



**Asia-Pacific
Economic Cooperation**

2021/SOM3/CTI/WKSP2/002

**OECD Policy Framework for the Application of Value
Added Tax / Goods and Services Tax, to
Internationally Traded Services and Intangibles**

Submitted by: OECD



**Workshop on the Application of Non-
Discriminatory Internal Taxes to Electronic
Transmissions
12 August 2021**



VIRTUAL APEC WORKSHOP

OECD policy framework for the application of VAT/GST to internationally traded services and intangibles

12 AUGUST 2021

PRESENTATION BY THOMAS ECKER



OECD / G20 BEPS Project

G20 leaders rang the alarm bell



*'The collection of VAT on business-to-consumer (B2C) supplies of goods and services arising from online sales is a **pressing issue that needs to be addressed urgently** to:*

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



Key challenges identified by G20

1. **Online sales of services / digital products** to private consumers (B2C), particularly sales by offshore online vendors
2. Booming volume of **goods, typically with low (declared) value, sold online and crossing international borders**



Key VAT challenges for B2C sales of online services and digital products

- The internet allows remote sellers to sell to private consumers worldwide, **without a physical presence in the consumer's jurisdiction**
 - 'Scale without mass'
- Often **no or inappropriately low VAT collected** in consumer's jurisdiction.
 - Jurisdictions may lack provisions to impose VAT on such supplies under traditional VAT rules
 - Difficult to collect from remote seller under traditional procedures
 - Collection from private consumers proven to be ineffectual

Key policy concerns

- Growing **VAT revenue losses**
- **Competitive distortion**
 - Incentive for domestic retailers to relocate offshore
- **Adverse impact on employment and other tax revenues**

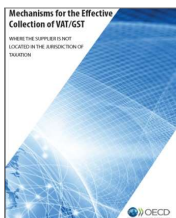


OECD has developed standards and guidance to address VAT challenges of the digital economy



The International VAT / GST Guidelines

- **Global standard** for the application of VAT to international trade in services and intangibles:
 - **Adopted by OECD / G20** economies.
 - Endorsed by 100+ jurisdictions and international organisations in 2015.
- Adopted by OECD Council as **OECD Council Recommendation C(2016)120** of 27 September 2016.



Mechanisms for the Effective Collection of VAT / GST

- Focus on digital sales by **non-resident sellers**.
- Key policy and design challenges and solutions.
- Detailed guidance on the design and operation of a **simplified, web-based compliance and collection regime**.
- Endorsed by 100+ jurisdictions and international organisations in 2017.



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

- Increasing the effectiveness and the efficiency of VAT collection on online sales by enlisting 'online marketplaces' and other digital platforms in the collection process.
- Supplies of services, digital products, and goods (including importation), from online sales.
- Focus on (1) making platforms liable for collecting / remitting the VAT and (2) data sharing.
- Endorsed by 100+ jurisdictions and international organisations in 2019.



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

- Key challenges and opportunities from sharing/gig economy growth for VAT policy and administration
- Potential policy responses for tax authorities to consider:
 - Focus on role of digital platforms, plus other possible options for policy and administration
 - Accommodation and transportation sectors used as pilot cases
- Inclusive process involving tax authorities worldwide and business community through the Global Forum on VAT.

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Overview of the core OECD Recommendations

1. Create effective legal basis for the right to tax inbound international online sales (esp. services)

- ✓ Implement a **'place of taxation' rule** by reference to the usual residence of the consumer

2. Implement an efficient and effective collection mechanism

- ✓ **Reverse charge** for supplies to businesses (B2B; where in line with VAT regime)
- ✓ Introduce a requirement for non-resident digital suppliers to register and account for the VAT on B2C 'remote digital sales' through a **simplified registration and compliance mechanism**

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

- ✓ Further facilitate and enhance compliance by **enlisting marketplaces and digital platforms** in VAT collection on digital sales, including online sales of goods

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

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

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State of play for remote services / digital products

70+ of economies have implemented the OECD Recommendations for the collection of VAT on digital sales of services and intangibles

- Incl. **Australia**; Bahamas; Bahrain; Barbados; Belarus; European Union (27 Members); **Chile***; Colombia*; Costa Rica*; Iceland; India; **Indonesia**; **Japan**; **Korea**; **Malaysia****; **Mexico**; Moldova; **New Zealand**; Norway; **Russian Federation**; Saudi Arabia; **Singapore**; South Africa; Switzerland; **Chinese Taipei**; Turkey; United Arab Emirates; United Kingdom; Uruguay; Uzbekistan...

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

More economies are implementing or considering such reform

- Incl. Angola; Armenia; Bangladesh; Cameroon; Egypt; Fiji; Kazakhstan; **Thailand**; **the Philippines**; Ukraine; **Vietnam**...
- Many others, including in Asia-Pacific, Latin America and in Africa, which have not yet announced publicly.

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

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

Business feedback is generally positive

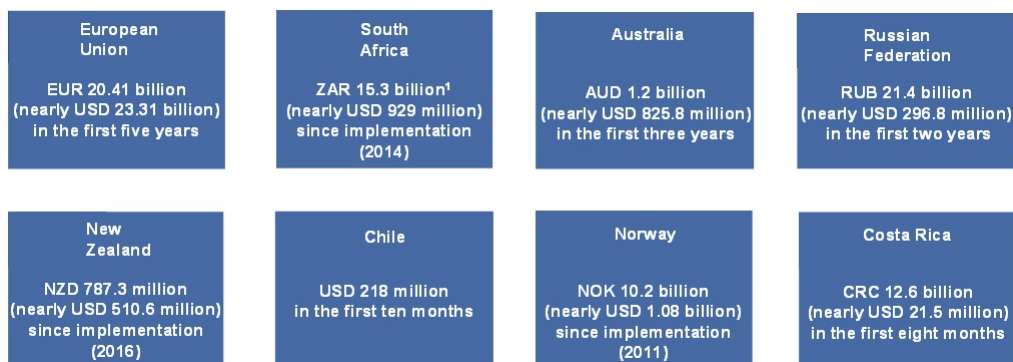
- Adoption of **OECD standards facilitates compliance** for digital businesses making sales in multiple economies.
- VAT compliance is **systems-driven** – Consistency makes it easier to 'add economies' to compliance processes.

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State of play for remote services / digital products

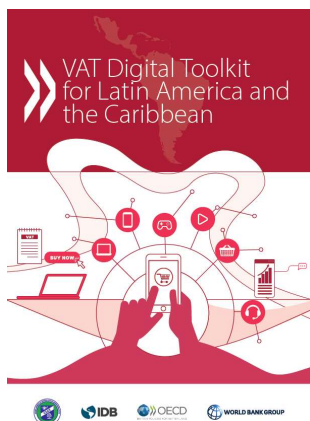
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1. South Africa expanded its regime for VAT collection by non-resident suppliers on international supplies of services and intangibles in 2019 to include B2B transactions. This number thus includes certain B2B transactions on which the customer would have been able to reclaim the VAT as input tax.
Source: OECD, *VAT Digital Toolkit for Latin America and the Caribbean* (2021).



VAT Digital Toolkit for LAC



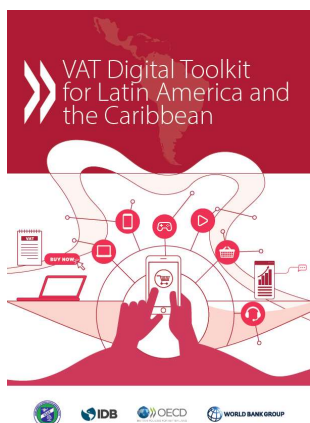
Detailed manual covering all aspects of a successful VAT strategy targeted at e-commerce

Based on OECD guidance and international "best practices"

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next:
[VAT Digital Toolkit for Asia Pacific](#)



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