advised to apply the vendor collection regime for the imports of goods sold by non-resident suppliers with a customs value that is equivalent to or below the customs duty low-value relief threshold in the jurisdiction of importation. This approach facilitates alignment between VAT and customs laws for determining whether goods are low value and thus subject to vendor collection obligation for the non-resident supplier or the digital platform. This enhances certainty and limits the potential for double taxation or non-taxation. Cross-references to primary laws for customs may be helpful. • The jurisdiction should specify which types of goods are out of scope of the VAT vendor collection obligation, including: ○ Goods with a value above the applicable customs duty low-value consignment relief threshold; ○ Goods subject to excise or equivalent duties like hydrocarbons, alcohol, tobacco, perfume, etc.; ○ Imports of non-commercial goods, including imports of own goods, gifts. • Secondary legislation or technical guidance should clarify the treatment of low-value imported goods that form part of a single consignment containing multiple low-value goods, which collectively exceed the customs duty relief threshold. Similarly, legislation and guidance should cover the treatment of single consignments containing a mixture of low-value and high-value goods. In both cases, jurisdictions may need to update customs laws and processes. • Secondary legislation and guidance should set out rules for currency conversion to calculate the value of goods in the currency of the jurisdiction of importation so as to determine whether or not a non-resident supplier or digital platform has the obligation to	☑	☑	☑	**Subsection** 3.2.2.5 (page 127)

COMPONENTS OF VAT LEGISLATION / ADMINISTRATION AND GUIDANCE	Law (P)	Law (S)	Admin	Main Toolkit references
collect and remit the VAT in the jurisdiction of importation (i.e. whether or not the applicable customs duty low-value relief threshold has been exceeded) and to determine the VAT due. • The commercial (B2B) importation of low-value goods is generally not within the scope of the vendor collection regime for non-resident suppliers and digital platforms. Secondary legislation and administrative guidance should therefore cross-reference relevant legislation setting out the obligations for suppliers, digital platforms and customers in respect of the commercial importation of low-value goods. It is, however, recognised that a jurisdiction may wish to consider expanding the scope of the vendor collection regime to include both B2B and B2C imports. Please see earlier subsection of this checklist on “Reforming primary legislation for VAT and customs…”				
Determining the taxing point (time of supply) at the point of sale • Transferring the liability for the VAT on low-value imported goods to the non-resident supplier or digital platform in principle requires that the VAT be collected at the point of sale of these goods. The VAT-liable supplier or digital platform will then be required to remit the VAT collected at the point of sale of these goods, to the tax authorities in the jurisdiction where they are imported, via a simplified registration and collection regime. • To make this treatment possible, jurisdictions are recommended to introduce the necessary provision(s) in their VAT rules, which determine the taxing point (the time of supply) for low-value imported goods that are subject to the vendor collection regime as being at the point of sale of these goods. A practical approach applied by many jurisdictions is to define the taxing point (time of supply) as the time at which the payment for the sale of these goods has been accepted or authorised by the supplier or by the digital platform that has full VAT liability.	☑	☑	☑	**Subsection** 3.2.2.9 (page 140)
Establishing the hierarchy of VAT liability when digital platforms and other intermediaries are involved • Most jurisdictions that implement a vendor collection regime impose the obligation to collect and remit the VAT on low-value imported goods on the digital platform that intervenes in the supply of these goods to final consumers in the jurisdiction of importation. These digital platforms are relieved of such obligation only in specific circumstances described by law, for instance, if all of the following circumstances are met: ○ The digital platform does not authorise the billing and the delivery of the supply, and does not directly or indirectly determine any of the terms and conditions under which the underlying supplier makes the supply; and	☑	☑	☑	**Subsection** 3.3.2.2 (page 146)

COMPONENTS OF VAT LEGISLATION / ADMINISTRATION AND GUIDANCE	Law (P)	Law (S)	Admin	Main Toolkit references
○ The documentation provided to the customer identifies the supplier as the entity making the supply, not the digital platform; and ○ The supplier and the platform have agreed that the supplier shall be liable for VAT. • Certain regimes assign VAT liability for the low-value imported goods to "redeliverer" businesses if neither the underlying supplier nor any digital platform or any other party acting on behalf of the suppliers (e.g. a transporter) transports or assists in transporting the goods to the customer's jurisdiction. Redeliverers are typically appointed by a customer to assist in buying, accepting and/or transporting the good. If either the underlying supplier or a digital platform transports or assists in transporting the goods to the customer's jurisdiction, then one of these entities will be made VAT-liable. • The hierarchy of entities responsible for the collection of VAT on low-value imported goods supplied to final consumers in the jurisdiction of importation is then as follows: 1. The digital platform that facilitates the supply; 2. The (underlying) supplier; 3. The redeliverer.				

COMPONENTS OF VAT LEGISLATION / ADMINISTRATION AND GUIDANCE	Law (P)	Law (S)	Admin	Main Toolkit references
Reforming VAT low-value consignment relief • The introduction of the vendor collection regime for low-value imported goods gives a jurisdiction the opportunity to reform its existing low-value relief regime for VAT and potentially for customs duties, if any, at the time of the introduction of the vendor collection regime or progressively thereafter. If jurisdictions do choose to amend their existing thresholds, this may notably require changes to customs legislation, potentially both primary and secondary. • Section 3 provides detailed guidance to jurisdictions on different design considerations and approaches in reforming their VAT low-value relief regime.	☑	☑	-	**Subsection** 3.2.2 and 3.2.2.5.(i) (pages 120 and 127)
Key specific changes to customs laws in respect of the collection of VAT by customs authorities • Jurisdictions may need to introduce rules permitting customs authorities to waive the import VAT on imports of low-value goods for which VAT liability has been transferred to non-resident suppliers or digital platforms. The jurisdiction will need to decide whether such authority should be given: ○ For all imports of low-value goods for which VAT liability has been transferred to the non-resident suppliers or digital platforms, or ○ Only for those consignments where customs authorities can validate that VAT is collected by the supplier or the digital platform at the point of sale. Section 3.2.2.7 provides in-depth analysis on the policy choices for jurisdiction in this context. • Customs legislation and guidance might also specify how customs authorities should treat more complex consignments, mirroring VAT legislation and guidance for non-resident suppliers and digital platforms. These more complex cases include multiple low-value goods in a single consignment that collectively exceeds the customs duty relief threshold or a consignment containing a mixture of low-value and high-value goods. ○ Jurisdictions may decide that such complex consignments are excluded from the application of the vendor collection regime and that VAT on the importation of these consignments may continue to be collected by the customs authorities.	☑	☑	☑	**Subsections** 3.2.2 5.2.10 et seq. (pages 120, 207 et seq.)

COMPONENTS OF VAT LEGISLATION / ADMINISTRATION AND GUIDANCE	Law (P)	Law (S)	Admin	Main Toolkit references
Customs reporting requirements • Jurisdictions will need to introduce provisions in customs legislation prescribing the information that must be provided to customs authorities in advance of, or at the time of, importation by or on behalf of suppliers or digital platforms under the vendor collection regime (see Checklist 3 for more details).	☑	☑	☑	**Subsection** 5.2.11 (page 212) Annex D (page 381)
Expanding the scope of the vendor collection regime to include supplies of low-value imported goods by resident suppliers and digital platforms • The application of the vendor collection regime for supplies of low-value imported goods to resident suppliers can provide similar benefits as it does with respect non-resident ones, especially in terms of VAT revenue and efficiency of VAT collection. Extending the application of the vendor collection regime to resident suppliers can notably facilitate compliance for digital platforms and for customs authorities by removing the need to verify the residence status of the supplier of low-value imported goods to determine whether a supply is within the scope of the vendor collection obligation. It provides a level playing field between resident and non-resident businesses and reduces possibilities to circumvent the VAT collection regime. • Contrary to non-resident suppliers, resident businesses can declare and remit VAT under the standard VAT registration for their supplies of low-value imported goods. They therefore need not necessarily have access to the simplified compliance regime to comply with vendor collection obligations for their direct supplies (i.e. the supplies that they do not make via a digital platform).	☑	-	-	**Subsection** 3.2.2.8 (page 139)
Expanding the scope of the platform full VAT liability regime to address the “fulfilment house” model • Non-resident online suppliers of goods are increasingly using a form of warehousing facility in the jurisdictions where their customers are located, where goods are stored in bulk so that they are available for rapid delivery to customers once they are sold. Such goods are thus already in the jurisdiction of the final consumer when sold by the non-resident supplier. Some non-resident suppliers have attempted to use this structure to evade VAT on their sales in the customer’s jurisdiction.	☑	☑	☑	**Subsection** 3.3.2.3 (page 147)

COMPONENTS OF VAT LEGISLATION / ADMINISTRATION AND GUIDANCE	Law (P)	Law (S)	Admin	Main Toolkit references
• To address this problem, a jurisdiction can explicitly expand the legal basis of its full VAT liability regime for digital platforms to include all supplies by non-resident suppliers to customers within that jurisdiction facilitated by these platforms, and not just to imported goods.				

Checklist 3: Implementing a simplified registration and collection regime and the supporting IT infrastructure

Key to abbreviations in the legislative checklist:

Law = Primary and secondary law

Admin = Administrative processes, infrastructure and guidance

IT = Operational and IT infrastructure

Comms = Communications strategies and activity

COMPONENTS OF POLICY AND ADMINISTRATION FRAMEWORK OR STRATEGY	Law	Admin	IT	Comms	Main Toolkit references
ESTABLISHING A ROADMAP FOR THE IMPLEMENTATION OF THE RECOMMENDED POLICY FRAMEWORK FOR VAT COLLECTION ON DIGITAL TRADE					
Establishing a robust project governance and project management structure for implementing the recommended policy framework for VAT collection on digital trade • Implementing the policy framework for VAT collection on digital trade as recommended in this Toolkit is a significant undertaking that requires robust project governance and project management based on a detailed and realistic planning of the approach for undertaking all the main elements of policy design and implementation ("roadmap"). It is recommended that the simplified registration and collection regime for non-resident suppliers and digital platforms be developed in conjunction with, rather than after or in isolation from, the design and enactment of key legislation. • The main elements of a roadmap for implementation of the recommended policy framework are set out in Figure 5.1 (subsection 5.1.1.1).	-	☑	-	-	**Subsection** 5.1 (page 168)
Sequencing reform and realistic timeframes • Jurisdictions that have implemented the recommended policy framework have done so in a sequenced manner, i.e. they started with supplies of services and intangibles by non-resident suppliers and later extended it to the more complex area of low-value imported goods.	☑	☑	☑	☑	**Subsections** 5.1.1.2 and 5.1.1.3 (pages 173 and 173)

COMPONENTS OF POLICY AND ADMINISTRATION FRAMEWORK OR STRATEGY	Law	Admin	IT	Comms	Main Toolkit references
• Having an appropriate lead-time for the introduction or the extension (e.g. to low-value imported goods) of a simplified registration and collection regime for non-resident suppliers and digital platforms is important for both tax (and customs) authorities and non-resident businesses. A lead-time of 6-12 months between adoption of the reform and entry into force is considered appropriate for VAT reform directed at international sales of services and intangibles. A lead-time of 12-18 months is generally considered appropriate for VAT reform targeted at low-value imported goods.					
Consultation • From the policy development phase onwards, tax policymakers and administrators may greatly benefit from consulting with affected businesses, international and regional multilateral organisations, and jurisdictions with experience in the implementation and administration of the recommended policy framework, to seek their input and assistance.	-	☑	☑	☑	**Subsections** 5.1.3 and 5.1.4 (pages 178 and 180)
DESIGNING AND IMPLEMENTING A SIMPLIFIED VAT REGISTRATION AND COLLECTION ("SIMPLIFIED COMPLIANCE") REGIME					
Simplified VAT registration and collection regime for non-resident suppliers and digital platforms • It is recommended that jurisdictions implement a simplified compliance regime for: ○ Non-resident suppliers to comply with their obligation to collect and remit the VAT on their supplies of services and intangibles to final consumers that have their usual residence in the taxing jurisdiction; ○ Digital platforms to comply with their obligation to collect and remit the VAT on such supplies of services and intangibles under the taxing jurisdiction's full VAT liability regime for digital platforms. Note: Where a jurisdiction's VAT regime does not distinguish between B2B and B2C supplies, a jurisdiction may wish to consider expanding the scope of a simplified compliance regime to include both B2B and B2C supplies. See also Checklist 2 for policy design considerations for such "all in" regimes. • It is further recommended that the scope of the simplified compliance regime be subsequently extended to collect the VAT on low-value imported goods from non-resident suppliers and digital platforms. A simplified compliance regime limits the associated compliance obligations to what is strictly necessary for the effective collection of the VAT on these supplies and is supported by an online portal. • Where a non-resident supplier or digital platform is allowed to choose between registering under the standard VAT regime and under a simplified compliance regime, the VAT rules will need to clarify the following aspects:	☑	☑	☑	☑	**Subsection** 5.2 (page 182)

COMPONENTS OF POLICY AND ADMINISTRATION FRAMEWORK OR STRATEGY	Law	Admin	IT	Comms	Main Toolkit references
○ How a supplier or digital platform can determine its eligibility to register and elect to register for the standard regime or for the simplified regime. ○ When an election takes effect, and the date of effect of any cancellation. ○ The process by which a registrant may revoke an election or by which the tax authority can initiate revocation of the registration.					
Simplified registration via online portal • It is recommended that online registration be made available for non-resident suppliers and digital platforms under a simplified compliance regime. It is also recommended to limit the registration process under a simplified compliance regime to the information that is functionally necessary to ensure the proper collection of the VAT from non-resident suppliers and digital platforms. Such information elements could include: ○ The name of the business; ○ The trading name of the business; ○ Postal and/or registered address of the business and its contact person(s). Even where registration is electronic, a physical mailing address is useful in the event of a system outage; ○ The VAT or tax identification number (TIN) of the business in its jurisdiction of establishment, where applicable; ○ Names of responsible contact persons, including the title of the authorised person (e.g. "Indirect Tax Manager") to support continuity in case of any subsequent changes within the registered business. • Tax authorities should ensure that access to the registration portal and any applicable process to establish a digital credential permitting such access, be as easy as possible and be supported by clear and readily available guidance (preferably in English and the language(s) of the jurisdiction's main trading partners, such as French and Portuguese, as well as the language of the jurisdiction) including on the tax authority's website. • For further detailed guidance on the design and implementation of the operational infrastructure of a simplified VAT registration and collection portal, especially IT systems and software requirements, please refer to subsection 5.3 of the Toolkit.	-	☑	☑	☑	**Subsections** 5.2.1 and 5.3 (pages 183 and 222)

COMPONENTS OF POLICY AND ADMINISTRATION FRAMEWORK OR STRATEGY	Law	Admin	IT	Comms	Main Toolkit references
Recovery of input VAT • Jurisdictions may wish to prohibit the deduction of VAT incurred in the jurisdiction of taxation by non-resident suppliers and digital platforms under the simplified compliance regime or substantially restrict that possibility. • Certain non-resident businesses may incur legitimate business expenses (e.g. advertising or marketing related) in the jurisdiction of taxation and therefore, a jurisdiction could consider exceptions to allow the recovery of input VAT under the simplified compliance regime, including: ○ The possibility for non-resident suppliers and digital platforms to claim a refund of recoverable VAT under the jurisdiction's normal refund procedure for non-resident businesses. ○ The possibility for non-resident suppliers and digital platforms to register under the standard VAT regime, including the possibility to revoke their registration under the simplified compliance regime in favour of the standard VAT regime. Jurisdictions must then determine whether such suppliers will be able to claim input VAT on historical costs and, if so, how far back, subject to any general statute of limitations. • Where a jurisdiction opts for "all in" approach that includes both B2B and B2C supplies within the scope of a simplified compliance regime, it should ensure that domestic business customers have the same right to deduct input VAT incurred on their purchases from non-resident businesses as for the input VAT on purchases from domestic suppliers.	☑	☑	-	-	**Subsection** 5.2.5 (page 194)
Invoicing • Jurisdictions may consider eliminating invoicing requirements for business-to-consumer supplies under the simplified registration and collection regime, in light of the fact that the customers involved will generally not be entitled to deduct the VAT paid on these supplies. Alternatively, if jurisdictions cannot feasibly achieve such elimination (e.g. due to other regulatory requirements), they may consider simplifications of invoicing requirements. • If invoices are required, jurisdictions may consider allowing invoices to be issued in accordance with the rules of the supplier's or digital platform's jurisdiction or accepting commercial documentation that is issued for purposes other than VAT (e.g. electronic receipts). • If the issuance of a VAT (or tax) invoice is not required, a jurisdiction could require VAT-relevant information to be included in the customer receipt, especially for supplies of low-value imported goods.	☑	☑	-	-	**Subsection** 5.2.2 (page 187)

COMPONENTS OF POLICY AND ADMINISTRATION FRAMEWORK OR STRATEGY	Law	Admin	IT	Comms	Main Toolkit references
• Where an "all in" approach is adopted to impose a registration and collection obligation on non-resident businesses for both B2B and B2C supplies, jurisdictions could consider relaxing requirements to produce full VAT invoices that otherwise apply under the standard VAT regime. Certain steps to mitigate the administrative burdens for non-resident businesses could include: ○ Assess and consider whether it would be possible to adjust the national VAT regulations on invoices to more closely align with international norms and trends. ○ Relax the range of invoicing formats to encompass those that the jurisdiction's main trading partners employ. Jurisdiction's tax administration could combine this approach with a more risk-based approach to authorise and audit input VAT deduction by domestic customers, focusing on unusual trends and large claims that constitute the greatest risk of fraud.					
VAT returns and return periods under the simplified registration and collection regime • It is essential to the effective functioning of a simplified compliance regime that jurisdictions allow non-resident suppliers and digital platforms to file simplified VAT returns. These will generally demand less information and supporting evidence than is required for VAT returns under the standard VAT regime (where registrants normally are entitled to deduct input VAT). • Many jurisdictions require quarterly VAT returns under a simplified registration and collection regime for services and intangibles.	☑	☑	☑	-	**Subsection** 5.2.3 (page 190)

<table>
<tr><th>COMPONENTS OF POLICY AND ADMINISTRATION FRAMEWORK OR STRATEGY</th><th>Law</th><th>Admin</th><th>IT</th><th>Comms</th><th>Main Toolkit references</th></tr>
<tr><td>Currency conversion for submission of VAT returns and execution of payments
It is recommended that secondary legislation or guidance set out how suppliers and digital platforms should convert the value of supplies made in a foreign currency. Currency conversion is relevant in particular for determining the amounts that must be reported in the VAT return and for determining the actual amount of VAT that must be paid to the tax authority. Examples of reference sources for currency conversion that jurisdictions use are:
• Foreign exchange rates published by the central bank, reserve bank or chief monetary authority of the jurisdiction of taxation.
• Foreign exchange rates published by certain non-governmental entities, including commercial banks.
• Fixed rates determined by an agreement between a supplier or digital platform and customer for the duration of the agreement.</td><td>☑</td><td>☑</td><td>☑</td><td>-</td><td>Subsection 5.2.6
(page 196)</td></tr>
<tr><td>Settlement of VAT due
• Jurisdictions are advised to support the use of electronic payment methods by non-resident suppliers and digital platforms to facilitate settlement of VAT due under the simplified compliance regime.
• The following aspects are likely to further enhance the ease of payment of the VAT due under a simplified compliance and registration regime:
○ Ensuring that non-resident suppliers and digital platforms have the possibility to opt for the most efficient and least costly accepted payment solutions, provided that they are adequately secure.
○ Providing clear guidance on these accepted means of payments.
○ Exempting non-resident suppliers and digital platforms from the requirement of maintaining a local bank account in the taxing jurisdiction, particularly if the opening of such a local bank account requires the presence of an establishment of the supplier or digital platform in that jurisdiction (which a non-resident business will typically not have).
○ Accepting payments in the currencies of the taxing jurisdiction's main trading partners.
○ Ensuring that the appropriate safeguards are in place to mitigate risks from potential attacks on electronic payment channels.</td><td>☑</td><td>☑</td><td>☑</td><td>-</td><td>Subsection 5.2.7
(page 198)</td></tr>
</table>

COMPONENTS OF POLICY AND ADMINISTRATION FRAMEWORK OR STRATEGY	Law	Admin	IT	Comms	Main Toolkit references
Record-keeping and provision of records • Clear rules and guidance should be available on the data to be recorded, the format and requirements for data recording and storage, on the required duration of data storage and on the process and time limitations for providing these data to the tax authority. • Jurisdictions are encouraged to allow non-resident suppliers and digital platforms to use, to the widest possible extent, their internal business records and accounting systems to fulfil record-keeping obligations under a simplified compliance regime. • As matters of good practice: ○ Non-resident suppliers and digital platforms should be required to keep reliable and verifiable records of the supplies they make into the taxing jurisdiction, preferably in electronic format. A jurisdiction could consider allowing remote storage of these records, i.e. outside the taxing jurisdiction, subject to conditions. ○ Tax authorities are encouraged to limit the transactional data that suppliers and digital platforms must record to what is necessary to ensure that suppliers have charged and accounted for VAT correctly on each supply.	☑	☑	☑	-	**Subsection** 5.2.4 (page 191)
SPECIFIC DESIGN AND IMPLEMENTATION CONSIDERATIONS FOR LOW-VALUE IMPORTED GOODS					
Customs reporting requirements • Jurisdictions will need to introduce provisions in customs legislation prescribing the information that must be provided to customs authorities in advance or at the time of importation, by or on behalf of the suppliers and digital platforms that are liable for VAT under their simplified registration and collection regime. These provisions should include clear guidance on the process for communicating this information to the customs authorities. • The main purpose of this reporting requirement is to provide evidence of the VAT settlement ("VAT-paid") status of consignments that are subject to the vendor collection regime to customs authorities at the time of importation, so that they can verify whether the VAT has been collected by the non-resident supplier or the digital platform at the point of sale. • Such information should normally include: ○ The VAT registration number or an alternative business ID of the non-resident supplier or the digital platform.	☑	☑	☑	☑	**Subsection** 5.2.11 (page 212)

COMPONENTS OF POLICY AND ADMINISTRATION FRAMEWORK OR STRATEGY	Law	Admin	IT	Comms	Main Toolkit references
○ The appropriate evidence for determining the customer's status, including the VAT number or an equivalent identifier to support the treatment of an importation of low-value goods as having a B2B character (and thus not being subject to VAT liability for the non-resident supplier or digital platform under the vendor collection regime) where applicable. ○ Information to demonstrate that the VAT-liable supplier or digital platform has collected the VAT on the low-value imported goods that are subject to the vendor collection regime at the point of sale. • Subsection 5.2.11 provides an analysis of such customs reporting requirements in jurisdictions that have already implemented a vendor collection regime for low-value imported goods. Annex D provides "Examples of Information Reporting Requirements under Simplified Compliance Regimes for Imports of Low-Value Goods"). • Jurisdictions can consider delegating the authority to VAT and customs authorities to introduce new information requirements when required.					
Refunds on incorrectly charged VAT • Suppliers or digital platforms may sometimes incorrectly charge VAT on the supply of low-value imported goods at the point of sale, notably in respect of goods that are not subject to a vendor collection obligation. This may occur, for example, when goods were in fact high-value or part of a single consignment containing multiple goods with an aggregate value above the relief threshold for customs duty. These imported goods will then normally be subject to import VAT again under the jurisdiction's normal customs-based procedure. These non-resident suppliers or digital platforms may then claim a refund of the VAT that they have remitted under the vendor collection regime in the jurisdiction of importation, which could take the form of an adjustment in the subsequent VAT return. • To minimise revenue risks, jurisdictions are advised to restrict access to such refunds or amendments of VAT returns to situations where the supplier or digital platform has evidence of: ○ The reimbursement of the VAT it had incorrectly charged to the customer; and ○ The payment of the import VAT to customs authorities at the time of importation, e.g. on the basis of a customs declaration or other information indicating the payment of the import VAT by the customer.	☑	☑	-	-	**Subsections** 5.2.9.3, 5.2.9.4 and 5.2.11.1 (pages 204,204 and 212)

COMPONENTS OF POLICY AND ADMINISTRATION FRAMEWORK OR STRATEGY	Law	Admin	IT	Comms	Main Toolkit references
OPERATIONAL AND IT INFRASTRUCTUTRE TO SUPPORT THE OPERATION OF A SIMPLIFIED REGISTRATION AND COLLECTION REGIME FOR NON-RESIDENT BUSINESSES					
Ensuring appropriate project governance for the implementation of the operational and IT infrastructure to support the simplified compliance regime • The principal operational and IT infrastructure for a simplified VAT compliance regime is a secure, user-friendly online portal through which non-resident suppliers and digital platforms can register for VAT and manage their VAT obligations. • To achieve this, tax authorities are advised to create a clear governance structure and a core project team containing staff with sufficient skills and expertise to develop the IT systems and software that a simplified compliance regime for non-resident suppliers and digital platforms demands. A senior official in the tax authority should exercise leadership. • Jurisdictions should implement safeguards and security procedures to make sure that operational and IT staff respect the tax authority's intellectual property rights over the systems and software, and that such staff develop and respect the confidentiality of the data they process and have access to. • Staff leading the development of operational and IT infrastructure for a simplified compliance regime that includes low-value imported goods should have sufficient experience of customs processes and systems.	-	☑	☑	☑	**Subsection** 5.3.1 (page 223)
Establishing the objective of an online portal for the simplified compliance regime • The project leadership should articulate the aim of the online portal to IT staff in simple, non-technical language, so that IT staff clearly understands what the portal is aimed to achieve.	-	-	☑	☑	**Subsection** 5.3.2 (page 226)
Determining the nature and level of resources a tax authority will need for building the operational and IT infrastructure for the simplified compliance regime • For the development of the online portal for the simplified VAT compliance regime tax authorities will normally have a number of options. These broadly include: ○ Constructing the online portal utilising in-house IT expertise ○ Outsourcing the project; or ○ Selecting a commercial off-the-shelf (COTS) solution	-	☑	☑	-	**Subsection** 5.3.5 (page 241)

COMPONENTS OF POLICY AND ADMINISTRATION FRAMEWORK OR STRATEGY	Law	Admin	IT	Comms	Main Toolkit references
Or a combination of these. The decision will ultimately depend on an assessment of a range of circumstances, including the functionality of the tax authority's existing IT system, the in-house capability of IT staff, the time available for the implementation of the system, and the funding available. • Jurisdictions may consider using an open-source software for the implementation of a simplified compliance regime for non-resident suppliers and digital platforms, such as the IT solution developed by the Inter-American Center of Tax Administrations (CIAT). When a jurisdiction uses a software, the alignment of its regime with the recommended policy framework will still ultimately depend on how the tax authority designs the overarching policy framework and administrative processes that the software helps to implement.					
Creating and implementing the operational and IT infrastructure for the simplified VAT compliance regime • It is highly recommended that the login page to the online portal for a simplified compliance regime be hosted on the tax authority's existing website rather than creating a stand-alone Internet address. The reason for this is that the inclusion within existing webpages will provide a high level of certainty to users that the portal is legitimate and not a fraudulent site designed to steal funds from businesses. • The online portal should at a minimum include the following functionalities: ○ Registration by non-resident suppliers and digital platforms. This includes, as a preliminary step, the creation of a secure digital identity credential. This is to ensure, to the greatest extent possible, that only legitimate businesses, which can prove their identity, have the ability to register for and access the online portal (see below). ○ Filing VAT returns through secure online forms and facilities to provide secure uploads of supporting information where appropriate. ○ Payment of the VAT due through the portal or a robust process for managing payments that suppliers or digital platforms make through independent channels such as bank transfers. ○ Updating and amending suppliers' and digital platforms' key registration and account details, including the identity of personnel with authority to access the portal. • Tax authorities are advised to take account of the following additional important factors in creating an effective operational and IT infrastructure: ○ Configuring the online portal to enable suppliers and digital platforms to undertake all activity and functions in English and the language(s) of major trading partners in addition to the jurisdiction's main language(s).	-	-	☑	☑	**Subsection** 5.3.3 (page 226)

COMPONENTS OF POLICY AND ADMINISTRATION FRAMEWORK OR STRATEGY	Law	Admin	IT	Comms	Main Toolkit references
○ Using APIs to enhance the ease of compliance for non-resident suppliers or digital platforms, e.g. in calculating their VAT liabilities by providing links to comprehensive logs that tax authorities maintain of current and historical foreign exchange rates, VAT rates, some types of indicia for determining customer status, etc. ○ Providing the appropriate IT and data capacity to permit file uploads and storage. ○ Integrating PSP's "payment gateways" into the online portal facilitating direct settlement through card or digital wallet payments. ○ Ensuring the physical security and cyber security of tax authorities' hardware and servers that are critical to the core operation of the online portal. ○ Using secure channels for hosting the online portal and for facilitating communications between the tax authority and non-resident suppliers and digital platforms, e.g. "HTTPS" websites and "TLS"-encrypted e-mails. ○ Consulting early and regularly with the business community to test and improve the portal's user-friendliness.					
Creating a robust, secure digital identity credential • The online portal for a simplified compliance regime will operate most effectively if non-resident suppliers and digital platforms can access it securely using their own digital identity credential, on which the tax authority has conducted validation checks. The tax authority should in turn require the supplier to validate their ownership of the credential at each attempt to access the portal by using multiple authentication factors. • Validating the digital identity credential can involve inspection of electronic copies of identification documents and certificates belonging to a supplier or to a digital platform, or the personnel it is authorising to register on its behalf. • Intermediaries such as tax agents will need to have permission to sign into the system as an approved user through their client's digital identity credential or, alternatively, the tax authority should issue the intermediary with its own identity credential that it can ideally link to all of its clients' accounts to perform compliance actions on their behalf.	-	☑	☑	☑	**Subsection** 5.3.3.1 (page 229)
Integrating the IT systems for the simplified compliance regime with tax authorities' existing IT systems • There are considerable advantages to integrating the online portal for a simplified compliance regime, wherever possible, with existing IT systems that tax authorities use to manage the administration of VAT and other taxes. • However, in practice this may prove challenging due to differences in information requirements and limitations to software compatibility between the IT-infrastructure for the simplified compliance regime and the tax authority's wider IT systems.	-	-	☑	-	**Subsection** 5.3.4 (page 240)

Checklist 4: Enhancing compliance and enforcement

<u>Key to abbreviations in the checklist</u>:

Law = Primary and secondary law

Admin = Administrative processes, infrastructure and guidance

IT = Operational and IT infrastructure

Comms = Communications strategies and activity

COMPONENTS OF AUDIT AND RISK MANAGEMENT STRATEGY	Law	Admin	IT	Comms	Main Toolkit references
FACILITATION AS KEY FACTOR TO ENHANCE COMPLIANCE					
A well-designed, simple and easy-to-use registration and compliance regime for non-resident suppliers and digital platforms, based on internationally agreed principles and consistently implemented across jurisdictions is a critical starting point to achieve high levels of compliance and VAT revenue collected • Facilitation of compliance is critical in achieving high levels of compliance and hence reducing risks related to non-resident suppliers and digital platforms. • Clear rules and consistency in the law are similarly critical in achieving high compliance levels. Legislation and administrative guidance should provide clear information on the obligations that non-resident suppliers and digital platforms have under the simplified compliance regime. Legal uncertainty should be minimised.	☑	☑	-	☑	**Subsection** 6.1 (page 254)
RISK MANAGEMENT					
Components of successful risk management strategies • An appropriate risk management strategy normally includes the following core components: ○ Identifying risks; ○ Assessing and prioritising risks; ○ Analysing compliance behaviour (causes, options for treatment);	-	☑	-	-	**Subsection** 6.2 (page 256)

COMPONENTS OF AUDIT AND RISK MANAGEMENT STRATEGY	Law	Admin	IT	Comms	Main Toolkit references
○ Determining treatment strategies; ○ Planning and implementing strategies; ○ Monitoring performance and evaluating outcomes. • As a general principle, tax authorities should calibrate their strategies and actions according to defined objectives and on the basis of proper risk assessment.					
• Risks associated with a simplified compliance regime can be identified and prioritised according to the different stages of implementation of the regime, in a sequential approach: ○ Preparatory phase: prior to the date of entry into force of the regime and onwards. The objective is to minimise the number of in-scope non-resident suppliers and digital platforms failing to register. ○ Implementation phase: from the date of entry into force of the regime onwards. The objective is to minimise the number of in-scope non-resident suppliers and digital platforms failing to register and to timely report and/or remit the tax. ○ Maturity phase: post-implementation once the regime has been operational for some time. The overall objective is to correct complex issues and further limit cases of non-compliance.	-	☑	☑	☑	**Subsection** 6.3 (page 262)
• Tax authorities should undertake measures to ensure that the legal and organisational framework, the personal resources and the necessary infrastructure are in place to support a proper risk management and audit strategy.	-	☑	☑	-	**Subsection** 5.3.7.1 (page 247)
POTENTIAL DATA SOURCES AND OTHER TYPES OF INFORMATION TO ASSIST COMPLIANCE AND ENFORCEMENT ACTIONS					
Access to data is important for tax authorities in designing and operating a simplified registration and collection regime, including for modelling the regime and for risk management and audit activities. • Third-party data can be particularly relevant in the context of a simplified compliance regime, notably in order to: ○ Identify the non-resident businesses that are likely to be in scope of the regime and to detect businesses that have not complied with their obligation to register. ○ Assist compliance monitoring, including detecting filing inconsistencies or under-declaration. ○ Allow tax authorities to enhance their knowledge of certain economic sectors and of the risks they pose.	☑	☑	☑	-	**Subsection** 6.5 (page 272)

COMPONENTS OF AUDIT AND RISK MANAGEMENT STRATEGY	Law	Admin	IT	Comms	Main Toolkit references
Reporting obligations for non-resident suppliers and digital platforms • It is normal practice that non-resident suppliers and digital platforms are requested to keep the appropriate records, including at transactional level, and to report or provide access to VAT-relevant information to the tax authorities, either periodically or on request, within a reasonable timeframe and in a readable format. • It is generally recommended that requirements for non-resident businesses to provide transactional data remain limited to specific categories of high-risk transactions to avoid complicating the compliance process consideration for non-resident businesses in general, many of whom are SMEs with VAT compliance obligations in multiple jurisdictions. Jurisdictions could consider obtaining data through other channels, as the following subsections of this checklist explain further.	☑	☑	-	-	**Subsection** 6.5.1 (page 273)
Third-party data • Experience from jurisdictions operating a simplified compliance regime indicates the importance and usefulness of data obtained from third parties. Third-party data sources include: ○ Entities involved in the financial sector, including banks and the jurisdiction's "Financial Intelligence Unit", i.e. a government agency that monitors financial data from a wide variety of sources in support of various public policy objectives; ○ Entities involved in goods trade, customs authorities, postal services and express carriers; ○ Digital platforms. • The use of domestic sources allows better enforceability of data reporting obligations by tax authorities, if required, because tax authorities have personal jurisdiction over the requested domestic entities.	☑	☑	-	-	**Subsection** 6.5.2 (page 275)
Data analytics strategies • A number of tax authorities have adopted an advanced data analytics strategy in order to obtain and process data not directly available from non-resident suppliers' and digital platforms or from third-party actors that facilitate transactions. • These strategies include: ○ Carrying out Internet profiling, incl. "web scrapping", and using other available third-party data to help identify non-resident businesses that are likely to be within the scope of the simplified compliance regime. ○ Using lists available from commercial firms that carry out data analysis to identify the top websites (by category) used by customers in a jurisdiction or region. Although this does not necessarily prove that there is a VAT obligation, it can	-	☑	☑	-	**Subsections** 6.5.3 and 6.5.5 (pages 280 and 282)

COMPONENTS OF AUDIT AND RISK MANAGEMENT STRATEGY	Law	Admin	IT	Comms	Main Toolkit references
assist in the modelling of businesses that will be required to register under a simplified compliance regime and will help with the targeting of compliance actions (e.g. communications). ○ Using businesses' published financial reports and websites, among others.					
• **Exchange of information** Exchange of Information provisions in tax treaties or other legal bases, particularly the Multilateral Convention on Mutual Administrative Assistance in Tax Matters (MAAC), can be employed to obtain information about suppliers and digital platforms, and any other relevant information that other jurisdictions hold, for example, registration lists held by other jurisdictions with a similar regime.	☑	☑	-	-	**Subsections** 6.5.4 and 6.8 (pages 282 and 303)
COMMUNICATIONS STRATEGY					
Communicating effectively with non-resident suppliers • Effective communication is critical in achieving high levels of compliance by non-resident suppliers and digital platforms. This needs to be aimed at ensuring that these businesses are fully aware of their obligations and the timeframes within which they need to take essential actions to ensure compliance. • To maximise the effectiveness of their communication strategy to support the design, implementation and operation of a vendor collection regime facilitated by a simplified compliance regime for non-resident suppliers and digital platforms, tax authorities are advised to consider the following approaches: ○ Ensure early communication and consultation with non-resident businesses and other key stakeholders. ○ Use multi-channel media strategies to achieve greater coverage and awareness, including the use of social media (e.g. LinkedIn), media releases, presentations to representative organisations and forums and the provision of communication material to a wide range of organisations and stakeholders. ○ Provide easy-to-access comprehensive web guidance for non-resident suppliers and digital platforms through a standalone page on the tax authority's website. ○ Consider the development of key words and phrases ("metadata") so that Internet search engines are able to best direct potential registrants to the right information on the tax authority's website.	-	☑	☑	☑	**Subsection** 6.4 (page 268)

COMPONENTS OF AUDIT AND RISK MANAGEMENT STRATEGY	Law	Admin	IT	Comms	Main Toolkit references
○ Make some or ideally all communication and guidance material available in English and in the language(s) of the jurisdiction's main trading partners, such as French and Portuguese, in addition to the jurisdiction's local language(s). ○ Develop taxpayer assistance channels, including the provision of a dedicated email channel for non-resident businesses and/or phone numbers to a dedicated call centre. ○ Internal communications and training for staff in the tax authority are required to directly support clients and administer the regime. ○ A number of jurisdictions have undertaken a broader range of communication actions that may be useful to consider. These include the following: ▪ One-to-one letter campaigns, targeted at the main non-resident suppliers, digital platforms and other key stakeholders. ▪ Partnering with key stakeholders to host webinars to deliver interactive presentations and question-and-answer sessions about reforms. Large accounting firms and other private sector intermediaries, in addition to international and regional multilateral organisations, can play an important role.					
ADDRESSING NON-COMPLIANCE					
The potential role of co-operative compliance • A co-operative tax compliance programme aims to voluntarily build a relationship of mutual trust between taxpayers and tax authorities to facilitate compliance while at the same time protecting tax revenues.	-	☑	-	☑	**Subsection** 6.6 (page 283)
Enforcement and related measures • Despite the efforts of tax authorities to facilitate compliance by non-resident suppliers and digital platforms, non-compliant conduct can nevertheless occur. • To discourage such non-compliance by non-resident suppliers and digital platforms, appropriate enforcement measures should be adopted and implemented. These can include:	☑	☑	-	☑	**Subsection** 6.7 (page 287)
○ Interest charges: The primary objective of interest charges is to protect the present value of tax revenues by compensating the government for the deprivation of use of tax amounts that are not paid on time.	☑	-	☑	-	**Subsection** 6.7.2 (page 289)

COMPONENTS OF AUDIT AND RISK MANAGEMENT STRATEGY	Law	Admin	IT	Comms	Main Toolkit references
○ Administrative penalties: These penalties are often intended to achieve greater compliance by deterring certain undesirable behaviours.	☑	☑	-	-	**Subsection** 6.7.3 (page 289)
○ Criminal prosecution: Some taxpayers may persevere in being non-compliant and use any means to evade their tax obligations. It is in respect of those taxpayers, for whom support and monitoring does not improve compliance, that criminal law may play a role. International co-operation may be crucial for the practical application of criminal judgements and sanctions.	☑	☑	-	-	**Subsection** 6.7.4 (page 290)
○ Role of payment intermediaries: The application of a financial intermediary withholding regime is not recommended as a jurisdiction's primary approach to collecting VAT on supplies by non-resident businesses. Nevertheless, if treatment strategies undertaken by the tax authority are unsuccessful in engaging non-resident suppliers and digital platforms in the VAT collection process, it may be reasonable for tax authorities to seek to enforce the collection of the tax by requiring financial intermediaries to withhold and account for the VAT due by persistently non-compliant businesses.	☑	☑	-	-	**Subsection** 6.7.6 (page 296)
○ Customs authorities' legal powers may provide further enforcement possibilities related to supplies of low-value imported goods.	☑	☑	-	-	**Subsection** 6.7.7 (page 301)
○ Additional measures, such as public VAT registers ▪ Public VAT registers can be beneficial in incentivising non-resident suppliers and digital platforms to register and in providing confidence to domestic businesses and customers about the compliance by their foreign competitors.	☑	☑	-	-	**Subsection** 6.7.8 (page 301)

INTERNATIONAL ADMINISTRATIVE CO-OPERATION					
The role of international administrative co-operation in enhancing enforcement • Jurisdictions should take appropriate steps to make optimal use of existing multilateral and bilateral legal instruments for the international administrative co-operation to support the effective collection of VAT on international trade. • The use of international administrative co-operation tools in tax matters generally requires the existence of a legal basis upon which the requesting jurisdiction can engage the requested jurisdiction. These include multilateral conventions, bilateral tax conventions, regional frameworks and tax information exchange agreements (TIEAs).	☑	☑	-	-	**Subsection** 6.8 (page 303)
Multilateral Convention on Mutual Administrative Assistance in Tax Matters • The Multilateral Convention on Mutual Administrative Assistance in Tax Matters ("MAAC") is the most comprehensive multilateral instrument available for all forms of tax co-operation to address tax evasion and avoidance. It provides for all possible forms of administrative co-operation between jurisdictions in the assessment and collection of taxes, and specifically: ○ Exchange of information, including on request, automatic and spontaneous exchange of information; ○ Simultaneous tax examinations; ○ Tax examinations abroad; ○ Assistance in recovery of tax; ○ Service of documents. • The Secretariat of the Global Forum on Transparency and Exchange of Information for Tax Purposes has produced a Toolkit for Becoming a Party to the MAAC. This Toolkit provides detailed guidance for States preparing to join the MAAC.	☑	☑	-	-	**Subsection** 6.8.3 (page 310)
• The MAAC acknowledges that, at the time of signing, a State may not, for practical, constitutional or political reasons, be able to provide other States the full assistance envisaged by the Convention. Article 30 enables a State to sign the MAAC with reservations about the type of tax to be covered and/or the type of assistance to be provided.	☑	-	-	-	**Subsection** 6.8.3.2 (page 315)

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Annex A. The international VAT/GST Guidelines – An overview of the main components

The OECD's International VAT/GST Guidelines ("The Guidelines") were incorporated as an OECD legal instrument in the Recommendation on the Application of Value Added Tax/Goods and Services Tax to the International Trade in Services and Intangibles, which was adopted by the Council of the OECD on 27 September 2016 (OECD, 2017[2]). They are the culmination of nearly two decades of efforts to provide internationally accepted standards for consumption taxation of international cross-border trade, particularly trade in services and intangibles.

The Guidelines set forth a number of principles for the VAT treatment of the most common types of international transactions, focusing on trade in services and intangibles. They aim to reduce the uncertainty of the risks of double taxation and unintended non-taxation that result from inconsistencies in the application of VAT in a cross-border context. The Guidelines do not aim at detailed prescription for national legislation. They seek to identify objectives and suggest means for achieving them in an effort to assist policymakers in their endeavours to develop a legal and administrative framework for implementing VAT in their jurisdiction, taking into account their particular circumstances.

After summarising the core features of VATs in Chapter 1 and articulating the principles of neutrality that should govern the application of VAT to cross-border trade in Chapter 2, the Guidelines provide detailed guidance regarding the appropriate rules for determining the place of taxation for cross-border supplies of services and intangibles in Chapter 3. The Guidelines also provide guidance to facilitate interaction between national VAT systems with recommendations addressed to mutual co-operation, dispute minimisation, and application in cases of evasion and avoidance in Chapter 4.

This Annex provides a summary overview of the main components of the Guidelines.

Chapter 1 of the Guidelines: Core features of VATs

Overarching purpose of a VAT: A broad-based tax on final consumption

The overarching purpose of a VAT is to impose a broad-based tax on consumption, which is understood to mean final consumption by households. In principle, only private individuals, as distinguished from businesses, engage in the consumption at which a VAT is targeted. A necessary consequence of the fundamental proposition that a VAT is a tax on final consumption by households is that the burden of the VAT should not rest on businesses, except where explicitly provided for in legislation.

The central design feature of a VAT: Staged collection process

The central design feature of a VAT is that the tax is collected through a staged process (fractionated payment). Each business in the supply chain takes part in the process of controlling and collecting the tax, remitting the proportion of tax corresponding to its margin, i.e. the difference between the VAT imposed on its taxed inputs and the VAT imposed on its taxed outputs. Thus, the tax is in principle collected on the "value added" at each stage of production and distribution. In this respect, the VAT differs from a retail sales tax ("RST"), which taxes consumption through a single-stage levy imposed in theory only at the point of final sale. In contrast to an RST, the risk associated with the non-payment of the VAT is in principle spread across the commercial chain rather than resting on the final sale.

This central design feature of the VAT, coupled with the fundamental principle that the burden of the tax should not rest on businesses, requires a mechanism for relieving businesses of the burden of the VAT they pay when they acquire goods, services, or intangibles. The invoice-credit method is the approach adopted by almost all jurisdictions for implementing the staged collection process while relieving businesses of the final VAT burden. Under the invoice-credit method, each trader charges VAT at the rate specified for each supply and passes to the purchaser an invoice showing the amount of tax charged. The business purchaser is in turn able to credit that input tax against the output tax charged on its sales, remitting the balance to the tax authorities and receiving refunds when there are excess credits.

Most jurisdictions with a VAT impose the tax at every stage of the economic process and allow deduction of taxes on purchases by all but the final consumer. This design feature gives to the VAT its essential character in domestic trade as an economically neutral tax. The full right to deduct input tax through the supply chain, except by the final consumer, ensures the neutrality of the tax, whatever the nature of the product, the structure of the distribution chain, and the means used for its delivery (e.g. retail stores, physical delivery, Internet downloads). As a result of the staged payment system, VAT thereby "flows through the businesses" to tax supplies made to final consumers.

VAT and international trade: The destination principle

The overarching purpose of VAT as a levy on final consumption, coupled with its central design feature of a staged collection process, lays the foundation for the core VAT principles bearing on international trade. The fundamental issue of economic policy in relation to the international application of VAT is whether the levy should be imposed by the jurisdiction of origin or destination. Under the destination principle, tax is ultimately levied only on the final consumption by the jurisdiction in which that consumption takes place. Under the origin principle, the tax is levied in the various jurisdictions where the value was added. The key economic difference between the two principles is that the destination principle places all firms competing in a given jurisdiction on an even footing whereas the origin principle places consumers in different jurisdictions on an even footing.

The application of the destination principle in VAT achieves neutrality in international trade. Under the destination principle, exports are not subject to tax and businesses are entitled to a refund of input taxes (that is, exports are "free of VAT" or "zero-rated"). Conversely, the destination principle means that imports are taxed on the same basis and at the same rates as domestic supplies. Accordingly, the total tax paid in relation to a supply is determined by the rules applicable in the jurisdiction of its consumption and all revenue accrues to the jurisdiction where the supply to the final consumer occurs.

By contrast, under the origin principle, each jurisdiction would levy VAT on the value created within its own borders. Under an origin-based regime, exporting jurisdictions would tax exports on the same basis and at the same rate as domestic supplies, while importing jurisdictions would give a credit against their own VAT for the hypothetical tax that would have been paid at the importing jurisdiction's own rate. Tax paid on a supply would then reflect the pattern of its origins and the aggregate revenue would be distributed in that pattern. This would run counter to the core features of a VAT: as a tax on consumption, the revenue should accrue to the jurisdiction where the final consumption takes place. Under the origin principle, these revenues are shared amongst jurisdictions where value is added, and could influence the economic or geographical structure of the value chain and undermine neutrality in international trade.

For these reasons, there is widespread consensus that the destination principle, with revenue accruing to the country of import where final consumption occurs, is preferable to the origin principle from both a theoretical and practical standpoint. In fact, the destination principle is the international norm and is sanctioned by World Trade Organisation ("WTO") rules.[156]

Because of the widespread acceptance of the destination principle for applying VAT to international trade, most of the rules currently in force are generally intended to tax supplies of goods, services and intangibles within the jurisdiction where consumption takes place. Practical means of implementing this intention are, nevertheless, diverse across jurisdictions, which can in some instances lead to double taxation or unintended non-taxation, and to uncertainties for both businesses and tax authorities.

Implementation of the destination principle with respect to international trade in goods is relatively straightforward in theory and in principle generally effective in practice, due in large part to the existence of border controls or fiscal frontiers.[157] When a transaction involves goods being moved from one jurisdiction to another, the goods are generally taxed where they are delivered. The exported goods are free of VAT in the seller's jurisdiction (and are freed of any residual VAT via successive businesses' deductions of input tax), whilst imports are subject to the same VAT as equivalent domestic goods in the purchaser's jurisdiction. The VAT on imports is generally collected at the same time as customs duties, although in some jurisdictions collection is postponed until declared on the importer's next VAT return. Allowing deduction of the VAT incurred at importation in the same way as input tax deduction on a domestic supply ensures neutrality and limits distortions in relation to international trade.

Implementing the destination principle for international trade in services and intangibles creates additional complexities compared to international trade in goods. The nature of services and intangibles is such that they cannot be subject to border controls in the same way as goods. For these reasons, the OECD developed the Guidelines for determining the jurisdiction of taxation for international supplies of services and intangibles, doing so in a way that reflects the destination principle.

Making exports free of VAT and taxing imports introduce a breach in the staged collection process. In many VAT systems that operate an invoice-credit method, the VAT on cross-border B2B supplies of services and intangibles is collected by the "reverse charge mechanism", under which the liability to pay the tax is switched from the supplier to the customer. Note for these purposes that OECD guidance generally assumes that B2B supplies are supplies where both the supplier and the customer are recognised as businesses in national law and B2C supplies are assumed to be supplies where the customer is not recognised as a business in national law. In the absence of a reverse charge mechanism for international B2B supplies of services, non-resident suppliers that deliver services in jurisdictions where they are not established would in principle have to register for VAT purposes and fulfil all VAT obligations in these jurisdictions. To avoid such administrative burdens on non-resident suppliers, and to assure that VAT is accounted for, the reverse charge mechanism allows or requires the VAT-registered customer to account for the tax on supplies received from non-resident suppliers. The reverse charge mechanism is not applied in all jurisdictions and, where it is implemented, the rules may differ from country to country.

Application of generally accepted principles of tax policy to VAT: The Ottawa Taxation Framework Conditions

The Guidelines reiterate the tax policy principles articulated in the *Ottawa Taxation Framework Conditions* (see subsection 5.1.2 of the Toolkit) that should govern VAT design, namely: neutrality, efficiency, certainty

[156] Note 1 of the WTO's *Agreement on Subsidies and Countervailing Measures* provides that "… the exemption of an exported product from duties or taxes borne by the like product when destined for domestic consumption, or the remission of such duties or taxes in amounts not in excess of those which have accrued, shall not be deemed to be a subsidy". See: https://www.wto.org/english/docs_e/legal_e/24-scm_01_e.htm#fnt-1

[157] As noted throughout this Toolkit, however, there are significant challenges associated with the imposition of VAT on imports of B2C supplies of low-value goods.

and simplicity, effectiveness and fairness, and flexibility. Because of the special significance of neutrality as a core principle of VAT design, the Guidelines devote an entire chapter to the neutrality principle.

Chapter 2 of the Guidelines: Neutrality of VAT in the context of cross-border trade

With respect to the “basic neutrality principles”, i.e. principles related to the basic design features of a VAT *without* regard to international trade, the Guidelines set forth three core principles:

- **Guideline 2.1** provides that “[t]he burden of value added taxes themselves should not lie on taxable businesses except where explicitly provided for in legislation”.

This Guideline sets forth the fundamental principle that a VAT is a tax on final household consumption and that the burden of this tax should thus not rest on businesses. However, Guideline 2.1 also recognises jurisdictions’ right to deviate from this principle, at least when they explicitly do so by legislation. This may, for instance, concern services that are exempt due to difficulties to assess the tax base (e.g. many financial services) or services exempt for other policy reasons (such as health care, education, and culture). Providing an exemption for the final supply to the consumer does not necessarily fully relieve the consumer of the economic burden of the VAT if the transactions in the preceding stages of the economic process are not also relieved of the tax burden.

The other two “basic” VAT neutrality principles do not recognise any exceptions:

- **Guideline 2.2** provides that “[b]usinesses in similar situations carrying out similar transactions should be subject to similar levels of taxation”.
- **Guideline 2.3** provides that “VAT rules should be framed in such a way that they are not the primary influence on business decisions”.
- The Guidelines provide useful Commentary (supported by examples) on what is meant by “similar levels of taxation”, “businesses in similar situations”, “similar transactions”, and “primary influence on business decisions”. Readers can consult this commentary in paragraphs 2.39 to 2.52 of the Guidelines.

Three specific Guidelines are addressed to VAT neutrality in international trade. Like the “basic” neutrality Guidelines, the neutrality Guidelines addressed to international trade articulate uncontroversial principles at a high level of generality:

- **Guideline 2.4**, which is addressed to the “level of taxation”, provides that “foreign businesses should not be disadvantaged or advantaged compared to domestic businesses in the jurisdiction where the tax may be due or paid”.
- **Guideline 2.5** recognises that “jurisdictions may choose from a number of approaches” in order “[t]o ensure foreign businesses do not incur irrecoverable VAT”.

Guideline 2.4 essentially sets forth the principle of equal treatment between domestic and foreign businesses in respect of the level of taxation in the taxing jurisdiction. Where domestic businesses do not incur irrecoverable VAT, this should also apply for foreign businesses. Guideline 2.5 makes it clear that there is a variety of approaches for achieving this objective with respect to foreign businesses, even though these may not be the same as those used for achieving this objective with respect to domestic businesses. The Commentary elaborates on this point, observing that the approaches for relieving foreign businesses of irrecoverable VAT may include specific input VAT refund regimes; refunds through local VAT registration; shifting the responsibility to locally registered suppliers/customers (“reverse charge”); and granting purchase exemption certificates.

- **Guideline 2.6,** while acknowledging that foreign businesses may legitimately be subject to different administrative requirements than those applied to domestic businesses, declares that in such cases these requirements "should not create a disproportionate or inappropriate compliance burden for the businesses".

Chapter 3. Determining the place of taxation for cross-border supplies of services and intangibles

The recommended rules and principles for determining the place of taxation for international cross-border supplies of services and intangibles are covered in detail in the body of the Toolkit, in particular in the Section 2.1.

This overview is therefore limited to an outline of the main standards and recommendations included in Chapter 3.

- **Guideline 3.1:** For consumption tax purposes, internationally traded services and intangibles should be taxed according to the rules of the jurisdiction of consumption.
- **Guideline 3.2:** For the application of Guideline 3.1, for business-to-business supplies, the jurisdiction in which the customer is located has the taxing rights over internationally traded services or intangibles.
- **Guideline 3.3:** For the application of Guideline 3.2, the identity of the customer is normally determined by reference to the business agreement.
- Business agreements consist of the elements that identify the parties to a supply and the rights and obligations with respect to that supply. They are generally based on mutual understanding.
- **Guideline 3.4:** For the application of Guideline 3.2, when the customer has establishments in more than one jurisdiction, the taxing rights accrue to the jurisdiction(s) where the establishment(s) using the service or intangible is (are) located.
  - The following broad categories of approaches can be distinguished:
    - Direct use approach, which focuses directly on the establishment that uses the service or intangible;
    - Direct delivery approach, which focuses on the establishment to which the service or intangible is delivered;
    - Recharge method, which focuses on the establishment that uses the service or intangible as determined on the basis of internal recharge arrangements within the MLE, made in accordance with corporate tax, accounting or other regulatory requirements.
- **Guideline 3.5:** For the application of Guideline 3.1, the jurisdiction in which the supply is physically performed has the taxing rights over business-to-consumer supplies of services and intangibles that:
  - Are physically performed at a readily identifiable place, and
  - Are ordinarily consumed at the same time as and at the same place where they are physically performed, and
  - Ordinarily require the physical presence of the person performing the supply and the person consuming the service or intangible at the same time and place where the supply of such a service or intangible is physically performed.
- **Guideline 3.6:** For the application of Guideline 3.1, the jurisdiction in which the customer has its usual residence has the taxing rights over business-to-consumer supplies of services and intangibles other than those covered by Guideline 3.5.

- **Guideline 3.7:** The taxing rights over internationally traded services or intangibles supplied between businesses may be allocated by reference to a proxy other than the customer's location as laid down in Guideline 3.2, when both the following conditions are met:
  - The allocation of taxing rights by reference to the customer's location does not lead to an appropriate result when considered under the following criteria:
    - Neutrality;
    - Efficiency of compliance and administration;
    - Certainty and simplicity;
    - Effectiveness;
    - Fairness.
  - A proxy other than the customer's location would lead to a significantly better result when considered under the same criteria.
- Similarly, the taxing rights over internationally traded business-to-consumer supplies of services or intangibles may be allocated by reference to a proxy other than the place of performance as laid down in Guideline 3.5 and the usual residence of the customer as laid down in Guideline 3.6, when both conditions are met as set out in the two bullet points above.
- **Guideline 3.8:** For internationally traded supplies of services and intangibles directly connected with immovable property, the taxing rights may be allocated to the jurisdiction where the immovable property is located.

Chapter 4. Mechanisms to support the Guidelines in practice

The Guidelines recognise that there may be differences in the way jurisdictions implement or interpret the neutrality or place of taxation principles. This may lead to double taxation, unintended non-taxation or disputes. Mechanisms for mutual co-operation, exchange of information and other forms of communication among tax authorities can offer helpful instruments to facilitate a consistent interpretation of the Guidelines, to minimise disputes, and to address issues of evasion or avoidance arising in the context of the Guidelines. While formal dispute resolution mechanisms do not exist in the absence of a binding legal basis (e.g. tax treaty), the Guidelines nevertheless encourage jurisdictions to utilise existing administrative co-operation mechanisms to support their consistent implementation and to deal with disputes when they may arise.

The Guidelines identify the following existing mechanisms for mutual co-operation, exchange of information, and other forms of mutual assistance that may aid tax authorities in interpreting and implementing the principles of the Guidelines in a consistent manner.

- The Multilateral Convention on Mutual Administrative Assistance in Tax Matters (OECD; Council of Europe, 2011[100]). The Convention was developed jointly by the OECD and the Council of Europe in 1988 and amended by Protocol in 2010. It provides for all forms of administrative co-operation between the parties in the assessment and collection of taxes, focusing in particular on combatting tax evasion and avoidance. The Convention is intended to have a very wide scope, covering all taxes including general consumption taxes such as VAT. For more details, see subsection 6.8.3 of this Toolkit
- The OECD Model Tax Convention (MTC) (Article 26) (OECD, 2017[101]). Note that the MTC is not a binding instrument, unless and until ratified as a bilateral tax treaty between two jurisdictions (often in a form slightly different from the model). Article 26 of the MTC deals with exchange of information. It applies to "such information as is foreseeably relevant … to the administration or enforcement of the domestic laws concerning taxes of every kind and description imposed on behalf of the Contracting States", including VAT. For jurisdictions that have adopted bilateral tax treaties based on the MTC, including Article 26, the mechanism appears to offer a promising

platform for Parties to exchange information both in individual cases and in broader classes of cases arising under VAT. This includes cases that raise issues implicating the Guidelines.

- The Model Agreement on Exchange of Information on Tax Matters (Model Agreement) (OECD, 2002[106]). The OECD developed the Model Agreement to promote international co-operation in tax matters through exchange of information. The Model Agreement is not a binding instrument but contains two models for Tax Information Exchange Agreements (TIEAs), a multilateral version and a bilateral version. A considerable number of bilateral agreements have been based on the Model Agreement. These TIEAs provide for exchange of information on request and for tax authorities to conduct certain tax examinations in foreign jurisdictions, principally for direct taxes but they can also cover other taxes such as VAT. In addition, TIEAs provide for forms of exchange other than exchange on request.

Beyond the use of existing mechanisms for mutual co-operation and exchange of information, the Guidelines encourage jurisdictions to support their consistent implementation and interpretation through taxpayer services focused on the Guidelines. The Guidelines provide the following non-exclusive list of possible taxpayer services:

- The provision of readily accessible and easily understood local guidance on the domestic VAT rules that fall within the scope of the Guidelines.
- The creation of points of contact with taxing authorities where businesses and consumers can make inquiries regarding the domestic VAT rules within the scope of the Guidelines and receive timely responses to such inquiries.
- The creation of a point of contact with tax authorities where businesses can identify perceived disparities in the interpretation or implementation of the principles of the Guidelines.

Finally, the Guidelines make it clear that they are drafted on the assumption that all parties are acting in good faith and that all the transactions are legitimate and have economic substance. Accordingly, when this is not the case, i.e. in cases involving evasion or avoidance, nothing in the Guidelines may be read as preventing jurisdictions from taking proportionate measures to protect against evasion and avoidance, revenue losses and distortion of competition.

Annex B. The OECD Model Reporting rules for Digital Platforms: Possible role in supporting VAT compliance and enforcement

Model Rules for Reporting by Platform Operators with respect to Sellers in the Sharing and Gig Economy (2020)

The OECD Model Reporting Rules were adopted by the OECD/G20 Inclusive Framework on BEPS in 2020 to assist jurisdictions in implementing a requirement for digital platforms to collect information on the income realised by sharing and gig economy sellers that offer accommodation, transport and personal services and to report the information to tax authorities (OECD, 2020[88]). One of the core objectives of these model rules is to promote international co-operation to ensure that tax authorities have access to information on income earned by sharing and gig economy sellers within their jurisdictions, including from platforms that are located in other jurisdictions. To achieve this objective, the rules provide that platform operators report information to the tax authorities of their jurisdiction of residence and that this information is exchanged automatically and annually by the platform operator's residence jurisdiction with the jurisdictions of the sellers' residence – and, with respect to transactions involving the rental of immovable property, the jurisdictions in which such immovable property is located.

The OECD Model Reporting Rules promote standardisation of reporting rules between jurisdictions in order to help platforms comply with reporting obligations across different jurisdictions, by allowing them to follow largely similar processes for gathering and reporting information on the transactions and identity of the platform sellers.

The OECD Model Reporting Rules have been designed primarily to facilitate and enhance compliance by sharing and gig economy providers with their direct tax obligations. They recognise explicitly, however, that the information reported and exchanged under these rules is likely to be relevant for VAT compliance purposes as well. The information reported under the OECD Model Reporting Rules will include the consideration received by sharing and gig economy providers, the types/number of services provided and the underlying provider's tax identification data. This information is likely to be relevant for VAT compliance purposes in the jurisdiction receiving the information under the Model Reporting Rules. Depending on the type of services and the applicable rules for determining their VAT place of taxation, the tax authorities may benefit from the information received under the Model Reporting Rules for VAT compliance purposes as follows:

- In general, tax authorities in the jurisdiction where a sharing and gig economy provider is established, will be able to use the information received under the Model Reporting Rules to verify this provider's compliance with its VAT registration obligation (and associated obligations such as reporting, application of simplification regimes, etc.).
- Where a tax authority receives information on a sharing and gig economy provider in its jurisdiction in respect of supplies that are subject to VAT in this jurisdiction, the tax authority will be able to use these data to monitor and pursue compliance by this provider with all the associated VAT obligations, including the provider's obligation to register, report and remit the

VAT. This will typically apply to supplies of services for which the VAT place of taxation is determined by reference to their place of performance or by reference to the location of the supplier (typically "on-the-spot" services as described in Guideline 3.5. of the *International VAT/GST Guidelines* (OECD, 2017[2])). This is important in the sharing and gig economy context, as these will often involve such "on-the-spot" services that will be subject to VAT in the jurisdiction where the sharing and gig economy provider is established, such as local transportation and delivery services and personal services.

- Where information is received by a tax authority relating to services connected with immovable property that is located in this tax authority's jurisdiction, this tax authority will be able to use this information to monitor compliance with all the VAT obligations in respect of these services. Indeed, such services will in general be subject to VAT in the jurisdiction where the relevant immovable property is located (see Guideline 3.8. of the *International VAT/GST Guidelines*). This information will be particularly useful to monitor and pursue compliance with VAT obligations in the accommodation (short-term rental) sector of the sharing and gig economy.

It is thus clear that the information that will be exchanged under the OECD Model Reporting Rules will be of significant use for authorities to enhance VAT compliance in key sectors of the sharing and gig economy, including the sectors of transportation, personal services and accommodation. It is important that tax authorities ensure that the information exchanged under these rules is used effectively to address their VAT reporting needs at the national level as well as to support the international VAT co-operation in this context. This will notably minimise risks of uncoordinated proliferation of reporting requirements that would have an adverse impact on efficiency and costs for both tax authorities and economic operators.

Complemented by Model Reporting Rules for Digital Platforms – International Exchange Framework and Optional Module for Sale of Goods (2021)

In 2021, the OECD has developed an international legal framework, the Multilateral Competent Authority Agreement on Automatic Exchange of Information on Income Derived through Digital Platforms (the "DPI MCAA"), to support the annual automatic exchange of information by the residence jurisdiction of the platform operator with the jurisdictions of residence of the sellers (and, with respect to transactions involving the rental of immovable property, the jurisdictions in which such immovable property is located), as determined on the basis of the due diligence procedures. Furthermore, it has developed an optional module that allows such jurisdictions to implement the Model Rules with an extended scope to cover:

- The sale of goods; and
- The rental of means of transportation.

The Model Reporting Rules do not seek to dictate jurisdictions that should introduce them. They rather encourage jurisdictions that wish to introduce reporting rules aimed at the sharing and gig economy to do so in a manner that is consistent with the Model Reporting Rules. This is expected to enhance consistency of reporting regimes across jurisdictions, which will promote and facilitate international co-operation between tax authorities including to support VAT compliance in the sharing and gig economy. By supporting the international exchange of information, the Model Reporting Rules are likely to offer the most powerful tool for tax authorities to gather information on supplies and providers that are subject to VAT in their jurisdiction from non-resident sharing and gig economy platforms.

This is an important advantage that the Model Reporting Rules are likely to have over purely domestic reporting regimes for VAT purposes, as it may be challenging to enforce such reporting requirements against non-resident platform operators. On the other hand, platforms facilitating transactions in multiple jurisdictions may be confronted with a wide set of diverging domestic reporting requirements in the absence of co-ordination, which may lead to increased costs, potentially harmful barriers to the business development and a negative effect on compliance and data quality.

Overall, international consistency promoted by the Model Reporting Rules is thus expected to facilitate compliance, lower compliance costs and administrative burdens and improve the effectiveness of VAT systems recognising in particular that digital platforms are likely to be faced with multi-jurisdictional obligations.

Jurisdictions are thus strongly encouraged to leverage, as appropriate, the potential of the Model Reporting Rules to monitor and enhance VAT compliance in the sharing and gig economy.

These Model Reporting Rules could more generally provide the appropriate basis for a future expansion of information reporting and exchange in the area of VAT.

Source: OECD (2021), *The Impact of the Growth of the Sharing and Gig Economy on VAT/GST Policy and Administration* (OECD, 2021[6]); OECD (2021), *Model Reporting Rules for Digital Platforms – International Exchange Framework and Optional Module for Sale of Goods* (OECD, 2021[89]).

Annex C. Australian Government Productivity Commission assessment of the costs of different models for reforming GST collection on imports of low-value goods

This Annex contains an analysis by the Australian Government Productivity Commission on the costs of different transporter-based GST collection models for imports of low-value goods in comparison to a model for simplified registration and collection for non-resident suppliers and digital platforms.

The Toolkit has reproduced the table exactly as it appears in the Productivity Commission's 2017 Inquiry Report on *Collection Models for GST on Low Value Imported Goods.*

In order to comprehend the information in the table, readers should note in particular the following items for the "Model" column:

- The rows with the label "Taskforce" refer to the model for GST collection that the Australian Low Value Parcel Processing Taskforce had proposed in 2012 on the basis of different possible levels for the low-value consignment relief threshold for GST at importation.
- The row with the label "MTM" means the "Modernised Import VAT Transporter Model" that Amazon had proposed in 2017 on the basis of a low-value consignment relief threshold of zero. Note that KPMG performed the study that supported this proposal at the request of Amazon.
- The row with the label "Legislated" means the regime for GST collection by non-resident suppliers at the time of supply under simplified registration and collection procedures. This is the regime that Australia had already legislated to come into force at the time of the Productivity Commission's report and is indeed the regime that Australia currently operates. Under this model, Australia retained a high relief threshold for GST of AUD 1 000 (USD 694). The threshold applies to all goods other than alcohol and tobacco products. GST at import continues to apply for goods with a customs value greater than AUD 1 000.

Readers should also note that:

- All values in the table are in Australian Dollars (AUD).
- The term "LVT" means here the low-value consignment relief threshold for GST.

Table A C.1. Australian Government Productivity Commission's assessment of costs of different transporter-based VAT collection models for imports of low-value goods in comparison to a model for simplified registration and collection for non-resident suppliers

Table 5.1 Comparison of administrative and compliance costs[a,b,c]

Annual calculations are based on 2015-16 volume of items

		Estimates of cost				
Model	**GST-specific LVT (de minimis threshold)**	***International mail (upfront)***	***International mail (ongoing)***	***Cargo (ongoing)***	***Total (upfront)***	***Total (ongoing)***
	$	**$m**	**$m per annum**	**$m per annum**	**$m**	**$m per annum**
Taskforce	**0**	162	540	90–688	162	630–1228
	100	162	143	61–466	162	204–609
	200	162	72	37–287	162	109–359
	500	162	14	14–108	162	28–122
MTM	**0**	63	147–335	90–688	N/A-63	237–1023
Legislated	**1,000***	N/A	N/A	N/A	15–60	13–23

a All estimates assume aside feasibility concerns outlined in section 5.2 and are based on 2015-16 volume of items, unadjusted for any demand responses to application of GST and collection costs on low value imported goods.

b Taskforce model estimates assume that ongoing costs are proportional to the volume of items on which GST is due under different settings of a GST-specific low value threshold ("LVT"). Upfront (capital) costs are assumed constant for different thresholds. Some additional uncertainty stems from estimates about the value distributions in the mail and cargo streams, which are extrapolated from sampling exercises.

c Legislated model costs are Productivity Commission estimates set out in table 3.1, plus annualised administration costs budgeted for the ATO *(Australian Taxation Office).*

Source: Productivity Commission estimates based on Amazon (sub. 35), Australian Government (2016), Australia Post (sub. S5), CIE (2016, table 3.3), DIBP (pers. comm., 6 October 2017), LVPPT (2012) and PC (2011, table 7.3).

Source: Productivity Commission (2017), *Collection Models for GST on Low Value Imported Goods*, Report No. 86, Canberra. Table is in "Chapter 5: Transporter collection models", page 99 at https://www.pc.gov.au/inquiries/completed/collection-models/report/collection-models.pdf

Annex D. Examples of information reporting requirements under vendor collection regimes for supplies of low-value imported goods

D.1. Norway

Norway has made certain changes to customs reporting obligations to facilitate the effective operation of its policy framework for non-resident suppliers and digital platforms under its vendor collection regime for supplies of low-value imported goods. It provides the following instructions to non-resident suppliers and digital platforms regarding the new obligations:

- **For goods shipped through the post**: non-resident suppliers and digital platforms are required to provide the seven-digit VOEC-registration number via electronic advance data (M33/ITMATT) when sending the consignment from their local postal service. The following guidance is provided more specifically:
  - Suppliers in UPU member countries and their designated operators can provide the ITMATT ver. 1.5.0 (both M33-11 and M33-12) with the assigned VOEC number[158] as the ITMATT reference "sender.identification.reference"[159]. If the designated operator uses the old ITMATT ver.1.2.1 (M33-8G) the respective field is "item.submitter-party.ID".
  - This information must be attached to a UPU standard S-10 barcode on the consignment.
- **Norway recognises that it may not yet be possible for all suppliers that ship goods through the post to provide information electronically and, as a fall-back, also allows suppliers in these cases to:**
  - Use labels CN 22/23 and provide the seven-digit VOEC-number in the sender's address field. The VOEC-number must be labelled as "Sender's customs reference no" or "VOEC no".
- **For goods shipped by other carriers (courier, express shipping carriers):** non-resident suppliers and digital platforms must provide the seven-digit VOEC-number via EDI message or labelling as mandated by the shipping carrier; and transporters must provide VOEC-information to Norwegian Customs, preferably in a pre-notification in digital form, or alternatively (at the latest) when goods are presented at the border.

D.2. Australia

Australia takes an approach similar to Norway's, requiring express carriers and cargo transporters to report GST-relevant information into the customs' integrated cargo system as part of the clearance process.

[158] VOEC stands for "VAT on E-Commerce" and is the abbreviation that the Norwegian tax authority uses for its simplified compliance regime for international B2C supplies of services, intangibles and low-value goods.

[159] This field is also part of the M43 CUSITM UPU EDI messaging scheme, which allows postal operators to communicate information in this field to customs authorities. See the following link for further information: https://www.upu.int/UPU/media/upu/documents/Standards/upuEdiMessagingXmlSchemasAndExamplesEn.zip

However, Australia does not yet require reporting of the same information through postal channels. Australia has provisions in its GST laws that would allow it to develop a legal instrument to mandate reporting of similar information in postal declarations in the future as postal operators' reporting capabilities improve.

Australia requires non-resident suppliers and digital platforms that have GST collection obligations to provide appropriate receipts to consumers for supplies of low-value goods. This applies to non-resident suppliers and digital platforms that register under either the standard or simplified compliance regimes. The issuance of appropriate receipts acts as a protection for consumers to limit double taxation by providing proof that they have already paid GST and thus to also facilitate refunds in the event that double taxation occurs. The GST-relevant information that suppliers or platforms must provide on receipts is as follows:

- The supplier's or platform's name;
- Their GST registration number, which is either the ATO reference number (ARN) or the Australian business number (ABN);
- The date of issue;
- A description of the supply, including the quantity (if applicable) and the price;
- The amount of GST payable;
- Information that identifies whether the supplier or platform charged GST on the goods;
- If the supplier or platform charged GST on all the goods, it can include the GST-inclusive price and state that this price includes GST (alternatively, it can include the GST for each item separately);
- If the supplier or platform did not apply GST to the supply on some of the goods, it must show which goods were subject to GST.

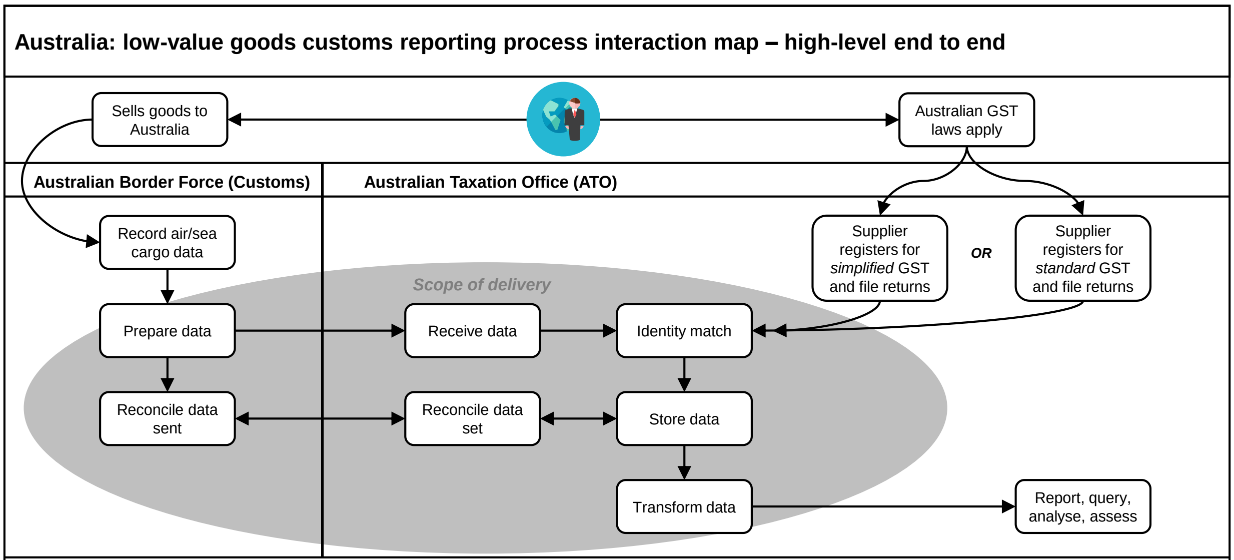
Australia also places the legal onus on the non-resident supplier and the platform to include their GST registration number, any GST-registration of the customer, and the GST-settlement status of the consignment in relevant customs documents. Practically, this demands that the supplier and other participants in the transaction communicate this information throughout the supply chain. The table below summarises these reporting requirements.

Table A D.1. Australian customs reporting requirements for verifying GST compliance on imports of low-value goods

Information the supplier must provide	Matching fields in the integrated cargo systems (ICS)
GST registration number, which is either: • A 12-digit ARN (ATO reference number – Registration number under the simplified GST registration and collection regime) • 11-digit ABN (Australian business number – Registration number under the standard GST regime)	To report this information in the "Vendor ID" field.
The ABN number of the customer where it provides this to the supplier.	To report this information in the "Importer ID" field.
Whether GST has been charged on the sale of each of the goods.	There is a field on both the self-assessed clearance declaration (with tariff lines) and the import declaration to include a GST exemption code of "PAID", where appropriate. Note: Suppliers cannot apply this code against an item with a customs value of more than AUD 1 000 (USD 694) at the time of sale.

ABN stands for an Australian Business Number, which suppliers use as a GST (VAT) registration number under Australia's standard GST regime.
Source: Australian Taxation Office, *Information for transporters and customs brokers* (Australian Taxation Office, n.d.[107]).

Figure A D.1. Exchange of GST information about imports of low-value goods between the Australian Border Force and Australian Taxation Office



Receive data	ATO will ingest air and sea cargo data files
Identity match	The data will go through identity matching processes to store the data
Store data	Data is stored in the enterprise data stores
Transform data	Data will be structured for reporting purposes, compliance activities, risk and intelligence analysis and querying
Send / receive reconciliation reports	Reconciliation reports of data files received from ABF will be collated and reconciled with what was sent to the ATO

Source: Australian Taxation Office.

D.3. New Zealand

New Zealand requires suppliers and digital platforms to take reasonable steps to ensure that relevant GST information is available to customs authorities at the time of importation of goods. This information consists of:

- The name and GST registration number of the supplier or platform;
- Information indicating on which items in the consignment the supplier or platform has collected GST at the point of sale at the rate of 15%, if applicable;
- Information indicating the items in the consignment for which the amount of GST is zero.

If the supplier or platform did not apply GST to some items in the consignment, it must identify these items to meet the above requirements. Identifying such items enables New Zealand's rules for the prevention of double taxation to operate effectively, as customs authorities will "switch off" GST at importation if the supplier has charged GST at the time of sale.

D.4. European Union

The approach that the European Union takes towards VAT information reporting for supplies of low-value imported goods from July 2021 onwards is broadly similar to other jurisdictions. Its approach aligns most closely with Norway, which reflects the similarity of approach taken by both jurisdictions to collect VAT upon importation where there is no indication that the supplier or digital platform has collected VAT at the point of sale under the vendor collection regime (European Commission, 2020[62]). It has developed rules covering the issuing of invoices and the reporting of relevant VAT information through to customs authorities.

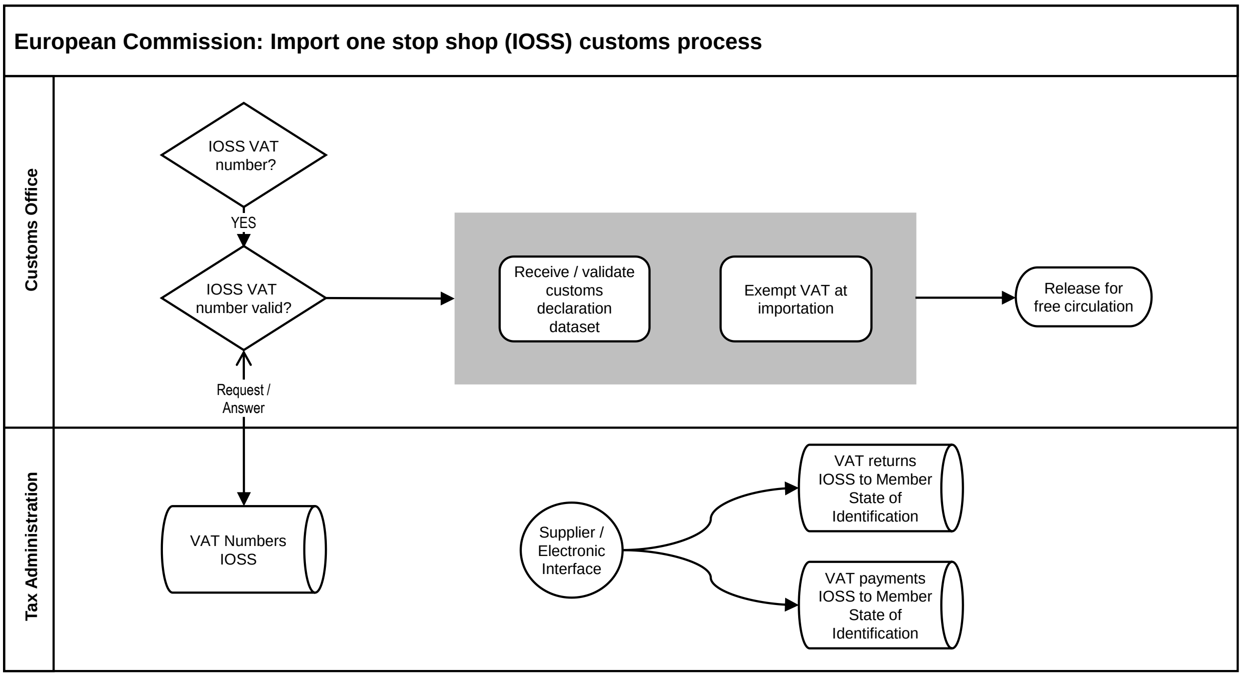
In respect of invoicing, the EU guidance indicates that "[t]he IOSS identification number of the electronic interface should not be mentioned on the invoice since communication of the IOSS number should be kept to the necessary minimum."

The EU's Explanatory Notes (European Commission, 2020[62]) provide much greater detail on the customs information reporting procedures that non-resident suppliers, digital platforms and transporters need to follow as part of fulfilling their VAT obligations. The Notes also provide detail on simplified customs clearance procedures for low-value goods on which suppliers have collected VAT at the time of supply. The following is a summary of the EU information reporting requirements for non-resident suppliers and digital platforms:

- Suppliers should include the following information either on the VAT invoice (if it issues one) or on the commercial invoice accompanying the goods for customs clearance:
  - a) the price the customer paid, in EUR
  - b) separately, per each applicable VAT rate, the VAT amount that the supplier charged to the customer
- Provide to the transporter/customs declarant of the goods (such as postal operators, express carriers or customs agent) the information it will need for customs clearance in the European Union, including the supplier's IOSS VAT identification number in order to prevent double taxation and facilitate the release of the goods into free circulation.
- Under the full VAT liability regime for digital platforms, many platforms will not participate in the dispatch or transport of goods on behalf of underlying non-resident suppliers. These platforms will have to provide key VAT information for customs reporting to the underlying suppliers, agreeing on strict rules with them about the use of the digital platform's IOSS VAT identification number, including on communicating it to the transporter/customs declarant.
- The transporter/customs declarant for imports of goods has no obligation to verify how much VAT the supplier or platform has collected nor the VAT rate they applied to the goods. If a customs declaration contains an IOSS VAT identification number for the supplier or platform and that number is valid, then the customs authorities will treat the imports of low-value goods as exempt from import VAT.
- Suppliers and digital platforms must keep records of all eligible IOSS "distance sales" (i.e. supplies of low-value imported goods into the territory of the European Union) for 10 years to cater for possible audits by EU tax authorities.

The following figure outlines how tax authorities and customs authorities in the European Union will exchange VAT information for IOSS imports to determine the VAT settlement status of the goods at the point of importation.

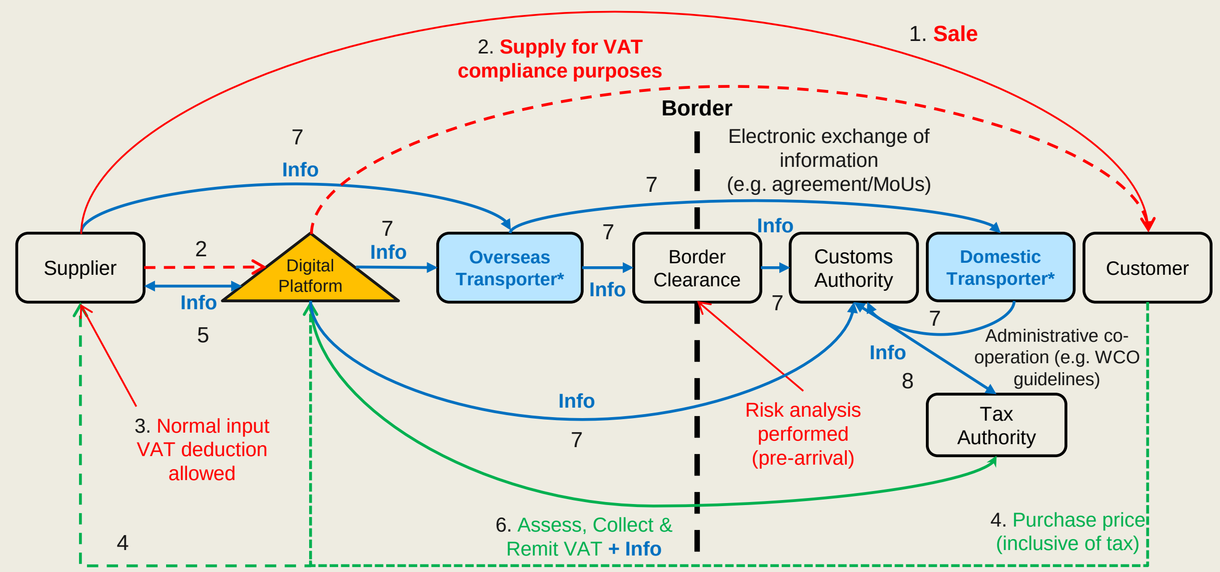
Figure A D.2. Exchange of VAT information about imports of low-value goods between the EU customs authorities and tax authorities



Source: European Commission (2020), *Explanatory Notes on VAT e-commerce rules* (European Commission, 2020[62]).

Annex E. Operation of a full VAT liability regime for digital platforms facilitating supplies of low-value imported goods

The following diagram and the accompanying paragraphs (1 through 8) illustrate the functioning of a full VAT liability regime for digital platforms that facilitate supplies of goods below the customs duty relief threshold.



The actual information flow could differ (e.g. supplier can directly provide information to overseas transporters or the digital platforms can provide information received from the supplier to overseas transporters). Digital platforms could be also asked to provide information directly to the customs authority.

The actual flow of payment could differ according to the arrangements in place between the underlying supplier and the digital platform.

**Overseas/domestic transporters include postal operators and express carriers.*

Note: The sequence of numbers assigned in the figure is for identification only; it is not intended to indicate the timing of a specific step in chronological order.
Source : OECD analysis.

1. Assume an online sale of goods (underlying sale) below the customs duty low-value relief threshold (low-value goods) by a non-resident supplier (underlying supplier) through a digital platform to a customer in the jurisdiction of taxation. The good will be imported in the jurisdiction of taxation pursuant to the sale.

2. Under the full VAT liability regime for digital platforms, the digital platform that has facilitated the sale is fully and solely liable for VAT compliance with respect to this sale, i.e. the digital platform assumes full VAT liability as if it has effected the underlying sale itself (instead of the underlying supplier). Tax authorities may wish to consider limiting the VAT liability risk under this regime for digital platforms that

they consider having acted in good faith and to have made reasonable efforts to ensure compliance ("safe harbour").

3. The full VAT liability regime does not intend to have any impact on normal VAT deduction rules at the level of the underlying supplier as determined by the applicable national legislation, i.e. any deductibility rights at the level of the underlying supplier – according to normal rules – are retained. It is up to the jurisdiction concerned to design the appropriate mechanism to that end (see further Chapter 2 of the Guidelines – Neutrality of value added taxes in the context of cross-border trade (OECD, 2017[2])).

4. The customer can make the payment for its purchase either to the digital platform or to the underlying supplier. If the payment is made to the underlying supplier, the digital platform will need to recover the VAT component from the supplier in order to remit the VAT to the tax authorities in the jurisdiction of taxation. Tax authorities are encouraged to consider implementing an appropriate bad debt relief arrangement to limit the potential risk of default by underlying suppliers in remitting the VAT to the digital platform provided that the digital platform has made reasonable efforts to ensure compliance.

5. In order for the digital platform to calculate the appropriate amount of VAT due on the underlying supply, the digital platform may have to require the underlying supplier to provide certain additional information other than what the digital platform routinely collects in its normal course of business.

6. Under the full VAT liability regime in the jurisdiction of taxation the digital platform assesses the VAT due on the sale of the low-value goods and collects and remits it to the competent authorities (it is acknowledged that tax and customs authorities may be housed under one entity and therefore VAT will have to be remitted to that entity). The imported goods will need to be declared at the border under the traditional customs procedures by the "importer of record" or the "declarant" (usually transporters such as express couriers or postal operators). The associated importation process could be designed and operated as follows:

- The imported goods are not subject to any customs or other duties since their value is below the customs duty low-value relief threshold. Their sale is subject to VAT, and under the country's full VAT liability regime for digital platforms, it is the relevant platform's liability to collect and remit this VAT to the relevant authorities in the jurisdiction of taxation. Since it is obligated to remit the VAT on the sale of the imported low-value goods, it is not required to remit the VAT on the importation of these goods at the border. The importation of these goods will thus be disregarded/exempted for VAT purposes. Suitable customs arrangements and processes will need to be in place to efficiently identify the imports that are covered by the full VAT liability regime at the time of their arrival at the border. Checks with respect to undervaluation/misclassification of imported goods will still need to be made by customs authorities as is currently the case.
- In order to collect and remit the VAT in the jurisdiction of taxation, the digital platform is required to register in the jurisdiction of taxation/importation and declare and remit the VAT there in accordance with the applicable rules in the jurisdiction. It is suggested that digital platforms are allowed to register via a simplified registration and compliance mechanism (or 'pay-only' regime) as recommended by the Guidelines (OECD, 2017[2]) and the Collection Mechanisms Report (OECD, 2017[3]).
- Tax authorities together with customs authorities need to ensure that the full VAT liability regime clearly sets out the requirements for the exemption of the VAT on the importation of the goods that are covered by the full VAT liability regime. This will require the necessary documentation accompanying the imported goods, including a valid VAT/GST registration number of the digital platform that is liable for the VAT on the supply of the imported goods from the online sale that it has facilitated, as well as other elements confirming the "VAT-paid" status of the imported goods (the requirement of more than one element for confirming the VAT-paid status of the imported

good, e.g. VAT registration number accompanied by a unique identifier per consignment could mitigate the risk of any fraudulent use of those elements).

- If these conditions for exemption at the border are not fulfilled, then the goods are held at the border and the normal customs procedure will apply, i.e. VAT will be due upon importation according to current procedures by the "importer of the good" or the "declarant".

7. To ensure that the information required to support the "VAT-paid" treatment at the border is made available to customs authorities in a timely manner, the liable digital platform needs to ensure that this information is passed on through the logistics chain (e.g. to the postal services or express couriers if goods are delivered through this channel). Alternatively, or in addition, the digital platform might have to make this information available to the underlying supplier (e.g. electronically), to include it the documentation provided up the delivery chain (postal services, transporters, etc.).

8. Customs authorities and tax authorities will need to have a mechanism in place to facilitate administrative co-operation, including the timely exchange of information.

Source: OECD (2019), The Platforms Report (OECD, 2019[5]).

Annex F. Tools and techniques to combine data and analytics

As international digital trade involves non-physical channels and may involve completely online services and intangibles that businesses can supply without any physical presence, it may not be possible for tax authorities to directly observe or collect data on every relevant transaction.

Tax authorities therefore need to obtain data related to the taxable events and circumstances through other sources in order to make accurate tax determinations. Data closely related to taxable events and their circumstances will facilitate better estimates and determinations to be made by the tax authority. These data may include, for example, the details of the transactions, activities or payments. However, some of these data may not be available for tax authorities in all cases, thus allowing only gross estimates. Based on the available information, tax authorities need to decide in which of these cases they will seek to obtain further information to refine their estimates for audit and enforcement purposes, depending on the risk of non-compliance. The Toolkit recommends that tax authorities perform such analysis using data analytics tools.

Tax authorities should consider adopting a data analytics strategy so that they can base their risk analysis on data. Such a strategy should take into account people, processes, analytics governance, and organisation, and establish a roadmap for the deployment of systems and infrastructures for data analysis.

To support VAT compliance and risk assessment in respect of non-resident suppliers and digital platforms that have VAT obligations in a given jurisdiction, the following groups of tools may be considered:

- Data acquisition;
- Data conversion;
- Data indexing;
- Descriptive analysis and crosschecks;
- Predictive and prescriptive analysis;
- Rule-based systems.

F.1. Data acquisition

As noted above, richer data and data more closely related to taxable events and circumstances, such as transactions, activities, or payments, enable better risk analysis. The Toolkit recommends that tax authorities analyse all available data sources related to international VAT to maximise the accuracy of their risk analysis by making best use of the obtainable information (see also subsections 6.2 and 6.5). In doing so, they could consider the following categories of data sources:

- Data declared by non-resident suppliers and digital platforms. As described in Section 5 of the Toolkit, tax authorities may deploy systems for businesses offering goods and services to declare their sales in the territory. Tax authorities may also possess other data declared by the same taxpayers related to other fiscal obligations.

- Data declared by other taxpayers for other purposes that may be relevant for risk assessment under a vendor collection regime.
- Data provided by third-parties under their reporting obligations, which could potentially include data by financial institutions or digital platforms (where these platforms are not themselves treated as suppliers under a jurisdiction's full VAT liability regime).
- National and international exchanges of information, such as exchanges of information with financial intelligence units.
- Information obtained upon request from the taxpayer or other entities, for example the movements on bank accounts requested from banks or the accounting files requested from taxpayers.
- Forensic data, obtained directly at the taxpayer's premises. In the context of VAT-compliance by non-resident suppliers and digital platforms, it is unlikely that tax authorities will have access to this kind of data unless enabled by administrative co-operation.
- Data directly observed by tax officials, for example by physical inspection of premises or activities in the case of international sales of goods through platforms (if possible, e.g. through administrative co-operation), or by making online purchases directly from high-risk non-resident suppliers and digital platforms who make supplies to national customers. In the case of services, such observation may look to public data sources as explained in the next paragraph.
- Data available in public sources, especially on the Internet. Tax authorities can either search the Internet in order to find websites related to international transactions or they can use scraping techniques to extract information from particular sites and platforms. With respect to scraping techniques, the scraping tool should be adjusted for each site or platform, and the process involves collecting the information, structuring it if necessary, identifying the persons involved in the transaction, and storing the details of the transaction in a form that is amenable to risk analysis. The main difficulties with reliance on public data sources is that platforms and websites tend to employ technical measures, such as the use of captcha mechanisms, in order to avoid the automatic extraction of information.

F.2. Data conversion

Data acquired by tax authorities may be received in a variety of formats. Tax authorities are encouraged to define the data formats that are most useful for them when acquiring data by means of a declaration or an interchange. They may even define specific formats to be provided by taxpayers upon request, for example in the case of reporting accounting records to tax authorities. For these purposes, tax authorities should favour the use of structured data, as analytic techniques are applied more effectively to structured data. Whenever available data is provided in unstructured or semi-structured formats, or in formats that differ from those used by tax authorities, thereby complicating integration, tax authorities will frequently need to structure or transform data, and this may diminish the quality of information. This will generally be the case, for example, for data acquired on the Internet.

Tax authorities may use data transformation tools in order to convert data into formats that are compatible with the rest of their data. In this context, tax authorities should take special care with regard to the codification of data, as there may not be a direct means of encoding received data. This problem arises particularly with respect to taxpayers' identification numbers (TINs). Data will usually need to be assigned to a certain person, and whenever the received data lack a TIN, tax authorities will need to use identification processes that may take into account all available data in order to match taxpayers with their TINs. Even when additional information such as dates of birth or addresses are used to identify taxpayers against tax authorities' taxpayer databases, the process may not be simple, as "fuzzy matching" techniques[160] need to be used in order to allow for misspellings and other possible errors in identification.

Textual data in image format will need to be converted into text by optical character recognition techniques. The quality of the conversion will depend on the quality and resolution of the original image, and it usually results in the receipt of unstructured text.

Natural language processing techniques are improving daily and can be used to obtain structured data from data comprised of unstructured text. Text analytics based on the definition of rules such as the analysis of regular expressions or against dictionaries can be used quite easily for the extraction of entities in documents, such as TINs, names, addresses, and so on. However, the richer the information to be extracted, the more costly and burdensome it will be to obtain such information with this approach.

Machine learning may also be used for the classification of images or of unstructured text. These techniques take into account sets of annotated data (data for which the classification has already been made, typically manually), infer the characteristics that define how the text or images have been classified, and automatically apply the same classification to new sets of data. While these techniques are promising, tax authorities need to recognise that obtaining annotated data sets that suffice for the purpose may be expensive or even impossible.

F.3. Data indexing

When tax authorities need to deal with unstructured text data, it will be useful to employ indexing systems that create indexes of all the processed information and allow for text searches in all the documents. This technique is particularly useful for forensic data analysis, as text documents and other unstructured information such as emails may be obtained in taxpayers' systems. Data obtained through scraping techniques may also be unstructured or semi-structured and benefit from this approach. Consequently, tax authorities may eventually confront the need to analyse this kind of information, which usually is accessed in an unstructured format for the purpose of international VAT risk analysis, and their analysis of the data will benefit from the use of indexing and related organisational techniques.

F.4. Descriptive analysis and crosschecks

Descriptive analysis consists in finding anomalies in data that can be signs of risk of non-compliance.

The simplest analysis involves data visualization and queries. Through visual inspection or queries on data, tax officials may find cases that do not seem to reflect indicia of normal business practices and that may indicate a risk. Data analytics platforms are software infrastructures that provide these functionalities among many others. It will be useful for tax authorities to grant access to relevant data for all tax officials who may be in position to detect new risks. In order to do so they will need to ensure the following dimensions of data governance: quality, security, semantic clarity, completeness, and integration.

When tax authorities have access to different data sources, crosschecks will be essential for the detection of risks of non-compliance. For example, comparing returns submitted by non-resident suppliers or digital platforms with bank payments or with information provided by logistics operators, tax authorities may find inconsistencies indicative of non-compliance.

[160] "Fuzzy matching" techniques in the context of taxpayers' identification enable the identification of a taxpayer when only part of its complete name or a misspelled name is available. In doing so, these techniques take into account the similarity of the incomplete or misspelled name with all the complete names in the taxpayers' database, choosing the closest. Thresholds may be set in order not to provide an identification when more than one taxpayer are at a similar distance from the name being searched.

Applying statistical analysis to data will provide tax authorities with further insights. Business specialists may perform the simplest analyses as in the case of identifying outliers in business indicators. For example, tax authorities may assume that similar companies have similar business indicators, such as time evolution of sales or average price of goods or services. Outliers may be due to differences in business practices or in non-compliance. For this purpose, clustering techniques may be applied in order to find groups of similar taxpayers and to establish that differences between taxpayers in a group are less likely due to normal business circumstances.

Another example of simple analysis is the use of Benford's law, which states certain frequency distribution of leading digits in numerical data sets that respond to certain distributions. This approach can be used in order to find anomalies in sets of data, for example in the declared value of operations. If the value of declared transactions by a taxpayer does not respond to Benford's law when similar taxpayers do, it may indicate that the taxpayer is inventing or selecting the values it declares to tax authorities.

More advanced statistical analysis may be applied to data to gain further insight. However, tax authorities must bear in mind that most of the insight is obtained with simple analysis by business experts. The Toolkit, therefore, encourages tax authorities to place their major efforts in ensuring availability of data for business experts through intense data governance, as supported by tax authorities' involvement in data analysis through training, availability of data analytics infrastructures and the help of data analysis experts. When a sufficient number of senior tax officials have access to all relevant data, further insight from specialised techniques will be less essential, and can lead to a reduction in the size of the team of data scientists upon which tax authorities previously relied for their data insights.

The analysis of indirect relationships between taxpayers or between any kinds of data will require the use of network analysis (frequently known as social network analysis or SNA). Network visualisation tools will allow tax officials to depict a limited number of relationships (for example family and corporate relationships) between a group of taxpayers, who may, for example, have split their business into separate companies in order to be less visible to tax authorities. When larger networks need to be analysed, specialised queries may be used to find relationships that respond to certain conditions. More advanced network analysis techniques can be used by tax authorities in order to find anomalies in the inter-relationships among taxpayers but will require the participation of data scientists in order to select and implement algorithms. When tax authorities plan to use network analytics for the identification of international VAT risks, they must bear in mind that availability of relationship data for non-resident businesses may be limited and, therefore, network analysis less useful.

Unless large tax authorities deal with information regarding individual transactions, such as the declaration of individual invoices, or relationships in very large networks, they do not normally deal with data sets larger than a billion records. Therefore, many data analytics platforms and technologies may be used for most purposes. When data sets exceed the range of a billion records, the use of big data technologies, which distribute processing among a range of inexpensive data processors, may be necessary.

F.5. Predictive and prescriptive analysis

Tax authorities may estimate that certain known characteristics of taxpayers (or behaviour-input data) may be a good predictor of other characteristics of those taxpayers (or behaviour-output data). For example, transactional data required to be reported by the financial system (e.g. payments by credit card to non-residents) may be used to predict present or future sales. Likewise, sales of a group of taxpayers combined with other characteristics of their business such as the number of positive opinions shared by their customers in a digital platform can be used to predict the sales of other groups of taxpayers. If tax authorities have data sets that already contain input and output data for a number of taxpayers, then they may use supervised analysis to predict the output data for a different group of taxpayers. Supervised analysis is a set of techniques that enable the deduction of a function (be it numerical or categorical) based on a set of training input-output data. Applying the function to new input data enables tax authorities to predict output data for that input. Therefore, supervised techniques, or supervised learning, can be used by tax authorities to predict taxpayers' behaviour. Prescriptive analysis will use that information in order to make decisions.

Known results for a set of input data different from the one used to deduct the function may be used by tax authorities to measure the effectiveness of the deducted function. This approach may also be used to determine the input data for which the deducted function is able to produce results of a certain quality. The terms' precision and recall are measures of the number of cases for which the prediction is correct or for which a correct prediction is made in comparison with the total occurrences of that prediction. Nevertheless, regardless of the quality of the precision and recall of a particular algorithm, tax authorities will need to check its performance against real data. They can do this by comparing the hypothesised results that they generate from applying the function to a set of input data against the recorded results for that set of input data in real life.

The availability of adequate data that can be used to estimate the function (training data) is of utmost importance in supervised analysis, as it is the base of the analysis. Some of the reasons why data can be inadequate are:

- An insufficient quantity of data will affect the quality of the model. When the number of different inputs that need to be considered increases, that is, when many unrelated conditions affect the result, the size of the training data set will also need to increase.
- Biases in the training data will be replicated in the results of the model. For example, past decisions of tax officials may be used to create a model in order to predict what their decisions would be for new cases – and eventually automate those decisions. If tax officials were biased in their decisions, for example against or in favour of certain type of taxpayer, the results of the model will replicate that bias.
- A typical type of bias is the assumption that what has happened in the past can be applied to the future. Training data will usually be used to obtain a function that can be applied to new data. In doing so, tax authorities are assuming that the behaviour of taxpayers will be consistent over time, while it may have changed due to information that is not necessarily present in the model (such as changes in the economic environment). Therefore, updating the models is essential.

Tax authorities may consider using supervised learning to predict non-compliance, based on known cases of non-compliant taxpayers or risk occurrences.

F.6. Rule-based systems

The term rule-based systems means systems for which tax authorities may define known risk types, in terms of preselected queries to databases or conditions over a flow of data that are denominated as rules, so that these rules can be applied to new incoming data in order to identify new risk occurrences for the known risk types. For example, risks identified by business experts such as incoherence in crosschecks are easily expressed as rules, which are often called business rules. Many risks identified through statistical analysis may also be expressed in terms of conditions in data, and therefore as rules.

Rule-based systems may be used by tax authorities to create risk management systems. The repository of risks will be expressed in formal terms as rules in the system and the results of any risk evaluation may be combined with other risks in order to determine what actions may be taken.

The connection of the rule-based system with the tax authorities' operational systems will ease the production of automatic actions in response to risks.

F.7. Using the results of analytics

The means by which tax authorities make use of the results is critical to obtaining the essential benefit of the use of data analytics and risk analysis. For example, inadequate risk governance and knowledge management may result in different sectors of the tax authority using different approaches for the same cases. Another common example would be the partial use or non-use of the results of some analysis due to the inability to make them available to concerned tax auditors.

Risk governance and particularly risk infrastructures need to be adopted by tax authorities. Specifically, they must ensure that all identified risks are uploaded and updated in the risk repository, so that any selection for further action can profit from all the known risks at the tax authority.

When defining the actions that should be taken for certain risk or combination of risks, tax authorities should take into account the nature of the risk definition as well as the quality of data and precision and type of algorithms that are implicated.

Tax authorities may consider taking automatic actions in response to risks expressed in terms of rules, especially when such rules have been introduced into legislation and the quality of data used to evaluate such rules is good. For example, legislation could be adopted requiring registration by non-resident businesses receiving payments that exceed a certain threshold. If information regarding such payments was received from a reliable source such as a bank, automatic actions could be adopted in order to enforce such registration.

In cases involving poor data quality, potential bias in training data, low precision of models, or even the use of algorithms that are difficult to explain or face potential controversy, tax authorities may reconsider the use of automatic enforcement actions. In order to do so and enhance the application of the results of the analysis, tax authorities should also consider the risk and consequences of a potential incorrect or biased decision. Alternatives range from automatic actions of a relatively inconsequential character, to combining the identified risks with other risks in order to decide more consequential automatic action, or even proposing the selected risk case for manual decision. For example, data about rental offers extracted from the Internet may be of low quality due to the difficulty in identifying the offering taxpayer. In such a case, tax authorities may send letters to the taxpayer explaining the applicable tax requirements and inviting compliance before further action is taken.

Annex G. Application of the Multilateral Convention on Mutual Administrative Assistance in Tax Matters (MAAC) – OECD Member countries

	VAT covered by the MAAC[3]	Reservations[2] to the application of the MAAC[1] to VAT[4]		
		Reservation to provide assistance in the exchange of information based on Art. 30 (1) (a)	Reservation to provide assistance in the recovery of VAT claims or administrative fines based on Art. 30 (1) (b)	Reservation to provide assistance in the service of documents based on Art. 30 (1) (d)
Australia	Yes			
Austria	Yes		Reservation	
Belgium	Yes			
Canada	Yes		Reservation	Reservation
Chile	Yes		Reservation	Reservation
Colombia	Yes		Reservation	Reservation
Costa Rica	Yes		Reservation	Reservation
Czech Republic	Yes			
Denmark	Yes			
Estonia	Yes			
Finland	Yes			
France	Yes			
Germany	Yes		Reservation	
Greece	Yes			
Hungary	Yes			
Iceland	Yes			
Ireland	Yes			
Israel	No	No assistance	No assistance	No assistance
Italy	Yes			
Japan	Yes			
Korea	Yes			Reservation
Latvia	Yes			
Lithuania	Yes			

	VAT covered by the MAAC[3]	Reservations[2] to the application of the MAAC[1] to VAT[4]		
		Reservation to provide assistance in the exchange of information based on Art. 30 (1) (a)	Reservation to provide assistance in the recovery of VAT claims or administrative fines based on Art. 30 (1) (b)	Reservation to provide assistance in the service of documents based on Art. 30 (1) (d)
Luxembourg	No	No assistance	No assistance	No assistance
Mexico	Yes			
Netherlands	Yes			
New Zealand	Yes			
Norway	Yes			
Poland	Yes			
Portugal	Yes			
Slovak Republic	Yes			
Slovenia	Yes			
Spain	Yes			
Sweden	Yes			
Switzerland	No	No assistance	No assistance	No assistance
Türkiye	Yes			
United Kingdom	Yes			
United States[5]	Yes		Reservation	Reservation

Notes:

1. This table refers to the participation of States to the Multilateral Convention on Mutual Administrative Assistance in Tax Matters (MAAC), i.e. where the MAAC has entered into force following the signature of either the original convention and its protocol or the amended convention, and the subsequent deposit of the instrument of ratification, acceptance or approval. More detail can be found at https://www.oecd.org/tax/exchange-of-tax-information/Status_of_convention.pdf

2. Reservations are provided by Art. 30 (1) (a), (b) and (d) of the MAAC. Article 30 (1) (a) to (f) enables a State to sign the MAAC with reservations about the type of tax to be covered or the type of assistance to be provided, so that it may limit its participation in the provision of mutual assistance under the MAAC to certain taxes or certain forms of assistance. This table shows reservations provided by Art. 30 (1) (a), (b) and (d) of the MAAC. Reservations shown for Art. 30 (1) (a) in this table are those concerning forms of assistance other than those covered by (b) and (d) i.e. exchange of information, simultaneous tax examinations and tax examinations abroad.

3. According to paragraph 2 of Article 2 of the MAAC, the participant States' existing taxes to which the MAAC shall apply are listed in the Annex A to the Convention. These are the taxes in relation to which a Party to the MAAC expects to receive assistance and should not include a tax in respect of which such jurisdiction has made a reservation under paragraph 1, sub-paragraph a, of Article 30

4. Even if a State does not include a general consumption tax, such as VAT, as tax covered by the Convention according to paragraph 2 of Article 2 of the MAAC, it remains committed to providing administrative assistance in relation to such a tax of other States, unless it makes a reservation under paragraph 1, of Article 30. On the other hand, if a State includes VAT in the scope of the Convention, it may still reserve the right not to provide certain forms of assistance related to this tax.

5. The United States will only provide assistance for the purposes of the exchange of information with respect to VATs imposed at the national level as covered in Article 2, b.iii. Assistance will not be provided for other forms of assistance or for VATs imposed at the subnational level by virtue of Article 2, b.iv.

Source: Reproduced from OECD (2022), *Consumption Tax Trends 2022: VAT/GST and Excise, Core Design Features and Trends* (OECD, 2022[105]); See Annex Table 2A.13. (status as at 1 January 2022).

Definitions/Glossary of terms

BEPS: The abbreviation for "Base Erosion and Profit Shifting". It refers to tax planning strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations where there is little or no economic activity or to erode tax bases through deductible payments such as interest or royalties. Although some of the schemes used are illegal, most are not. Working together within the OECD/G20 Inclusive Framework on BEPS, over 140 countries and jurisdictions are collaborating on the implementation of 15 measures (the BEPS Package) to tackle tax avoidance, improve the coherence of international tax rules and ensure a more transparent tax environment. The BEPS Action 1 Report includes recommendations to tackle BEPS in the VAT/GST area.

BEPS Action 1 Report: The 2015 Final Report on Action 1 "*Addressing the Tax Challenges of the Digital Economy*" of the OECD/G20 Base Erosion and Profit Shifting Project.

BEPS Interim Report: The 2018 report on the progress of the BEPS project, entitled *OECD/G20 Base Erosion and Profit Shifting Project: Tax Challenges Arising from Digitalisation – Interim Report 2018*.

Business: An entity recognised as a business for VAT purposes in national law. A business may be a legal entity, an establishment of a legal entity (e.g. a branch), or an individual.

Business agreements: A business agreement consists of the elements that identify the parties to a supply and the rights and obligations with respect to that supply. They are generally based on mutual understanding.

Collection Mechanisms Report: The 2017 OECD report on *Mechanisms for the Effective Collection of VAT/GST Where the Supplier Is Not Located in the Jurisdiction of Taxation*.

Consumer: Any natural person that tax authorities do not recognise as "trading" or being "in business".

Consumption: Final consumption, usually by households that comprise consumers. In addition, under most VAT frameworks this term logically encompasses purchases by businesses for non-business use.

Digital platforms: This term is used in this Toolkit as a generic term to refer to platforms that enable, by electronic means, direct interactions between two or more customers or participant groups (typically buyers and sellers) with two key characteristics: (i) each group of participants ("side") are customers of the platforms in some meaningful way, and (ii) the platform enables a direct interaction between the sides. These platforms are also known as multi-sided platforms.

Destination principle: The principle whereby, for consumption tax purposes, internationally traded services and intangibles should be taxed according to the rules of the jurisdiction of consumption.

Digital trade: The term is used to encompass a broad range of digitally enabled sales or purchases of services, intangibles and (physical) goods that can be either digitally or physically delivered, involving both private individuals and businesses.

Digital products/content: The terms generally refer to intangible property (i.e. products capable of being delivered in an electronic format) as opposed to tangible property.

E-Commerce: The term is broadly defined by the OECD Working Party on Indicators for the Information Society as "the sale or purchase of goods or services, conducted over computer networks by methods specifically designed for the purpose of receiving or placing of orders. The goods or services are ordered by those methods, but the payment and the ultimate delivery of the goods or services do not have to be conducted online. An e-commerce transaction can be between enterprises, householders, individuals, governments, and other public or private organisations". Unless the context of particular discussion specifies otherwise, this Toolkit utilises the term "e-commerce" interchangeably with "digital trade".

Financial intermediary-based VAT withholding: Any regime or measure that makes financial intermediaries, such as banks and PSPs, responsible for collecting and remitting the VAT on payments for taxable supplies. In the context of this Toolkit, the use of the term focuses primarily on measures in which financial intermediaries collect VAT on payments to non-resident suppliers.

Full VAT liability regime: The phrase generally refers to a full VAT liability model for digital platforms. Under such a regime, the digital platform is designated by law as the supplier for VAT liability purposes. The digital platform is solely and fully liable for assessing, collecting and remitting the VAT on the online sales that go through the platform, to the tax authorities in the jurisdiction of taxation, in line with the VAT legislation of that jurisdiction. This liability regime is normally limited to VAT obligations only. It does not deal with any other liability aspects for digital platforms beyond VAT, such as for instance product liability.

Guidelines: The *International VAT/GST Guidelines*, as the OECD Council incorporated them on 27 September 2016 in the *Recommendation of the Council on the Application of Value Added Tax/Goods and Services Tax to the International Trade in Services and Intangibles* [OECD/LEGAL/0430].

Intangibles: In the context of this Toolkit, the phrase "supplies of intangibles" refers to supplies other than supplies of goods or services, such as supplies of intellectual property rights and other intangibles.

Low-value imported goods: Goods that are imported from abroad with a customs value below the jurisdiction's customs duty low-value relief threshold.

Model Reporting Rules for Digital Platforms: The 2020 OECD publication on *Model Rules for Reporting by Platform Operators with respect to Sellers in the Sharing and Gig Economy* as complemented by the 2021 publication on *Model Reporting Rules for Digital Platforms: International Exchange Framework and Optional Module for Sale of Goods*.

Non-resident supplier: Supplier not located in the jurisdiction of taxation. The reference is to cases where the jurisdiction of taxation may have limited or no authority effectively to enforce a collection obligation upon the supplier.

Platforms Report: The 2019 OECD publication on *The Role of Digital Platforms in the Collection of VAT/GST on Online Sales*.

Principles of VAT neutrality: These principles are set forth in Chapter 2 of the Guidelines. This term refers to the basic principles underpinning the neutrality of VAT for businesses, which is a necessary corollary of the basic definition of a VAT as a broad-based tax on final consumption that is imposed in a staged collection process including taxes collected from (but not ultimately borne by) businesses. The concept of tax neutrality in VAT has a number of dimensions, including the absence of discrimination and the elimination of undue tax burdens and disproportionate or inappropriate compliance costs for businesses.

Services: In the context of this Toolkit, the phrase "supplies of services" refers to any supply other than supplies of goods or intangibles. [N.B. Certain jurisdictions define supplies of services to include any category of supply other than goods and so, by extension, the definition of services also includes intangibles.]

Simplified VAT registration and collection regimes for non-resident businesses: Simplified registration-based regime for the collection of VAT in cases where the supplier or digital platform is not located in the jurisdiction of taxation, as recommended in the *International VAT/GST Guidelines* (Section C. 3.3.) and in the BEPS Action 1 Report (Section 8.2.2 and Annex D).

The sharing and gig economy: The working description of the sharing and gig economy, which the OECD outlines in its report on *The Impact of the Growth of the Sharing and Gig Economy on VAT/GST Policy and Administration*. This working description is:

- An accessibility-based socio-economic model typically enabled or facilitated via advanced technological solutions and trust-building tools, whereby human or physical resources and/or assets are accessible (for temporary use)/shared – to a large extent – among individuals for either monetary or non-monetary benefits or a combination of both.

The Sharing and Gig Economy Report: The 2021 OECD publication on The Impact of the Growth of the Sharing and Gig Economy on VAT/GST Policy and Administration.

VAT registration threshold: Amount, measured in currency, of taxable supplies made within or into a jurisdiction, below which suppliers are relieved of the obligation to both register for and collect VAT.

Value Added Tax/VAT: Any national tax that embodies the basic features of a value added tax as described in Chapter 1 of 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, whatever method is used for determining the tax liability (e.g. invoice-credit method or subtraction method).

The *VAT Digital Toolkit for Africa* supports tax authorities on the continent with the design and implementation of measures to ensure the effective collection of value added taxes (VAT) on e-commerce.

Africa is a major and growing market for global e-commerce. VAT is the single largest source of tax revenue in African jurisdictions on average. The challenges to collect VAT on continuously growing e-commerce sales create increasingly significant pressures for VAT regimes in Africa and worldwide. These challenges concern collection on booming sales of online services and digital products to private consumers ("apps", streaming, gaming, ride-hailing, etc.) and on online sales of low-value imported goods, often by foreign merchants. VAT may often not be levied effectively on these sales under existing rules in African jurisdictions.

This Toolkit provides detailed guidance for the implementation of a comprehensive VAT strategy directed at all types of e-commerce. It aims to help governments in Africa secure important VAT revenues and ensure a level playing field between bricks-and-mortar retailers and foreign online merchants.

The OECD has produced this Toolkit in partnership with the World Bank Group, following publication of editions for Latin America and the Caribbean and for Asia-Pacific. The African Tax Administration Forum (ATAF) has contributed considerably as the key regional partner for Africa.

For more information

ctp.contact@oecd.org

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