



“Ensuring fair and effective revenue collection through cooperation”

Session 6

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Challenge of collecting VAT on low-value imported goods highlighted in OECD/G20 BEPS Action 1 Digital Economy Report (2015)



Strong growth of international online sales of low-value imported goods

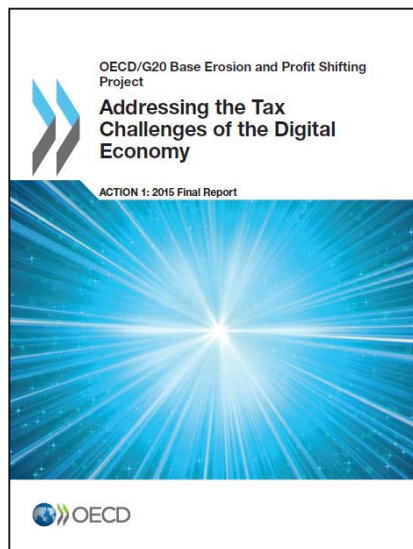
- Cross-border parcel volume estimated at **65 billion in 2016** across 13 major markets and growing at an estimated 17%-28% per year between 2017 and 2021 (Pitney Bowes, 2017)
- Some **360 million online shoppers** worldwide made cross-border purchases in 2019, around 25% of all online shoppers - and increasing (UNCTAD, 2021)

Challenges for customs processes, incl. VAT low-value reliefs

- Growth of imports of goods that are sold **VAT-free online** - under VAT low-value import reliefs
- Widespread **non-compliance/fraud**, incl. from under-declaration, misdeclaration and “fulfillment house structures”

Key policy concerns highlighted by G20/OECD

- Growing **unfair competitive pressures** on domestic retailers – Incentive for offshore relocation
- Growing **VAT revenue losses**, incl. from organised fraud and non-compliance
- Adverse impact on **employment and direct tax revenues**





Reform to facilitate VAT collection on low-value imports considered necessary in jurisdictions that wish to address this issue

- **Need to enhance the efficiency of collecting the VAT on imports of low-value goods from online sales at the border**
 - This allows governments to lower/remove the exemption thresholds “should they wish to do so”
- **Reduce the burden of VAT collection for customs authorities**
 - Remove/reduce the need for customs authorities to intervene in VAT collection for imports of goods with a **customs value at or below the customs duty relief threshold (*de minimis*)**
 - By reassigning VAT liability to **online vendors + digital platforms** (and other intermediaries) in online trade
 - Require online vendors + digital platforms (and other intermediaries) **to register and remit the VAT on low-value imported goods** to the jurisdiction of importation, via an online registration and collection portal



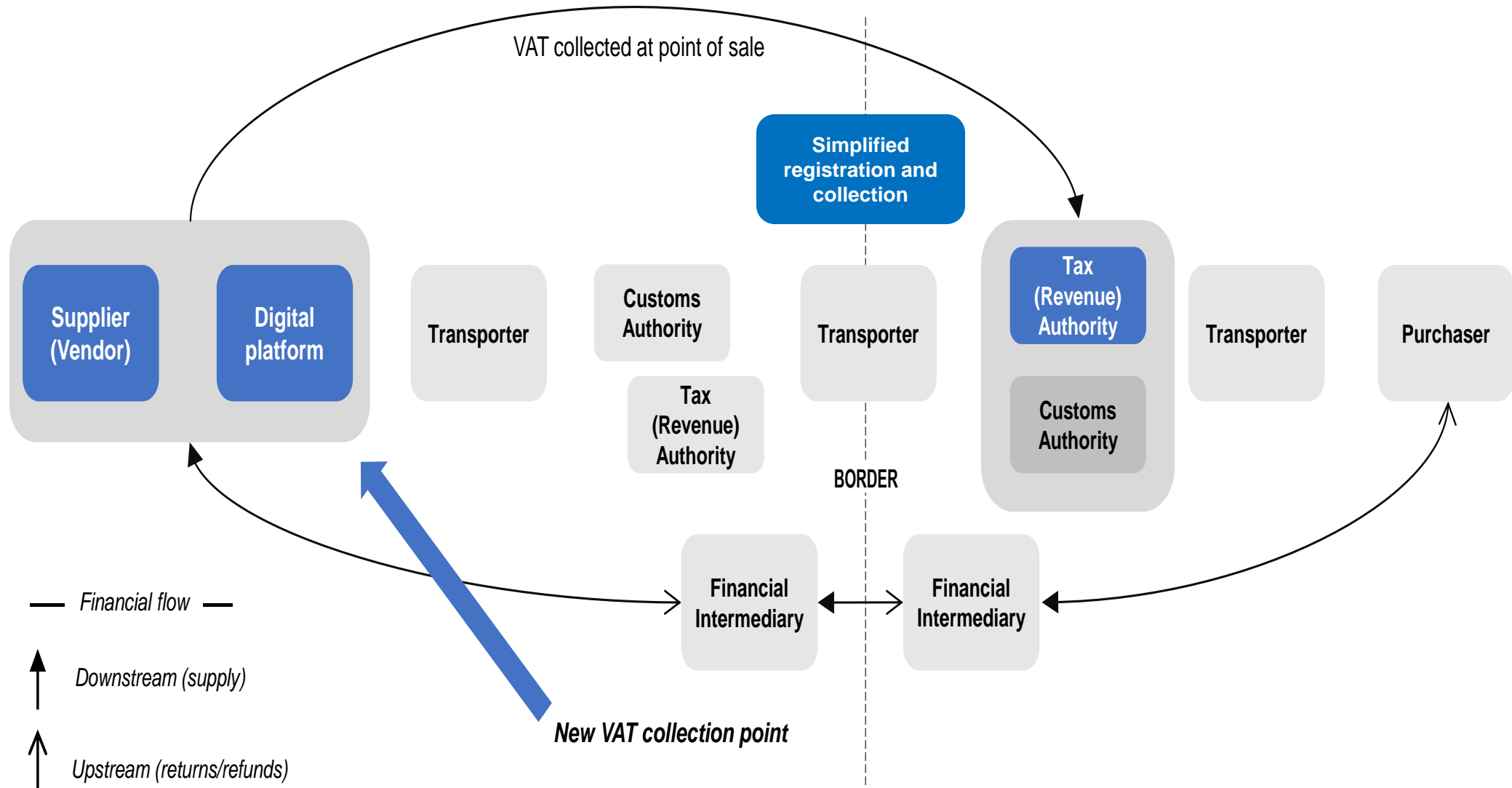
Analysis suggested that a “vendor / intermediary collection” approach offered most promise

- Jurisdictions will generally opt for a **combination**

Traditional collection model	<ul style="list-style-type: none">• Often still paper-based and manual processes• Labour intensive. Expensive and inefficient in light of considerable and rising volume of small consignments crossing borders• Efficiency expected to improve through implementation of electronic processes (electronic pre-arrival declaration/assessment/payment)
Purchaser collection model	<ul style="list-style-type: none">• Compliance likely to be low. Complex to administer/police
Vendor collection model	<ul style="list-style-type: none">• Likely to improve efficiency of import-VAT collection• Simplified registration/compliance regime + “fast-track” processing likely to support compliance – reduce revenue losses from under-/mis-declaration• Traditional collection model as fall back• Likely to require considerable systems changes
Intermediary collection model	<ul style="list-style-type: none">• Intermediaries collect/remit the VAT/GST on behalf of vendors• <u>E-commerce platforms and express couriers</u> are ready, also increasingly• <u>Postal operators</u> not ready: processes still manual/paper based. Transition towards e-processes has started• <u>Financial intermediaries</u> do not have the necessary information



Basic operation of the vendor/intermediary collection model





Timely exchange of information needed to minimise double taxation and unintentional non-taxation risks under vendor/intermediary collection model

- **Timely exchange of information needed throughout supply and delivery process, primarily via the exchange of electronic advance data (EAD) with customs authorities**
 - Customs authorities must be able to identify VAT settlement status of the goods at time of importation
 - EAD are normally available for goods that are transported via cargo and express courier channels
 - EAD are also increasingly available for goods that are transported via postal operators
- **The main reporting requirements for a vendor/intermediary under a vendor/intermediary collection regime for imports of low-value good are...**
 - The notification to the customs authorities of its VAT registration number, and
 - The VAT settlement (“VAT paid”) status of the low-value consignments.
- **“VAT paid” status to be indicated through labelling on consignments**
 - Via electronic means where possible (customized barcodes, QR codes...)
 - Some jurisdictions require/allow suppliers to inscribe their VAT registration number onto package labelling – be aware of fraud risks from identity theft



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