GLOBAL DEVELOPMENTS IN VAT/GST
OVERVIEW AND OUTLOOK

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Presentation Overview

• The importance of VAT/GST at International Level

• The role of the OECD in VAT/GST

• The VAT/GST Challenges of the digital economy

• The possible role of digital platforms for the collection of VAT/GST on online sales
THE IMPORTANCE OF VAT/GST AT INTERNATIONAL LEVEL
The number of countries that operate a VAT/GST continues to increase.

All G20 countries operate a VAT/GST with the exception of the US
  – Saudi Arabia launched its VAT in 2018 – process of implementation for GCC countries
Why has the VAT been so popular?

**Efficient**
- For generating revenue
- At lower marginal cost than some other taxes
- Relatively secure from fraud in a domestic market

**Neutral**
- International trade: preferred alternative to custom duties - does not affect the competitiveness of domestic firms to export
- Respects the Value chain

**Pro-growth**
- Better than corporate or personal income taxes (but less efficient than property taxes)
VAT is a key source of revenue for OECD countries

20.1% of total tax revenues - 6.8% as a share of GDP (on average)
VAT revenue has grown around the world, especially in low & middle income countries…

Some excise can be as high as 50%.

**Source:** ICTD (2014), *Working Paper 22*
THE ROLE OF THE OECD IN 
VAT/GST

INTERNATIONAL STANDARD SETTER
VAT/GST systems increasingly important for tax revenues.

OECD seen as the standard setter and inclusive – high International participation at the Global Forum for VAT

Clear need for standards to ensure that:
- Taxes accrue to the country of destination.
- That double taxation and double non-taxation is avoided.
- That burdens/obligations for business are minimised

Dynamic process – need to meet the Tax Challenges Arising from Digitalisation
The destination principle achieves VAT neutrality in cross-border trade

- **Neutrality principle: core principle of VAT design**
  - VAT is a tax on final household consumption that is collected, but not borne, by businesses throughout the production and distribution process.
  - VAT should be neutral to businesses (i.e. to business decisions), except where specifically provided for in legislation (exceptions to remain as limited as possible).
  - See the OECD International VAT/GST Guidelines – Chapter 2 (the “Neutrality Guidelines”)

- **Destination principle: achieves neutrality in cross-border trade**
  - “For consumption tax purposes, internationally traded services and intangibles should be taxed according to the rules of the jurisdiction of consumption.”
  - See the OECD International VAT/GST Guidelines - Chapter 3 (the “Guidelines on determining the place of taxation”)

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OECD
The strong growth in trade in services/intangibles created challenges for VAT regimes

- Internationally traded services/intangibles cannot be subject to border controls and to well known customs procedure in same way as goods

As these challenges became increasingly important, tax authorities started taking uncoordinated unilateral action, leading to increasingly serious complexity and policy risks

- Non-taxation: risk of under-taxation and loss of revenue - distortion of competition
- Double taxation: distortion of international trade
- Revenue risks and high compliance costs for businesses
OECD International VAT/GST Guidelines
The global standard

- **Global standard** for the application of VAT/GST to international trade in services and intangibles

- Builds on **international dialogue** among OECD/G20 countries and other Partner countries plus the global business community and academia

- Consistency - Certainty

- Minimal compliance burden and administrative costs

- **Soft law** – Not legally binding
The OECD International VAT/GST Guidelines Overview including legal status

• Guidelines **adopted by OECD / G20 countries**
  

  o **G20 Leaders** in November 2015

• **Endorsed as global standard** by 100+ jurisdictions and international organisations at OECD Global Forum on VAT in November 2015

• **First OECD Recommendation in the area of indirect taxation** (same legal status the Model Tax Convention and Transfer Pricing Guidelines)

• **First legal instrument** in the area of VAT/GST that aspires to global coverage
THE VAT CHALLENGES OF THE DIGITAL ECONOMY
VAT policy discussions in the context of the digital economy focus primarily on B2C sales.

The collection of VAT in business-to-consumer (B2C) supplies of goods and services form 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.
The collection of VAT on imports of low value goods

- Chapter 8.2.1
- Annex C

The collection of VAT on cross-border B2C supplies of services and intangibles

- Chapter 8.2.2
- Annex D
In the area of VAT... evidence is already available that countries are implementing the principles recommended in the 2015 BEPS Action 1 Report on indirect taxation, which have now been enshrined in the OECD International VAT/GST Guidelines (OECD, 2017[2]). Not only are these measures being adopted by a large number of countries, but they are already beginning to yield substantial additional tax revenues in the market jurisdiction, where these measures have been implemented.
Over 50 jurisdictions, including the overwhelming majority of OECD and G20 countries, have adopted rules for the VAT treatment of B2C supplies of services and intangibles by foreign suppliers in accordance with the OECD International VAT/GST Guidelines.

- EU 28, Albania, Andorra, Argentina, Australia, Bahamas, Belarus, China, Colombia, Ghana, Iceland, India, Japan, Kenya, Korea, Mexico, New Zealand, Norway, Russia, Saudi Arabia, Serbia, South Africa, Switzerland, Tanzania and Turkey.

- Singapore has announced the introduction of taxation of B2C cross-border supplies of digital services with implementation on January 1, 2020, subject to the passing of legislation in Parliament.

Many other jurisdictions are considering reform in light of the principles of the Guidelines.

- This is notably the case for Costa Rica, Indonesia, Israel, Malaysia, Singapore, Thailand, the Philippines, Tunisia, and a number of the Gulf Cooperation Council countries.
- Australia to implement taxation of low value consignments sold via platforms with effect from 1 July 2018.
- EU agreed the VAT e-commerce package in December 2017 which will:
  - extend vendor registration and remittance (MOSS) to online supplies of goods,
  - remove the small consignments exemption,
  - and make digital platforms liable for the tax.
- Other countries now looking at the role that digital platforms can play in the efficient and effective taxation of VAT/GST on online sales.
THE POSSIBLE ROLE OF DIGITAL PLATFORMS IN THE COLLECTION OF VAT/GST ON ONLINE SALES
The possible role of digital platforms for the collection of VAT/GST on online sales

• Global e-commerce becoming increasingly important.
  – Estimates suggest B2C sales of US$ 2 trillion annually – growth of 10/15%.
  – Based on an average VAT rate of 15%, this represents US$ 200 billion in tax revenues (Caveat - US operates a sales tax).

• Currently 1.6 billion online shoppers – estimated to rise to 2.2 billion in 2022.

• E-commerce is frequently facilitated by multi-sides platforms i.e. online marketplaces including the big players
  – Platforms provides businesses with the possibility to trade cross-border which may not be possible via their own websites.

• Creates challenges for administrations (tax and customs) in terms of collection – non-taxation creates an un-level playing field.

• Countries already acting or are ready to act – need for guidance on ‘how’.
The OECD Working Party No. 9 on Consumption Taxes (WP9) is currently analysing:

i. the functions performed by digital platforms in online sales and delivery chains, and

ii. the possible role of platforms performing these functions in the collection of VAT on online sales including an overview of approaches implemented or considered by tax authorities around the world.

It is anticipated that this work will result in a report which will include possible guidance and approaches based on good practice.

This work is scheduled to be completed within 2018 and is not intended to delay or impinge on jurisdictions’ current domestic policy development and implementation strategies.
The role of Digital Platforms for the collection of VAT/GST on online sales

Expected output from this work?

• Practical guidance for countries who wish to consider the role of digital platforms.

• Recognition at WP9 that there is a spectrum of roles/actions – no one size fits all.
  – Liability/collection models.
  – Obligations – data sharing.
  – Enforcement – e.g. joint and several liability
  – Communication/cooperation between Govt.

• Involvement by digital platforms in the VAT/GST collection should be considered in light of effectiveness, efficiency and proportionality

• Impact on the value chain should be as limited as possible and respect neutrality principles - It should not overly disrupt behaviour or confer advantages/ disadvantages on platforms, between platforms or on direct suppliers.

• Work is proceeding in close consultation with the business and academic community through the Technical Advisory Group to WP9 (TAG)
QUESTIONS?
• The International VAT/GST Guidelines are available at: www.oecd.org/tax/consumption/international-vat-gst-guidelines.pdf


• OECD Tax Talks - https://oecdtv.webtv-solution.com/4646/or/webcast_oecd_tax_talks.html