

The Full VAT/GST Liability Regime of Digital Platforms in the Collection of Taxes on Online Sales

Ilija Gruevski¹, Stevan Gaber²

UDC 339.1:004.738.5]:336.226.322(100)

¹*Goce Delcev University, Faculty of Economics, Krste Misirkov St., 10-A, Republic of Macedonia, e-mail: ilija.gruevski@ugd.edu.mk*

²*Goce Delcev University, Faculty of Economics, Krste Misirkov St., 10-A, Republic of Macedonia, e-mail: stevan.gaber@ugd.edu.mk*

It is unarguable that development of electronic markets and other digital platforms facilitated the transactions between buyers and sellers and continuously contributed to the rapid growth of online trade. This trend has never been more obvious during the pandemic crisis as the evidence suggests that more than two-thirds of all cross-border e-commerce sales of goods around the world are made through online markets. The growing significance of this segment is raising the question for a more efficient and effective collection of VAT/GST on online sales of goods, services and intangibles. Some jurisdictions have already implemented measures that obligate digital platforms to collect VAT/GST on online sales, and more importantly, have reported positive outcomes in improving compliance and tax revenue gains. Encouraged by these results, the OECD initiated a development of internationally accepted standards and measures for the efficient involvement of digital platforms in the VAT/GST collection on online sales. The aim of this article is to present a short elaboration of the OECD practical guidelines and principles on the design and implementation of the possible solutions for involvement of e-markets and other digital platforms as a viable VAT/GST collection means. Eventually, it can serve as an initial frame for domestic and other authorities for the possible implementation of such a similar measure, especially in near future, as every additionally collected revenues may become more important.

Keywords

Value Added Tax (VAT), Goods and Services Tax (GST), Full VAT/GST liability regime, digital platforms, digital economy, tax reform, tax policy.

1. Introduction

Digital economy has never been more influential on international trade than nowadays, when the COVID-19 pandemic has restricted physical and social contacts, closed the economies worldwide and fundamentally changed everything that humans have used to do before. Electronic marketplaces and digital platforms, which are some of the most essential constituents of digital economy, play a central role in the continuous strong growth of online trade by enabling sellers and buyers to interact and make transactions. Numbers indicate that almost two-thirds of all cross-border e-commerce sales (before the pandemic) were realized through online marketplaces. These radical shifts in business customs and the way international sales and trade are done, are opening new windows of opportunities for a more efficient and reliable collection of VAT/GST, especially on online sales of goods, services and

intangibles to private consumers. A number of jurisdictions have already recognized the moment for the possibility to engage digital platforms as a person liable for collecting, assessing and remitting VAT/GST on online sales. Against all odds, the pioneering countries have reported encouraging initial results and have reported successful outcomes in terms of compliance improvement and increased tax revenue. This was inspiring for the OECD, to begin the development of internationally agreed set of measures for the inclusion of digital platforms in the VAT/GST collection on online sales, serving as a guidance frame in case of implementation for the intending jurisdictions.

The goal of this article is to present and describe the approach in tax policy, where digital platforms are obligated to assess, collect and remit VAT/GST on online sales, with the imposition of the full VAT/GST regime. This is part of the new reform in the field of VAT/GST, that has been undertaken recently by the OECD in the context of an accelerating digitalization and globalized economy. Several studies establish recommendation for the standards and mechanisms of this concept. The most relevant are: *“Base Erosion and Profit Shifting”*, *“The Role of Digital Platforms in the Collection of VAT/GST on Online Sales”*, *“International VAT/GST Guidelines”*, *“Addressing the Tax Challenges of the Digital Economy”* *“Mechanisms for the Effective Collection of VAT/GST”* and others. These are extensively reviewed for the purpose of the article, and with application of adequate methods, we competently present the full VAT/GST regime of digital platforms, as a competitive mean for collection of revenues. As a messenger of the new trends in tax policy, we hope that our work will draw the attention at least of the tax authorities, as they will find it useful to consider this as a beginning frame in the attempts to reform and modernize internally.

2. The Explosive Growth of Online sales

It is more than obvious that the rapid digitalization of the economy and the pandemic have launched the explosive growth of online sales and have permanently changed the nature of retail sales of goods and services to private consumers (business-to-consumer or B2C sales). Under the usual (common) circumstances, a consumer would traditionally make a purchase of a certain good from a local store. Now, in the era of digital economy, his first choice would be an order from the website of the store or from an online domestic or international supplier, with other words, a digital platform where many suppliers advertise and offer their products for sale. The impact of the digital economy on the international trade and its implications, have brought new challenges for the policymakers, participating actively in the numerous reforms and projects from this important field under the provision of the OECD.

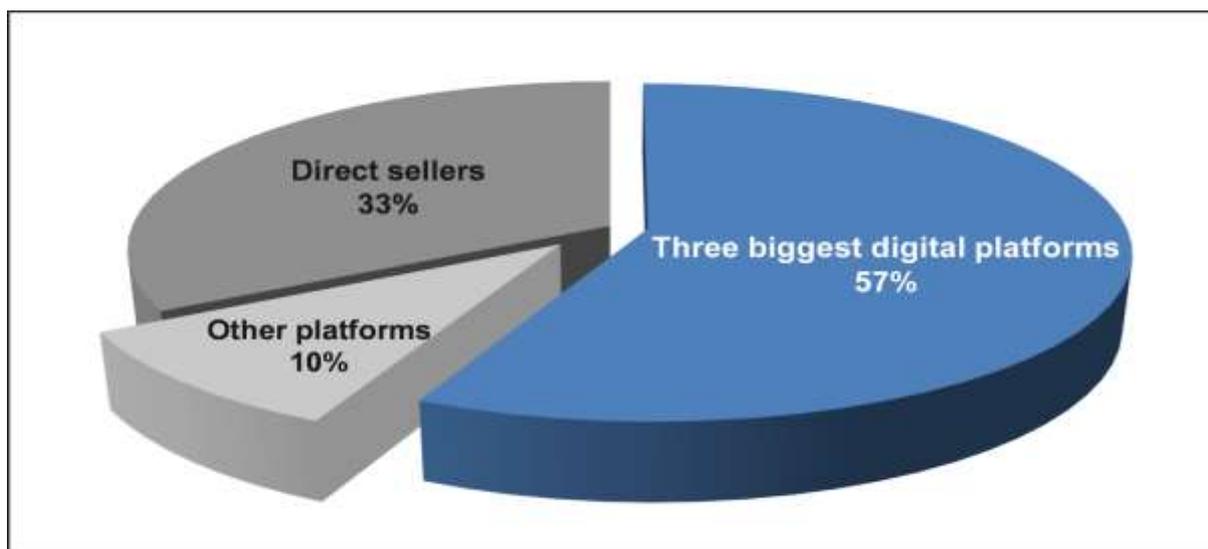
Just to illustrate the scale of online sales, it has been estimated that the global B2C e-commerce sales of goods alone to be worth of 2 trillion USD annually (in the region of the dollar influence) with projections reaching USD 4.5 trillion by 2021 (considering the COVID-19 pandemic, this numbers could be much larger), from which 1 trillion USD is estimated to be cross-border e-commerce [1]. Other sources indicate similar figures. For example, according to eMarketer, global retail e-commerce sales reached USD 2.8 trillion in 2018, which is estimated to grow to USD 4.8 trillion by 2021 [2]. Numbers from the Asia-Pacific Economic Cooperation indicate that global B2C e-commerce sales reached USD 2.1 trillion in 2017 [3], while the same figure summed USD 3.8 trillion in 2016 according to the World Trade Organization [4]. United Nations Conference on Trade and Development reported that global B2C e-commerce reached USD 3.9 trillion in 2017 [5] and Accenture and Ali Research in 2016 forecasted that cross-border e-commerce will reach USD 1 trillion in 2020 [6].

The role of digital platforms. Digital platforms, which are specially designed multi-sided marketplaces for electronic commerce, have played a major role in the expansion of online sales. The most important element in the process is the interaction between the participants provided by electronic means. In fact, digital platforms enable the buyers and the sellers (or any other side or participant group) to contact with each other and carryout different commercial transactions. Therefore, the two key characteristics of digital platforms are: 1) each group of participants (side) are customers or sellers of the multi-sided platforms in some

meaningful way, and 2) the multi-sided platform enables a direct interaction between the sides [7].

By enabling direct interaction, digital platforms allow business, especially smaller businesses, to efficiently penetrate the global marketplace and gain access to the millions of consumers across the world. Truly, the research of the IPC found that almost two out of three or 57% of cross-border supplies of goods are made through the three biggest digital platforms. If we take into the account many other domestically and regionally operating platforms, it is estimated that roughly two thirds of all e-commerce supplies are purchased via digital platforms with only one third made through direct sales (see figure 1).

Figure 1. Global online (e-commerce) sales



Source: IPC Online Shopper Survey 2017 reports.

3. Challenges of VAT/GST Collection on Online Sales

Considering the growth of online sales generated by the expanding digitalization and and at the same time magnified by the pandemic restrictions, the amounts of VAT/GST that are prospectively at stake are enourmous. The importance of this potential revenues are even more significant when the financially exhausted countries will face the enavitable phaze of their fiscal consolidation.

There are a couple of main chalinging issues considering the VAT/GST revenue colection that were recently identified by the OECD [9]: 1) The problem of collecting suffiecient revenues from the imports of low-value goods from online sales which are treated as VAT/GST exempt in many jurisdictions; 2) Challenges at the tax and customs admimnistration in respect of the collection of VAT/GST at importation; and 3), the problem with the strong growth in the trade of services and intangibles, on which often no or a very low amount of VAT/GST is levied due to the complexity of enforcing VAT/GST payment on such supplies.

The controversy of VAT/GST exemption from the imports of low value goods (1). The main reason why many jurisdictions impose an exemption from VAT/GST on the imports of low-value goods is because the administrative costs associated with it outweigh the VAT/GST revenues that would be collected on those goods. Indeed, this approach from the authorities earned its justification in the period before the emergence of digital economy and internet shopping didn't exist as we know it today. Meanwhile, this has been changed over the years as the countries have experienced a rapid growth in the volume of imports of these low-value goods, resulting with potentially large revenue losses on their tax accounts. The exemption from VAT/GST on imports of the relevant goods have additionally put competitive pressure on domestic retailers, creating for them an unfair position, as they are still required to charge taxes

on their domestic sales. From this point of view, the exemption of VAT/GST on the imports of low value goods is controversial, influencing unfair competition for domestic retailers and generating direct tax revenue losses.

Challenges at the tax and customs administration. We have to mention that these institutions have legal obligation to collect the relevant taxes at importation above the VAT/GST threshold and customs duties above the *minimis exemption* threshold. The experts agree that simply by removing the exemption (the thresholds) for the low value goods, and adding an additional obligation for the tax and customs administration in regards to collect the revenues is absolutely not an option. The reasons behind this are twofold: First, these institutions, especially the customs authorities carry out many other crucial tasks including the facilitation of trade, the control of illegal activities such as drugs and weapon trafficking, the control of piracy and the protection of intellectual property rights, or even more sophisticated functions such as the control of money laundering and fight against the threat of terrorism. Such a solution without supporting measures is likely to be counter-productive, with customs having to control more consignments with knock-on effects for other functions [10]; And second, tax and customs administrations are already facing challenges in respect of the collection of VAT/GST at importation above the VAT/GST threshold. To support this claim, a 2016 study using real purchases, estimated a non-compliance rate of 65% for all e-commerce supplies from outside the EU to EU consumers via the postal channel (these include the goods below the VAT/GST threshold and de minimis threshold for customs duties) [11].

Challenges with the cross-border trade of services and intangibles. Considering this issue, the complex nature of the process to enforce and charge VAT/GST payment on such supplies is resulting with collection of insufficient amounts of revenues by the tax and customs authorities. Here, the recommendations for the countries are to examine the possibilities that the digital platforms could play the role of a service or intermediary in the collection of VAT/GST revenues. The logic behind this approach is that the platform is viewed as *taking the role of a „store“* with an offering of different supplies such as *digital supplies of music, films, books, games and software applications*, and in many cases act as *the sole point of contact with the end consumer* including in respect of service delivery [12]. In this sense, the digital platforms are indeed, viewed as an efficient and effective mechanism capable of delivering a positive results for the purpose of collection of VAT/GST from the cross-border trade of services, intangibles and digital products. In the same way, the involvement of digital platform could also resolve the challenging issues mentioned from above and replace the tax and customs administration in their task of collection of VAT/GST at the importation of low value goods.

4. Definition of the Term „Digital Platform“ in the Context of Application of the Full Liability Regime

The term „digital platform“ is a relatively new concept and it is constantly evolving as the digital economy continues to develop. Generally, the OECD uses this term „as a generic term to refer to the actors in online sales that carry out the functions that can be considered essential for their enlistment by tax authorities in the collection of VAT/GST on online sales“ [13]. These can essentially be described as the platforms that enable groups such as buyers and sellers to interact directly and execute transactions, through the use of information technology and electronic means. Jurisdictions that have enlisted such groups or actors in the collection of VAT/GST on online sales, in practice use several other terms to address these actors, including: „platforms“, „marketplaces“, or „intermediaries“.

The key criteria that a tax authority must consider when deciding if the digital platforms should be enlisted in the collection of VAT/GST under a full VAT/GST liability regime is their ability to conform with the obligations of a full VAT/GST liability regime. Accordingly, it is reasonable to assume that a platform will be in a position to comply with these obligations if two conditions are met: a) the platform holds or has access to sufficient and accurate information as required to make the appropriate VAT/GST determination; and b) the platform has the means to collect the VAT/GST on the supply [14].

Whether a digital platform is indeed in a position to comply with such a regime may often depend on its business and delivery model, in addition it could be required a particular analysis and consultation to be done with the individual platforms. In this case, the authorities could apply the approach to explore **the functions** performed by digital platforms and other criteria that can generally indicate that the digital platform is able to operate under a full VAT/GST liability regime. The following table 1 contains examples of the possible functions that could be considered by the authorities if they want to determine whether or not a digital platform is capable of complying with the full VAT/GST liability regime.

Table 1 List of possible functions (indicators) considered relevant for enlisting digital platforms under full VAT/GST liability regime

Functions that may trigger the eligibility of digital platform for the full VAT/GST liability regime	Functions that may exclude digital platform from eligibility for the full VAT/GST liability regime
Controlling and/or setting the terms and conditions of the underlying transactions (price; payment terms; delivery conditions, etc.) and imposing these on participants (buyers, sellers transporters...);	Only carries content (e.g. makes only the Internet network available for carrying content via Wi-Fi, cable, satellite, etc.);
Direct or indirect involvement in the payment processing (either directly or indirectly through arrangements with third parties, collect payments from customers and transmit these payments to sellers less commissions etc.);	Only processes payments;
Direct or indirect involvement in the delivery process and/or in the fulfilment of the supply (influencing/controlling the conditions of delivery; sending approval to suppliers and or instructing a third party to commence the delivery etc.)	Only advertises offers;
Providing customer support services (returns and/or refunds/assistance with dispute resolution).	Only operates as a click-through/shopping referral platform.

Source: OECD research.

Countries can decide how deep in detail can they go when they want to acquire indicators for the inclusion of digital platforms in the scope of such a regime. One possible solution would be **to differentiate** the functions that may trigger the eligibility of digital platform (positive list) from the functions that may exclude digital platform from eligibility for the regime (negative list). The use of detailed indicators for platforms inclusion in, or exclusion from a full VAT/GST liability regime, has the advantage of enhancing certainty for both - digital platforms and tax authorities. Further, the authorities are advised to follow the broader principals when setting the indicators for digital platforms eligibility for a full VAT/GST liability regime, as determined by the OECD study [15]:

- The indicators for the eligibility of digital platforms for a full VAT/GST liability regime should be based on functions rather than on types of platforms or business models;
- In the cases where more than one digital platform in a supply chain is eligible for a full VAT/GST liability regime, tax authorities could consider applying hierarchy rules;
- Any approach for defining the digital platforms' eligibility for a full VAT/GST liability regime will need to be reviewed regularly in light of technological and commercial developments to ensure their efficiency and effectiveness;
- Consulting with the business community is of vital priority for the design and the effective operation of a full VAT/GST liability regime;
- It is of trustworthy importance to provide clear and easily accessible information on the indicators for digital platforms that fall under the full VAT/GST liability regime etc.

4.1. When to consider implementation of the full VAT/GST regime for digital platforms

Here we analyse some crucial considerations for tax authorities when scoping the full VAT/GST liability regime for digital platforms as offered by the OECD guidance. Sometimes the countries must make important decisions when or in which cases should they apply the rules of the full liability regime: whether they should include the foreign suppliers and/or only domestic suppliers, should the rules differ for foreign digital platforms from the ones for domestic platforms, should they apply them in the case of goods (low value goods or all goods) or to add the trade of services and intangibles, to focus only on the B2C supplies or maybe to deal with the B2B supplies as well.

Low-value goods vs all goods. The following lines refer to the possibilities from the implementation of the full VAT/GST regime on the supplies of goods from online sales that are directly connected with an importation of these goods. As we mentioned, the problem focuses primarily on the online sales of imported low-value goods below the VAT/GST threshold and the *de minimis* threshold for customs duties subject to exemption. Data suggest that such imports of low-value goods represent the vast majority of packages that reach the borders from online trade, and create increasingly significant logistical challenges for customs authorities to process [16]. According to Bowes, the volume of these sales increased from 44 billion in 2014 to 65 billion in 2016 across 13 major markets and continues to increase at a growing rate that is calculated to be 17-28% each year between 2017 and 2021. This increase has been facilitated by technological innovation, which have dramatically increased digital platforms and underlying suppliers capacity to deliver goods to customers worldwide against increasingly lower costs and within increasingly shorter delivery times [17].

For this reason, in 2015 the OECD has proposed an alternative approach, whereby the VAT/GST on imports of low-value goods from online sales would be collected and remitted by digital platforms, which at the time of their proposal were differently known as transparent e-commerce platforms [18]. Accordingly, „transparent e-commerce platforms are platforms that provide a trading framework for vendors but that are not parties to the commercial transaction between the vendor and the purchaser. These platforms generally have access to the key information that is needed for assessing the VAT/GST due in the country of importation of low-value goods“. The model described from above, could provide an efficient and effective solution in terms of collection of VAT/GST on importation of low value goods, but only if the countries manage to deliver simple compliance regimes accompanied with fast-track processing. If the model is fully implemented, it is expected to lower the cost of collection of VAT/GST on imports of low-value goods remarkably, allowing the customs authorities to focus their capacities to the other important duties they perform.

Services/intangibles vs all services. The dilemma here is whether to apply the full liability regime only to the specific services such as the digital/electronic services or to all services being subject to importation. It seems that the majority of jurisdictions support the idea to limit the scope of the full VAT/GST liability regime only to the digital platforms that are involved in remote digital/electronic supplies by foreign suppliers. These typically include the following categories of supplies: digital content purchases (downloads of e-books, videos, apps, games, music); subscription-based supplies of content (news, music, streaming of video, online games); supplies of software services and maintenance (anti-virus software, digital data storage, software); licensing of content; telecommunication and broadcasting services. The reason behind this is to ensure proper collection of VAT/GST on supplies in those sectors that are considered as „risky“ and generate insufficient tax revenue amounts. The other argument for the reliability of digital platforms here is, the complexity of supply chain for the digital products, which is always long and complicated. Digital platforms are perfect solution as they are able to target the stage of the ultimate supply to the final customer, which is usually the critical moment when taxes are being charged or remitted.

Foreign digital platforms vs domestic digital platforms. Generally, jurisdictions shouldn't make any difference whether the operating digital platform is from a resident or by a non-resident origin. Nevertheless, it could be more challenging for the authorities to reduce the risk of non-compliance in the case when a foreign digital platform is present in the country, in which

case an additional safeguard measures must be introduced. Another critical point here is the possible interaction (collision) between the domestic and the international legislative rules imposed under the full VAT/GST liability regime.

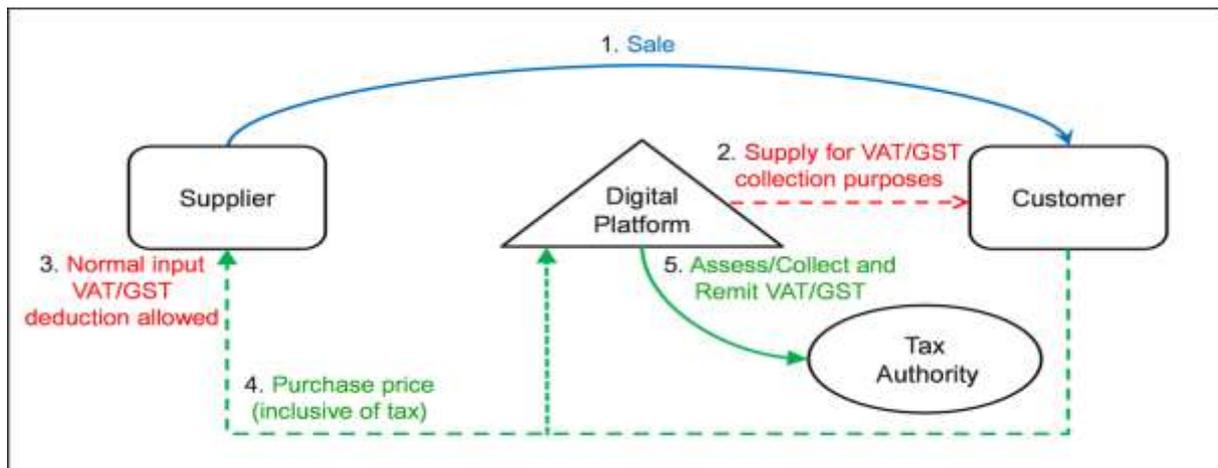
Foreign suppliers vs domestic suppliers. In the previous paragraph we pointed that the primary reason for the implementation of a full VAT/GST liability regime was the need to strengthen the compliance and control of millions potentially underlying foreign suppliers and enforce the collection of taxes. Nonetheless, the exclusive restriction of the full VAT/GST regime to transactions that originate from underlying suppliers located in foreign countries could increase auditing challenges for tax authorities, for example, to verify the location of the principal supplier, control tax payments and remittance etc. These examinations back the usability of the full VAT/GST liability regime to the transactions from all the relevant suppliers regardless the location they come.

B2B vs B2C supplies. Payment transactions in trade, usually differ between B2B (business-to-business) transactions and B2C (business-to-consumer) transactions. The first B2B is a transaction that tends to happen in the supply chain, conducted between one business and another, such as a wholesaler and retailer. B2C is a transaction between the business and the consumer, normally happening in final stage of the supply chain. According to the recommendations of OECD, in the countries that do not distinguish between B2B and B2C supplies, the full VAT/GST liability regime could be applied for the collection of VAT/GST on both categories of supplies performed via a digital platform [19]. Where a jurisdiction makes difference between B2B and B2C supplies, the general rule would be that the full VAT/GST liability regime intended to be implemented on B2C supplies, must not affect, interfere or replace the existing collection mechanisms for inbound B2B supplies. These are known as the reverse-charge mechanisms when the business customer has a full right to deduct the input tax (absence of the obligation to remit the tax) or the mechanism for tax payment deferral to a later stage usually applied in the case of importation of goods [20]. Where different rules are in power for B2B and B2C supplies, determination of the status of customer (business or consumer) is essential for enforcement of the correct VAT/GST treatment of an ongoing supply, as the guidance of OECD suggest in their Collection Mechanisms Report [21]. The same report rules out that when the digital platform is unable to establish the status of its customer, it must presume that the customer comes from the non-business sector, so that the rules for B2C supplies would be administered.

5. Description of the Full VAT/GST Liability Regime

Under the full VAT/GST liability regime, the digital platform is designated by law as the subject liable to collect and supply the relevant VAT/GST revenues on behalf of the state (legal supplier for VAT/GST liability purposes). Under this regime, the digital platform is exclusively and fully liable for assessing, collecting and remitting the VAT/GST on the online sales that go through the platform, to the tax authorities in the jurisdiction of taxation [22]. In direction with the VAT/GST legislation, this liability regime must be limited to VAT/GST obligations only, avoiding the other liability aspects for digital platforms. The picture from below provides a symplified description of the basic operation of a full VAT/GST liability regime.

Picture 1 Basic operation of a full VAT/GST liability regime



Source: OECD research.

The numbers in the picture are indicators of a numerous operations and paths through which the full VAT/GST liability regime is carried out:

Sale. An underlying supplier makes an online sale through a digital platform to a customer in the jurisdiction of taxation.

Supply for VAT/GST collection purposes. As it is mentioned, the digital platform through which the sale was carried out is fully and exclusively liable for the VAT/GST from the particular sale, as determined by the laws in the jurisdiction of taxation. The *mechanism for the collection and payment* of the VAT/GST is described by the following steps [23]:

- The digital platform takes full VAT/GST liability assuming as if it has realized the underlying sale to the customer itself;
- The principal supplier is relieved from any VAT/GST liability on the sale to the customer, for the purpose of avoiding double taxation;
- In order to escape a break in the supply chain, this regime treats the digital platform as a part of it (assuming as if the digital platform has received the supply from the supplier and has carried it onwards to the final customer in the jurisdiction of taxation);
- All of these steps in the supply chain are backed by a proper documentation covering for auditing purposes in accordance with the full VAT/GST liability regime in the jurisdiction of taxation (it is advisable that the documentation and the reporting requirements are simple and convenient).

Normal input VAT/GST deduction allowed. In essence, the full VAT/GST liability regime should enable the underlying supplier to retain the right to deduct the input VAT/GST accordingly.

Purchase price (inclusive of tax). The ultimate customer can pay for its purchase either to the digital platform (in which case the digital platform will remit the tax to the authority in the jurisdiction of taxation) or to the underlying supplier (in which scenario the involved platform must recover the tax component from the principal supplier and transfer it to the tax authorities from the country of taxation).

Assess/collect and remit VAT/GST. This operation is a reminder connection indicating on the central role of the digital platform as being fully and solely liable for assessing, collecting and remitting the VAT/GST from the primary sale and for any other related compliance obligations.

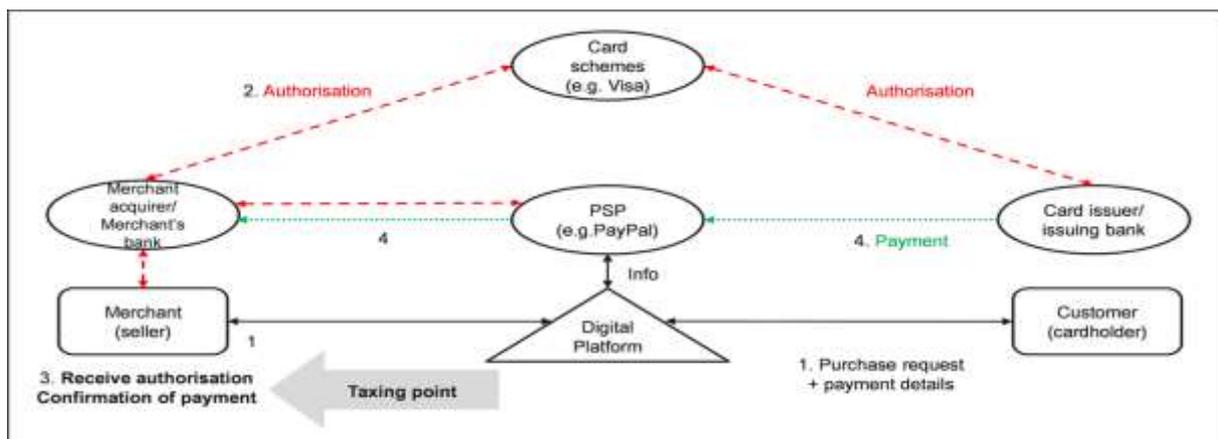
5.1. Determination of the taxing point as a crucial element of the full VAT/GST liability regime

In the context of a proper fulfilment of the underlined obligations to assess, collect and remit the VAT/GST given to digital platforms, determination of the taxing point represents one critical moment for the right function of the full liability regime. According to the OECD, **the taxing point** under the full VAT/GST liability regime is defined as „the time at which the digital platform is required to account for the VAT/GST on the supplies carried out through its platforms for which it has liability“ [24]. Since the digital platforms are only assumed as being the actual supplier, they may not always have all the necessary information to resolve the taxing point as written by the standard VAT/GST rules, such as time of receipt of payment, time of actual supply, time of delivery etc. Consequently, this will create an additional complexity and compliance burden for the digital platforms for further investigation having in mind the countless supplies carried out on a daily basis.

So, a practical solution has been made to determine the taxing point „at the time at which the confirmation of the payment is received by or on behalf of the underlying supplier“. Actually, this is the time at which the payment has been *accepted* or *authorised* by or on behalf of the underlying supplier. Of course, the actual transfer may still have not been made [25]. If we resume, the taxing point under the full VAT/GST regime is the time of confirmation of the payment (acceptance or authorisation of the payment by the the principal supplier).

For a better understanding of the underlying issue of the taxing point, the OECD provides a simple illustration of **the basic payment processing cycle** as shown in the following picture.

Picture 2 The simplified payment cycle



Source: OECD analysis.

A typical online payment process usually involves **5 subjects (parties)** each playing a key role during the cycle:

- **Customer (the cardholder)** - a person holding a debit or credit card issued by card issuer (the issuing bank, in this case, the customer's bank);
- **Seller (the underlying supplier)** - it is a merchant (vendor) that sells goods and/or services to the customer;
- **Seller's bank (the acquiring bank)** - it is a bank or a financial institution that processes the payment transaction on behalf of the seller/merchant.
- **Card scheme** – it is a central payment network that uses credit and debit cards to process payments (for example, American Express, Maestro, MasterCard, Visa, etc.);
- **Customer's bank (the issuing bank)** – it is the bank or financial institution that provides debit or credit card to the cardholder.
- **Payment service provider** – the payment service provider offers online services for accepting electronic payments by a variety of payment methods including credit and debit card, bank transfers, real-time bank transfer based on online banking (for example, PayPal securely takes customer's card details on a payment page and passes these onto the acquiring bank for processing).

The *typical online payment process* can be explained through the **next 4 steps of the payment cycle [26]**:

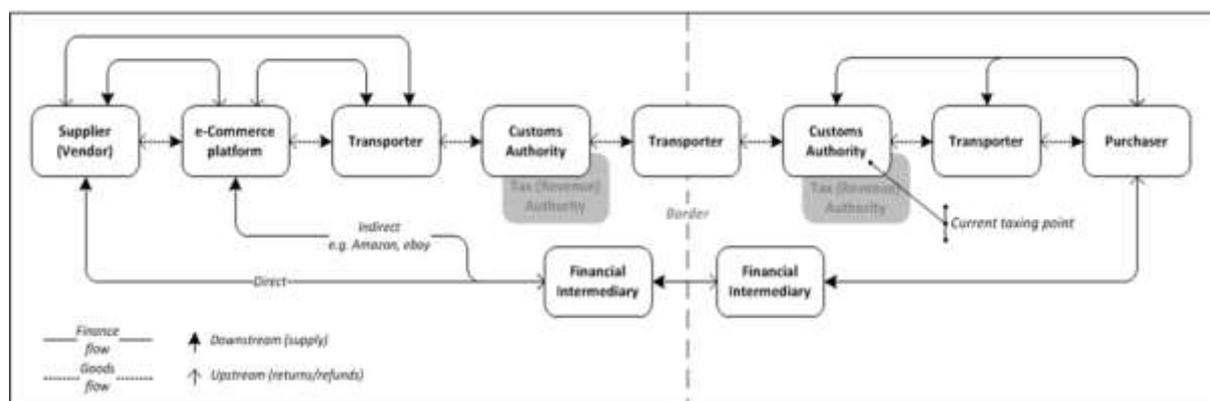
- ❖ The customer (the cardholder) decides to purchase an item from the seller. Therefore, he/she initiates communication offer for purchase to the seller, either through a digital platform or directly. At this stage, the customer provides the seller with card details for the future payment.
- ❖ After receiving the customer's offer to purchase, the seller initiates an authorisation request that will be passed onto the customer's bank (the card issuer). Subsequently, the customer's bank confirms the authorisation and sends it back to the seller.
- ❖ The third step is crucial as it defines **the moment of taxation**. Once the seller receives authorisation [*which is the **taxing point under the full VAT/GST liability regime***], the seller accepts the purchasing offer and delivers the item to the customer. Meanwhile, the customer's bank places a hold (lock) on the amount of the purchase on the customer's account. Afterwards, the seller informs the digital platform about the confirmation of payment while the digital platform notifies the customer.
- ❖ The final stage is about the collection request made by the seller. Upon his initiation, the customer's bank transfers the funds to the seller's bank account. Finally, the customer's bank will collect (recover) the transaction amount from the customer's account.

The small discussion of the payment process explicitly reveals the point of taxation, defined as the moment when the digital platform receives notification from the underlying supplier about the confirmation of payment, from which point the digital platform becomes fully and exclusively liable for assessing, collecting and remitting VAT/GST associated with the particular order.

5.2. Taxing point at the importation of low-value goods

There is quite difference between the standard model of taxation and the proposed model of full VAT/GST liability when the matter is importation of low value-goods. For that reason, first we present **the traditional collection model**, where the tax and customs duties are usually assessed at the time of importation – at the border. The whole procedure is illustrated on the following picture.

Picture 3 The traditional collection model during the importation of low-value goods



Source: OECD. „Addressing the Tax Challenges of the Digital Economy, Action 1 – 2015 Final Report“, Paris, 2015;

The picture obviously reveals the current taxing point (at the border), which is in accordance with the standard procedures of the traditional collection model. Although each country may have different customs and taxing procedures, these generally follow similar patterns: when a low-value good is imported, the person liable to pay the duties and taxes is the recipient of the goods (with other words, the declarant mentioned on the customs declaration). During the

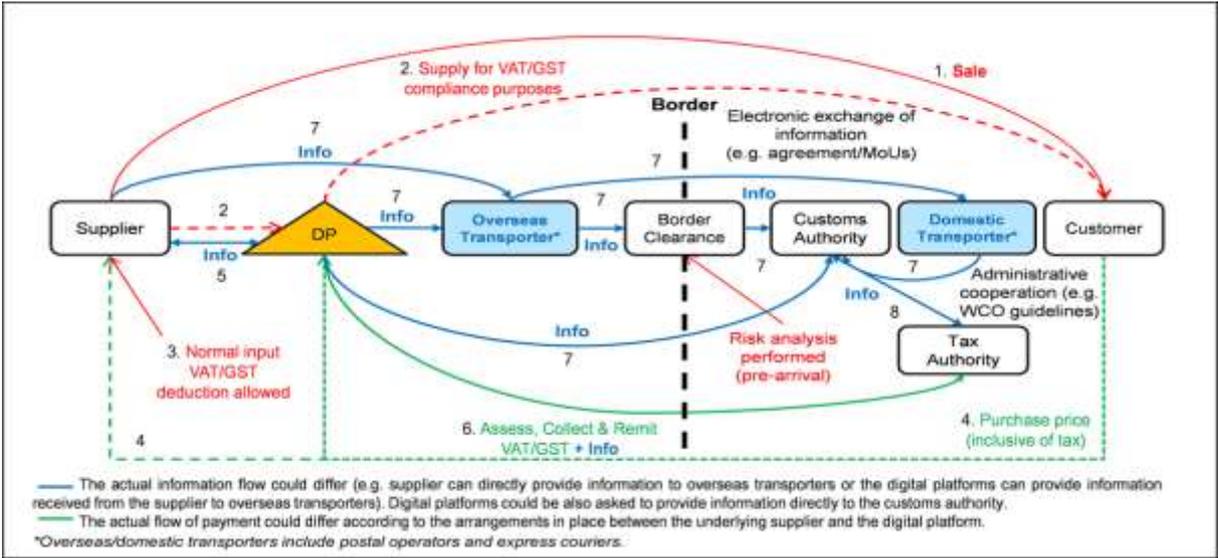
importation at the border, the VAT/GST and the customs duties from the importation of low-value goods are assessed and collected by the customs authorities in line with customs procedures. For imports of goods from online sales, the customs clearance procedure is typically carried out by the *express couriers* or *postal operators* that are involved in transporting the goods, as declarants [27]. Other actors involved in the customs clearance as well as revenue collection procedures may include: the *customs brokers* i.e. persons engaged by the vendor, *the carrier or the importer* that are in charge for managing the data required for the clearance and entry of imports and to pay duties and taxes that are due, the *freight forwarders* who are mainly rendering services of any kind relating to the carriage, consolidation, storage, handling, packing or distribution of the goods and others.

In the model of **full VAT/GST liability regime**, the definition of the taxing point by reference to the time of confirmation of the payment, in the area of importation of low-value goods translates *at the time prior to shipping or arrival of goods at the border* [28]. This solution practically moves the collection of the VAT/GST on the goods from online sales away from the border, reduces the need for customs authorities to intervene in the VAT/GST collection, and leaves them more space to focus on more important task such as the safeguarding of health and security. This rule is particularly attractive and useful for imports of good that have a value below the *de minimis* customs threshold.

For comparison purposes, we present in the next picture the model of full VAT/GST liability regime on imports below the customs threshold. The taxing point is effectively “*moved away*” from the border line, at the time before shipment and arrival of the goods at the border line, thus liberating space and time for the customs authorities for more sophisticated activities. Once again digital platforms have the central role in the process which in coordination of the customs and tax authorities assess, collect and remit the VAT/GST on the imported supplies. Another crucial obligation of digital platforms is to provide information for those institutions and/or to coordinate and provide the flow of information between the supplier and overseas transporters.

However, for a successful accomplishment of this outcome, the full VAT/GST liability regime that imposes obligation on digital platforms to assess, collect and remit the VAT/GST on supplies of imported low-value goods from online sales needs to include a measure that removes the obligation to pay import VAT/GST at the border on the relevant goods [29].

Picture 4 The model of full VAT/GST liability regime on imports below the customs threshold.



Source: OECD analysis.

5.2. Basic information needs

There are some basic information needs for digital platforms in order to achieve full and correct tax determination under the full VAT/GST liability regime. First and most important, the operating digital platform must assume that the underlying suppliers using the platform to expand their sales are in fact businesses unless they have information indicating to the opposite. The costs and efforts to obtain such an information must be reasonable. Other information requirements that are considered relevant for digital platforms to make the correct VAT/GST determinations under the full liability regime may include [31]:

- ✓ Customer status (this is important when B2B differs to B2C in terms of the tax jurisdiction);
- ✓ The nature of the supply;
- ✓ Elements to determine the place of taxation;
- ✓ Elements to determine the applicable VAT/GST collection regime;
- ✓ What is the VAT/GST exemption threshold;
- ✓ The value of the supply;
- ✓ The applicable VAT/GST rate; and
- ✓ What (or where) is the taxing point at which VAT/GST liability occurs.

All these information elements may be familiar to digital platforms or could be additionally obtained. This system of the basic information needs is known as the “business systems approach” which helps the digital platforms to provide the most fundamental information to perform accurate calculation of its VAT/GST liability.

6. The simplified registration and compliance system

The highest levels of effectiveness in the collection of VAT/GST on online sales by digital platforms are likely to be achieved if compliance obligations in the jurisdiction of taxation are limited to what is closely necessary and the rules of registration for non-resident suppliers are rigorously simplified. These are described by the OECD in the Collection Mechanisms Report providing guidance for the effective operation of this mechanism in practice [30]. When a digital platform is liable under the full VAT/GST regime for both goods and services into a particular jurisdiction, the simplified registration and compliance system could be applied for the both supplies, which in turn would decrease the administrative and compliance costs. As recommended by the OECD, the features of a simplified registration and compliance regime system for non-resident suppliers, if the country intends to implement the full VAT/GST liability regime for digital platforms, should refer to several issues:

Registration procedure. Simplification of the procedure for registration requires inclusion of limited information only to the most important details such as: name of business, name of contact person, his/her telephone number and e-mail address, postal and registered address of the business, website URL of non-resident suppliers through which business is conducted in the taxing jurisdiction, national tax identification number, etc. The easiest and most practical way to engage with tax administrations from a distant location is by electronic processes, so an on-line registration application could be useful to enter the tax administration’s website.

Payments. The best way for payment is by electronic means (methods), that allows the non-resident suppliers to remit the tax electronically, preferably in the currency of the tax jurisdiction, although payments in domicile currencies of the trading partners should be accepted.

Invoicing. Generally, countries are advised to eliminate the invoicing requirements for B2C supplies that fall under the the simplified registration and compliance regime. This is due to the simple fact that final consumers, which are the ultimate taxpayers in the supply chain, lose their right to deduct the input VAT paid on these supplies. If invoices are required after all, the same rule for limited information should be applied (including the identification of the customer, type and date of the supply, the taxable amount – tax base, the VAT rate in percent and the total amount of VAT payable). Jurisdictions should tolerate invoices written in the languages of the trading partners.

Input tax recovery refunds. For simplification purposes, jurisdictions should not allow the recovery refunds of input tax under the simplified registration and compliance regime to the

collection of VAT on B2C supplies. Of course, input tax recovery refunds could stay in force under the normal VAT registration and compliance procedure for the non-resident suppliers.

Tax return filing procedure. Once again, jurisdictions should aim to simplify the procedure as much as possible, balancing between the need for simplicity and the need to control and verify if tax obligations have been correctly assessed and filed. Thus the basic information within the file of tax return could be restricted to: registration identification number of the supplier, tax period, type of currency, taxable amount at the standard rate, taxable amount at the reduced rate, total tax amount payable. Preferably, the format of the file should be electronic.

Record keeping. Recommendations for the countries are to enable extensive use of electronic record keeping systems. Minimal record requirements should 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. The records kept by the non-resident supplier must be available on request to the relevant taxing jurisdiction.

7. Implementation of the Full VAT/GST Liability Regime

The model of full VAT/GST liability regime, in which digital platforms play the central role in the process of collection of taxes, is not a mandatory obligation for the jurisdictions across the globe, having in mind the principles of tax autonomy and fiscal sovereignty. It is rather a voluntary proposition, a trend among the most advanced and leading countries in the field of economic reforms, which gives opportunity for the rest of the world to improve and at the same time lessen the whole process of compliance of VAT/GST from online sales. In principal, taxing jurisdictions make their own decision whether to implement or not the proposed measure taking into account differences and priorities in policy and legislative environments, administrative capacities, experience and culture, as well as their challenges in the field of taxation.

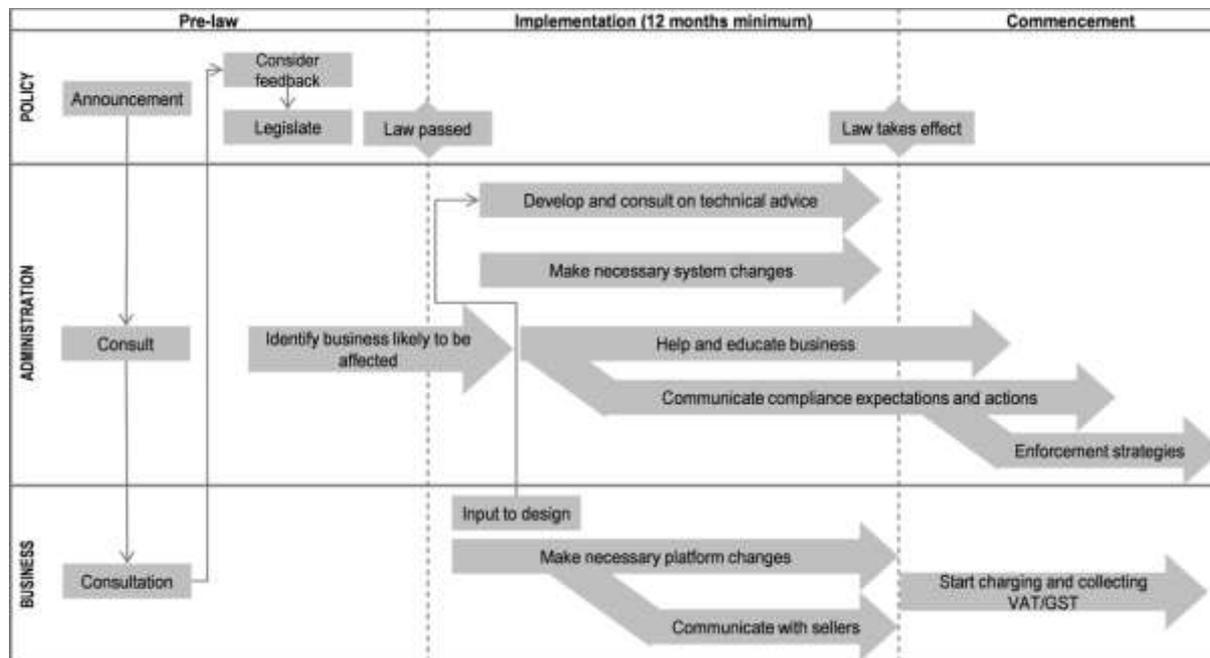
Nevertheless, if the countries do intend to implement this tax policy approach, they are encouraged to **ensure as much consistency as possible in an international context**. To reach the desired compliance levels in terms of quality and performance, and at the same time notably reduce the compliance costs, the OECD reassures that the countries follow the presented policy design considerations when implementing a liability regime for digital platforms [32]:

- ✚ **Consultation with the business community.** This is important to determine the level of acceptance of the proposed measure. It is also relevant to reach out to the involved digital platforms as well as other subjects in the supply chain that are likely to be affected by the regime.
- ✚ **Publicise the introduction of the regime.** This step accelerates and promotes the introduction of the reform, provides wide and adequate recognition of its benefits and creates sufficient time for the national agencies as well as digital platforms to adjust themselves to the ongoing reform.
- ✚ **Promote simplified compliance system.** Compliance obligations of VAT/GST must be restricted to the level that is strictly necessary to facilitate the compliance process and to ensure the correct and effective collection of the VAT/GST on online sales. This is especially of significant importance to the non-resident digital platforms.
- ✚ **Avoid collision with the normal VAT/GST regime.** Jurisdictions must ensure that the liability regime is not in conflict with the standard VAT/GST deduction rules at the level of the underlying supplier (in terms of legal formality).
- ✚ **Provide equilization between registration and sales thresholds.** If a system of thresholds exists in the jurisdiction of taxation, it is vital to determine if there is a difference between the threshold set at the level of the platform and the ones set at the level of each underlying supplier (multi-level threshold system). Here, the suggestions are to apply a threshold at the level of the platform, which is likely to reduce the compliance burden especially for SMEs and micro-enterprises, but will also increase the compliance costs for the suppliers that are currently below the threshold level.

- ✚ **Make sure not to violate the neutrality principle in international trade.** Neutrality in VAT/GST in international trade is achieved by the the implementation of the destination principle, which is an important valuable property of this tax. Under the destination principle, no VAT/GST is levied on exports, and imports are taxed at the same rate and according to the same rules in the jurisdiction of destination as if they had been domestic production [33]. Thus, there is no tax related distortion in the composition of the country's exports and no advantage in buying from a low or zero tax jurisdiction. The implementation of the full VAT/GST regime also requires from the tax authorities to incorporate this relevant principle respectfully, within the new tax policy frame.
- ✚ **Improve the co-operation and coordination between the tax and customs authorities.** This is of great importance, since the obligation to collect and remit VAT/GST at the importation of low-value goods is transferred from the customs authorities to digital platforms, so a better synchronization of these activities is more than an obvious requirement. The need for this co-operation is also recognised by the WCO Framework of Standards [34].
- ✚ **Strengthen and intensify administrative co-operation between tax authorities to enforce compliance.** Predominantly, this includes the exchange of information to identify the parties in supply chain of the import process, monitoring the value of sales during imports and assessing if the correct amounts of VAT/GST have been collected and remitted to the authorities (from the taxing jurisdiction) [35]. The countries are encouraged to adopt the use of technological means to detect non-compliant digital platforms, in order to reduce the supply chain risk and promote legitimate trade.

At the end, we present the possible implementation timeframe for the full VAT/GST liability regime, which is, as we can see consisted of minimum 12 months.

Picture 5 Timeframe for implementation of the full VAT/GST liability regime.



Source: OECD analysis.

8. Conclusion

This article presents short elaboration of the OECD practical guidelines and principles on the design and implementation of the possible solutions for involvement of digital platforms as a viable VAT/GST collection means. The intention is to offer an alternative solution, an initial

general frame for the possible implementation of such a similar measure, hopefully taking part of the post-covid consolidation plans that every country must consider. To better understand the reason behind the full VAT/GST liability regime, first we capture the dimension of the explosive growth of online sales as a result of the process of digitalization in the economy, where digital platforms and the other electronic marketplaces play the central role. After addressing to the challenges of VAT/GST collection on online sales, definition of the term „digital platform“ is explained. During the detailed description of the full VAT/GST liability regime, the importance of determination of the taxing point is annotated, especially at the importation of low-value goods. Shortly after, the requirements for the basic information needs of digital platforms are given, all for the purpose of full and correct tax determination under the full VAT/GST liability regime. All this is in the context with the simplified registration and compliance system, considering the fact that the highest level of effectiveness in the collection of VAT/GST is likely to be accomplished if compliance obligations in the jurisdiction of taxation are limited to only that is closely vital. At the end, the proposed policy frame for the implementation of the full VAT/GST liability regime is elaborated, with the possible timeframe for implementation of roughly 12 months.

9. References

- 1 OECD. „The VAT/GST collection challenges of digital trade and the role of digital platforms in addressing them“, An OECD study, Paris, 2019;
- 2 eMarketer. „Retail Ecommerce Sales Worldwide, 2016-2021“, 2018;
- 3 Asia-Pacific Economic Cooperation. „Electronic Commerce Steering Group“, 2018;
- 4 World Trade Organization. „WORLD TRADE STATISTICAL REVIEW 2018“, 2019;
- 5 United Nations Conference on Trade and Development. „Global e-Commerce sales surged to \$29 trillion“, 2019;
- 6 Accenture and AliResearch. „Global Cross Border B2C e-Commerce Market 2020“, 2016;
- 7 OECD. „The VAT/GST collection challenges of digital trade and the role of digital platforms in addressing them“, An OECD study, Paris, 2019;
- 8 International Post Corporation. „IPC Online Shopper Survey 2017 reports“, 2017.
- 9 OECD. „Addressing the Tax Challenges of the Digital Economy, Action 1 - 2015 Final Report, OECD/G20 Base Erosion and Profit Shifting Project“, OECD, Paris, 2015;
- 10 OECD. „The VAT/GST collection challenges of digital trade and the role of digital platforms in addressing them“, An OECD study, Paris, 2019;
- 11 Basalisco, B., J. Wahl and H. Okholm. „E-Commerce Imports into Europe: VAT and Customs Treatment“, 2016.
- 12 OECD. „International VAT/GST Guidelines“, OECD Publishing, Paris, 2017;
- 13 OECD. „The digital platform as the person liable for the VAT/GST on online sales (platform VAT/GST liability regimes)“, Paris, 2019;
- 14 OECD. „The digital platform as the person liable for the VAT/GST on online sales (platform VAT/GST liability regimes)“, Paris, 2019;
- 15 OECD. „The digital platform as the person liable for the VAT/GST on online sales (platform VAT/GST liability regimes)“, Paris, 2019;
- 16 OECD. „Addressing the Tax Challenges of the Digital Economy, Action 1 – 2015 Final Report“, Paris, 2015;
- 17 Pitney Bowes. „Pitney Bowes Newsroom | Pitney Bowes Parcel Shipping Index Reveals 48 Percent Growth in Parcel Volume since 2014“, 2017;
- 18 OECD. „Addressing the Tax Challenges of the Digital Economy, Action 1 – 2015 Final Report“, Paris, 2015;
- 19 OECD. „Other aspects of designing the scope of a full VAT/GST liability regime“, Paris, 2019;
- 20 OECD. „Mechanisms for the Effective Collection of VAT/GST – OECD“, Paris, 2017;
- 21 OECD. „International VAT/GST Guidelines, OECD Publishing, Paris“, Paris, 2017;
- 22 OECD. „Full VAT/GST liability regime“, Paris, 2019;
- 23 OECD. „Mechanisms for the Effective Collection of VAT/GST – OECD“, Paris, 2017;
- 24 OECD. „Full VAT/GST liability regime“, Paris, 2019;
- 25 OECD. „VAT/GST collection and payment process under the full VAT/GST liability regime“, Paris, 2019;

- 26** OECD. „Addressing the Tax Challenges of the Digital Economy, Action 1 – 2015 Final Report“, Paris, 2015;
- 27** OECD. „Addressing the Tax Challenges of the Digital Economy, Action 1 – 2015 Final Report“, Paris, 2015;
- 28** Section III of the WCO Cross-Border E-Commerce Framework of Standards on Fair and Efficient Revenue Collection;
- 29** OECD. „Full VAT/GST liability regime“, Paris, 2019;
- 30** OECD. „Mechanisms for the Effective Collection of VAT/GST – OECD“, Paris, 2017
- 31** OECD. „The digital platform as the person liable for the VAT/GST on online sales (platform VAT/GST liability regimes)“, Paris, 2019;
- 32** OECD. „International VAT/GST Guidelines“, OECD Publishing, Paris, 2017;
- 33** OECD. „Full VAT/GST liability regime“, Paris, 2019;
- 34** Section III of the WCO Cross-Border E-Commerce Framework of Standards on Fair and Efficient Revenue Collection;
- 35** OECD. „Supporting measures for efficient and effective collection of VAT/GST on online sales“, Paris, 2019;