PRODUCT & SERVICE GUIDE

Breathing Room: EU E-Commerce VAT Rules Delayed, but Global Businesses Still Need to Prepare

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The European Commission (EC) recently moved to postpone the implementation of new value added tax (VAT) e-commerce regulations by six months. While that might be a relief for businesses across the globe fighting to stay solvent during the coronavirus pandemic, it doesn't mean they shouldn't still be planning for new requirements.

The new VAT rules are divided into two directives and four regulations, all to create a level playing field for VAT in the e-commerce space and, at the same time, reduce the compliance burden for businesses with cross-border remote sales. The provisions include a new regime for import VAT for goods below €150 and a VAT liability for online platforms.

Rather than Jan. 1, 2021, the new rules will take effect six months later, on July 1, 2021. The change, according to an EC statement, was made due to the COVID-19-related challenges confronting member states and businesses.

The Commission's move doesn't just affect EU-businesses; online retailers worldwide will have to face the same obligations if they want to sell goods remotely to individuals in the EU. So, while the Commission has created some breathing room for businesses to adapt, changes are still coming.

The Commission expects that the new VAT rules will reduce compliance costs by 95% for companies selling goods remotely to multiple EU countries and will raise €7 billion annually in VAT revenue beginning in 2021. But before those savings can roll in, businesses must prepare to pay VAT on an enormous quantity of previously untaxed goods.

For example, low-value goods—those not exceeding €22—are currently exempt from VAT. But the new rules will abolish that practice, making way for two new procedures for importing goods destined for final consumers in the EU.

Sellers shipping goods from outside of the EU with a value not exceeding €150 directly to EU private individuals will be able to apply an import one-stop-shop (IOSS). VAT won't be due when the goods physically enter the EU, but retailers will pay it monthly. However, if a seller doesn't apply the IOSS, VAT will be due upon entry in the EU and may be collected from the final consumer by the customs agent (often a courier or postal operator).

The IOSS cannot be used for goods over €150. When such goods arrive at the EU border, import VAT is due in the member state of importation. For the subsequent sale to the final consumer, the vendor may still need to register for VAT.

Online marketplaces also face some new VAT burdens. A key element of the new provisions is to establish a tax liability for those facilitators. Currently, these platforms for VAT purposes are not part of the actual transaction. However, when the new regulations go into effect, they will face two transactions—when the seller supplies goods exempt for VAT to the platform and when the platform sells the goods with VAT of the destination country to the final customer.

That means online platforms will become liable for the collection of VAT on the supplies to final consumers and remittance to the tax administration. Online platforms must collect VAT when the payment is accepted. Any supplier selling goods through the online platform will be presumed a taxable entity, and any buyer will be considered non-taxable.

The upcoming rule adjustments are a welcome development for EU e-retailers, who will be able to fulfill their VAT obligations in one country through a One-Stop-Shop (OSS) VAT return, rather than having to register in all member states where their customers live. But that doesn't mean these new rules aren't complicated.

Understanding the new provisions is critical to compliance. One of the key challenges for online retailers is to implement, monitor, and update the different VAT exemptions and rates across the EU for every product in the catalog. A tax determination engine integrated with their financial systems can help retailers with improved VAT accuracy, centralized visibility, and up-to-date content provided by the software provider. That means companies don't have to worry about the intricacies of every new rule or performing manual calculations, but instead focus on growing their business.

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