

\*\*\*\*\* Online businesses to comply with VAT obligations \*\*\*\*\*

On 5 December 2017, the Council adopted new rules making it **easier for online businesses** to comply with VAT obligations.

Part of the EU's 'digital single market' strategy, the proposals are aimed at **facilitating the collection of VAT** when consumers buy goods and services online.

“This revamp of the rules will make our VAT system **fit for the digital economy**”, said Toomas Tõniste, Minister for Finance of Estonia, which currently holds the Council presidency. “By reducing red tape, we will achieve both cost savings for businesses and increased tax revenues for the member states. This was a major priority for our presidency.”

The new rules extend an existing EU-wide portal (mini 'one-stop shop') for the VAT registration of distance sales. And they establish a new portal for distance sales from third countries with a value below €150. This will **reduce the costs of complying** with VAT requirements for business-to-consumer transactions.

VAT will be paid in the **member state of the consumer**, ensuring a fairer distribution of tax revenues amongst member states.

Additionally, the texts make **online platforms liable** for collecting VAT on the distance sales that they facilitate. This was not foreseen in the Commission's proposals, but has become an essential provision of the package. Most goods that are imported for distance sales currently enter the EU VAT-free, resulting in unfair competition for EU businesses.

**VAT fraud** for distance sales in the EU is estimated at **€5 billion per year**, and some measures will help reduce this.

The one-stop shop will relieve online traders of having to **register for VAT** in each of the member states in which they sell goods. According to the Commission, such obligations cost businesses around €8 000 for every EU country into which they sell; the proposals would enable administrative burdens for companies to be reduced by 95%. The one-stop shop will generate an overall saving of **€2.3 billion for businesses**, the Commission estimates, and a **€7 billion increase in VAT revenues** for member states.

For **start-ups and SMEs**, the new rules introduce an important simplification. Below €10 000 in yearly cross-border online sales, a business will be able to continue applying VAT rules used in its home country.

Furthermore, the new rules remove an exemption for consignments from outside the EU worth less than €22. Around 150 million **small consignments** are imported free of VAT, and the current system is open to abuse. Whilst EU businesses have to apply VAT regardless of the value of the goods sold, imported goods benefit from the exemption and are often undervalued in order to do so.

## Timeline

The package – a directive and two regulations – was adopted without discussion at a meeting of the Economic and Financial Affairs Council. The **European Parliament** gave its opinion on 30 November 2017.

The new rules set out the following timeline:

- ✓ introduction **by 2019** of simplification measures for intra-EU sales of **electronic services**;
- ✓ extension **by 2021** of the one-stop shop to distance sales of **goods**, both intra-EU and from third countries, as well as the elimination of the VAT exemption for small consignments.

The rules also provide for enhanced **administrative cooperation** between member states to accompany and facilitate this extension.

The provisions that will apply from 2021 will be addressed in greater detail in a further Commission proposal under a non-legislative procedure. The Council approved a statement highlighting issues to be considered by the Commission in the implementing phase. The provisions that will apply from 2019 are already covered by the package.

The member states will have until 31 December 2018 and 31 December 2020 to transpose the corresponding provisions of the directive into national laws and regulations. The regulation on administrative cooperation will apply from 1 January 2021.

**Source:** <http://www.consilium.europa.eu/en/press/press-releases/2017/12/05/vat-on-electronic-commerce-new-rules-adopted>

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