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The VAT/SGT implications of digital supplies

Stephen Coleclough

Secretary General Confédération Fiscale Européenne

Immediate Past President Chartered Institute of Taxation

Tax Consultant, Mishcon de Reya

AGENDA

- Introduction: the importance of consumption taxes
- The problem defined:
 - Goods
 - Services to businesses
 - Services to consumers
- OECD BEPS No.1
 - The digital economy
 - An idea for a quasi profits tax?
- Fraud prevention
- Questions?

INTRODUCTION

- Consumption taxes are taxes on consumption of goods and services
- In principle, not a tax on business
- Old style sales taxes eg in USA, do tax businesses but VAT/SGT should flow through to the consumer
- Consumption taxes are increasing both as a proportion of GDP and of total taxes collected, this is despite the global recession.

OECD

3. VALUE ADDED TAXES YIELD, RATES AND STRUCTURE

Table 3.1. Taxes on general consumption (5110) as percentage of GDP¹

	1965	1975	1985	1990	1995	2000	2005	2006	2007	2008	2009	Difference 2009-2005
Australia	1.5	1.7	2.2	2.3	2.5	3.6	4.0	3.9	3.8	3.5	3.7	0.1
Austria ²	6.3	7.3	8.6	8.2	7.7	8.1	7.9	7.6	7.7	7.8	8.1	0.0
Belgium	6.6	6.4	7.0	6.9	6.7	7.3	7.2	7.4	7.1	7.0	7.0	-0.3
Canada	4.6	4.0	4.3	5.1	5.0	5.1	5.0	4.8	4.6	4.3	4.3	-0.8
Chile	..	..	..	6.5	7.7	8.1	8.1	7.4	7.9	8.9	7.8	-0.3
Czech Republic	..	..	..	..	6.3	6.5	7.2	6.6	6.6	7.1	7.1	0.7
Denmark ²	3.0	6.6	9.3	9.5	9.4	9.5	10.0	10.3	10.4	10.1	10.1	0.6
Estonia	..	..	..	..	9.6	8.5	8.7	9.1	8.9	7.9	9.1	0.6
Finland	5.6	5.7	7.3	8.4	7.9	8.2	8.7	8.7	8.4	8.4	8.6	0.4
France ²	7.9	8.3	8.5	7.9	7.5	7.6	7.6	7.6	7.5	7.4	7.1	-0.5
Germany	5.2	5.0	5.7	5.8	6.5	6.9	6.3	6.4	7.0	7.1	7.5	0.6
Greece ²	1.8	3.6	4.4	6.9	6.6	7.4	7.1	7.5	7.6	7.6	6.7	-0.7
Hungary	..	..	..	..	8.0	10.2	10.5	9.8	10.5	10.3	11.2	0.9
Iceland	4.4	8.6	9.3	10.0	9.9	10.6	11.1	11.3	10.5	9.1	8.0	-2.6
Ireland	1.4	4.2	7.1	6.8	6.9	6.9	7.5	7.6	7.5	7.1	6.4	-0.5
Israel ⁴	..	..	..	..	11.1	9.8	9.9	9.5	9.8	9.6	9.4	-0.4
Italy	3.3	3.6	4.9	5.6	5.5	6.5	6.0	6.3	6.2	6.0	5.7	-0.8
Japan	0.0	0.0	0.0	1.3	1.5	2.5	2.6	2.6	2.5	2.5	2.6	0.1
Korea	..	1.8	3.5	3.6	3.5	3.8	4.2	4.2	4.2	4.3	4.4	0.6
Luxembourg	3.4	4.0	5.0	4.9	5.2	5.6	6.2	5.8	5.7	5.9	6.4	0.8
Mexico	..	..	2.5	3.3	2.6	3.1	3.5	3.7	3.6	3.8	3.4	0.3
Netherlands	4.1	5.8	6.9	7.1	6.5	6.9	7.5	7.4	7.5	7.2	7.0	0.1
New Zealand	1.8	2.6	3.2	8.4	8.3	8.2	8.7	8.8	8.2	8.5	8.7	0.4
Norway	6.4	8.0	7.8	7.7	8.7	8.4	7.9	8.0	8.3	7.4	8.0	-0.4
Poland	..	..	..	..	6.2	6.9	7.6	8.0	8.2	7.9	7.3	0.4
Portugal	0.0	2.2	3.2	5.4	7.1	7.7	8.5	8.6	8.5	8.4	7.1	-0.6
Slovak Republic	..	..	..	..	..	7.0	7.9	7.5	6.7	6.9	6.7	-0.3
Slovenia	..	..	..	..	11.6	8.8	8.6	8.5	8.4	8.5	8.4	-0.4
Spain ²	3.3	2.8	4.1	5.2	5.1	6.0	6.2	6.3	6.0	5.2	4.0	-2.0
Sweden	3.4	4.9	6.6	7.8	9.2	8.7	9.0	9.1	9.2	9.4	9.8	1.1
Switzerland	1.9	2.1	2.7	3.0	3.3	3.9	3.9	3.9	3.7	3.7	3.7	-0.3
Turkey	0.0	0.0	2.7	3.0	5.2	5.8	5.3	5.5	5.1	4.9	4.9	-0.9
United Kingdom	1.8	3.1	5.9	6.0	6.5	6.6	6.7	6.6	6.6	6.4	5.7	-0.9
United States	1.2	1.8	2.0	2.2	2.2	2.2	2.2	2.2	2.2	2.1	2.0	-0.2
Unweighted average ³	..	..	..	..	..	..	..	..	..	..	..	..
OECD Total	3.3	4.2	5.2	5.9	6.6	6.9	7.0	7.0	7.0	6.8	6.7	-0.2

1. Nomenclature: The tables are based on a common nomenclature for all OECD countries. Heading 5110 (General taxes on goods and services) is used for Tables 3.1 and 3.2. It includes VAT, sales taxes and other general taxes on goods and services. Heading 5120 (Taxes on specific goods and services) consists primarily of excise taxes, but also includes certain specific taxes such as customs duties and taxes on insurance and certain financial operations in particular. Heading 5111 (Value added taxes) is used for tables 3.5 and 3.6. It includes all consumption taxes charged on value-added, irrespective of the method of deduction of input tax and the stages at which the taxes are levied. In some countries the heading may include some taxes on financial and insurance activities.

2. Capital transfer: The total tax revenues have been reduced by the amount of capital transfer. The capital transfer has been allocated between tax headings in proportion to the reported tax revenue.

3. Averages: All member countries are taken into account for the calculation of the unweighted averages, including countries that had not implemented the relevant taxes for the year considered. They are counted with a value of zero in the numerator and 1 in the denominator. However, countries that did not exist at the time considered (Czech and Slovak Republics before 1993; Slovenia before 1991) are not included in the calculation of the averages. Also excluded from the calculation of the averages are the countries for which no data is available for the time considered (Chile before 1995; Hungary before 1995; Israel before 1995; Korea before 1975; Mexico before 1980; Poland before 1995; and Slovak Republic before 2000).

4. Israel: The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: OECD, Revenue Statistics 1965-2010.

StatLink  <http://dx.doi.org/10.1787/888932718630>

OECD

1. TAXING CONSUMPTION

Looking at the unweighted average of revenue from the five broad categories of taxes as a percentage of overall taxation in the OECD member countries, it can be seen that the proportion of consumption taxes is 30.6% (see Table 1.1.). In 2009, consumption taxes broke down to one-third for taxes on specific goods and services and two-thirds for general consumption taxes (see Tables 3.2, 3.4 and 3.7 in Chapter 3).

Table 1.1. Consumption taxes (5100) as percentage of total taxation

	1965	1975	1985	1990	1995	2000	2005	2007	2008	2009	Difference 2000-2009
Australia	30.0	25.8	28.6	23.4	23.1	26.2	25.5	24.4	25.0	26.6	0.4
Austria ¹	36.6	33.9	31.0	29.9	27.2	26.9	27.0	26.0	25.5	26.5	-0.5
Belgium	34.1	26.1	24.0	25.0	23.8	23.4	23.5	23.5	23.0	23.6	0.1
Canada	34.7	26.0	26.1	24.4	23.9	22.8	23.8	22.4	21.7	22.2	-0.6
Chile	..	..	..	60.4	59.8	60.6	48.7	41.6	48.1	52.6	-8.0
Czech Republic	..	..	..	..	29.6	29.3	29.1	27.6	29.8	31.5	2.2
Denmark ¹	39.0	32.3	33.5	31.5	30.7	30.4	30.5	31.5	30.8	30.1	-0.3
Estonia	..	..	..	..	34.4	37.4	40.9	40.3	35.9	39.8	2.3
Finland	41.9	31.6	33.4	32.1	29.9	26.3	30.5	29.3	29.2	30.4	2.2
France ¹	37.5	32.4	28.7	27.5	26.7	25.1	24.8	24.2	23.9	24.4	-0.7
Germany ²	31.1	25.4	24.6	25.8	26.9	27.1	27.8	28.2	28.0	28.7	1.6
Greece ¹	44.1	42.2	40.0	42.5	39.4	31.9	31.7	33.3	33.2	32.4	-0.4
Hungary	..	..	..	..	40.3	39.9	38.9	36.9	36.4	38.7	-1.2
Iceland	61.7	62.2	59.5	49.2	45.7	39.5	37.8	36.1	33.9	33.3	-6.3
Ireland	49.1	44.4	42.6	40.6	36.8	36.0	35.8	34.5	35.0	34.0	-2.0
Israel ³	..	..	..	..	34.2	36.9	33.0	32.6	34.6	36.5	5.6
Italy	37.0	28.3	23.6	25.3	25.0	25.0	23.8	22.6	22.0	21.7	-3.3
Japan	25.0	15.1	12.1	12.0	13.8	17.0	17.2	15.9	15.9	16.9	-0.1
Korea	..	60.0	58.5	43.0	38.6	36.7	33.3	30.3	30.6	30.9	-5.8
Luxembourg	23.5	20.6	24.1	24.6	26.7	26.8	28.7	27.0	27.5	27.1	0.2
Mexico	..	..	64.5	54.8	52.7	52.1	55.7	52.0	58.3	49.1	-3.0
Netherlands	27.1	22.5	23.4	24.0	24.6	26.3	28.8	28.0	27.3	27.3	0.9
New Zealand	26.2	22.8	22.0	31.6	31.3	32.4	30.0	29.4	31.5	34.0	1.6
Norway	39.9	36.6	36.4	34.1	36.7	29.4	26.1	26.8	24.4	26.4	-3.0
Poland	..	..	..	..	34.6	34.6	36.2	36.3	36.7	35.5	0.9
Portugal	44.0	40.1	42.3	43.4	42.4	38.7	42.2	39.8	38.9	36.7	-2.0
Slovak Republic	..	..	..	..	33.4	34.1	37.3	35.7	33.4	33.6	-0.4
Slovenia	..	..	..	..	37.9	35.8	33.1	33.3	34.1	35.6	-0.2
Spain ¹	40.6	24.0	27.6	26.5	26.1	27.1	25.7	23.7	23.3	21.4	-5.7
Sweden	29.5	22.7	25.5	24.0	27.7	24.0	25.3	25.7	26.7	27.6	3.8
Switzerland	31.9	26.6	20.2	19.7	20.4	21.1	21.2	19.9	19.6	19.0	-2.1
Turkey	53.5	40.9	35.7	27.5	37.1	40.6	47.4	45.6	43.5	43.6	3.1
United Kingdom	31.1	23.7	29.7	29.4	33.5	30.5	29.1	28.0	27.6	27.5	-3.0
United States	19.9	17.1	16.3	14.9	15.5	13.8	14.7	13.9	14.4	15.4	1.6
Unweighted average	..	..	..	..	..	..	..	..	..	..	..
OECD-Total	36.2	31.1	32.1	31.4	32.1	31.2	31.3	30.2	30.3	30.6	-0.6

1. The total tax revenue has been reduced by the amount of any capital transfer that represents uncollected taxes. The capital transfer has been allocated between tax headings in proportion to the reported tax revenue, except for Austria where it has been.

2. From 1991 the figures relate to the united Germany.

3. Israel: The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements.

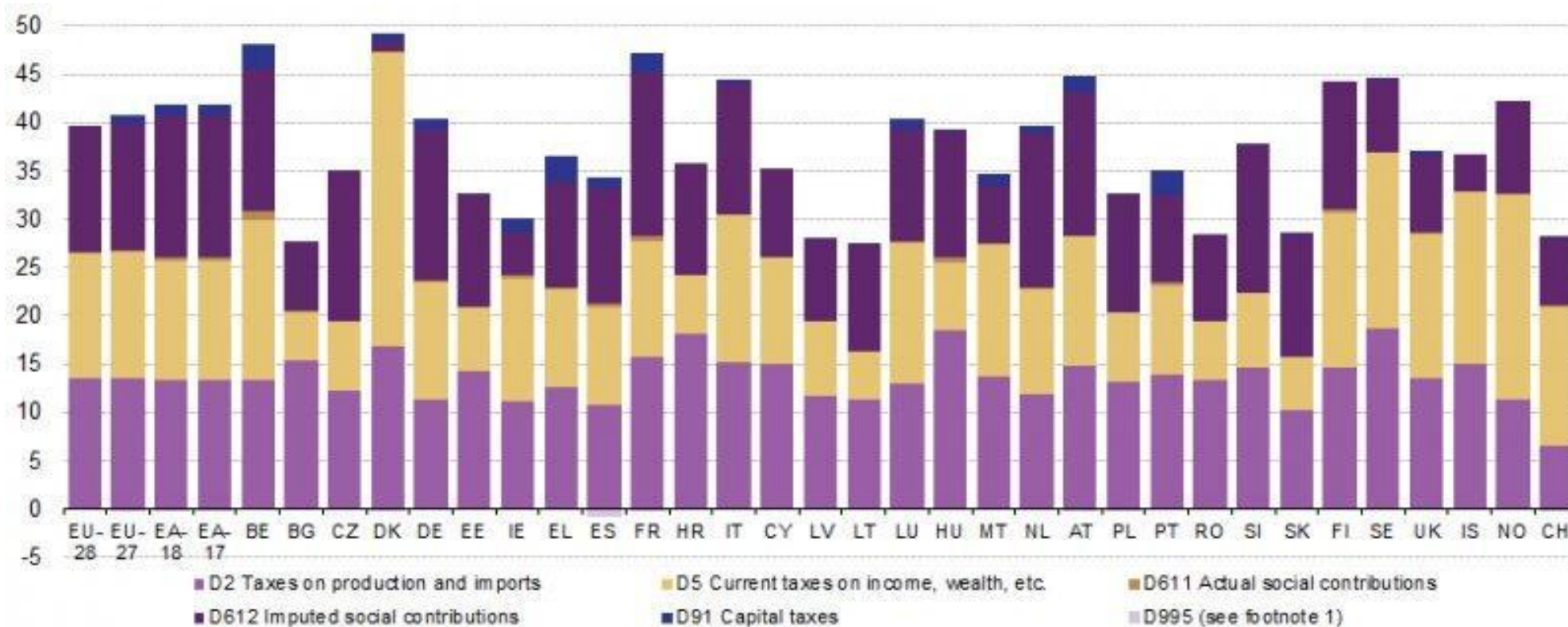
Nomenclature: The tables are based on a common nomenclature for all OECD countries. Heading 5110 (General taxes on goods and services) is used for Tables 3.1 and 3.2. It includes VAT, sales taxes and other general taxes on goods and services. Heading 5120.

Averages: All member countries are taken into account for the calculation of the unweighted averages, including countries that had not implemented the relevant taxes for the year considered. They are counted with a value of zero in the numerator and 1 in the denominator.

Source: OECD, Revenue Statistics 1965-2010.

StatLink  <http://dx.doi.org/10.1787/888932718611>

OECD



INTRODUCTION

- Rates generally increasing
- Is there a tipping point?
- Function of reliefs, exemptions and deemed consumers eg public bodies

INTRODUCTION

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Table 3.8. VAT/GST rates¹

Implemented		Standard rate													Reduced rates ²	Specific regional rates
		1976	1980	1988	1992	1996	2000	2002	2004	2006	2008	2010	2011	2012		
Australia	2000	—	—	—	—	—	—	10.0	10.0	10.0	10.0	10.0	10.0	10.0	0.0	-
Austria	1973	18.0	18.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	10.0/12.0	19.00
Belgium	1971	18.0	16.0	19.0	19.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	0.0/6.0/12.0	-
Canada	1991	—	—	—	7.0	7.0	7.0	7.0	7.0	7.0	5.0	5.0	5.0	5.0	0.0	12.0/13.0/14.5/15.0
Chile	1975	20.0	20.0	16.0	18.0	18.0	18.0	18.0	19.0	19.0	19.0	19.0	19.0	19.0	-	-
Czech Republic	1993	—	—	—	—	22.0	22.0	22.0	22.0	19.0	19.0	20.0	20.0	20.0	14.0	-
Denmark	1967	15.0	22.0	22.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	0.0	-
Estonia	1991	—	—	—	10.0	18.0	18.0	18.0	18.0	18.0	18.0	20.0	20.0	20.0	9.0	-
Finland	1994	—	—	—	—	22.0	22.0	22.0	22.0	22.0	22.0	22.0	23.0	23.0	0.0/9.0/13.0	-
France	1968	20.0	17.6	18.6	18.6	20.6	20.6	19.6	19.6	19.6	19.6	19.6	19.6	19.6	2.1/5.5/7.0	0.9/2.1/8.0/13.0 & 1.05/1.75/2.1/8.5
Germany	1968	11.0	13.0	14.0	14.0	15.0	16.0	16.0	16.0	16.0	19.0	19.0	19.0	19.0	7.0	-
Greece	1987	—	—	16.0	18.0	18.0	18.0	18.0	18.0	19.0	19.0	19.0	23.0	23.0	6.5/13.0	5.0/9.0/16.0
Hungary	1988	—	—	25.0	25.0	25.0	25.0	25.0	25.0	20.0	20.0	25.0	25.0	27.0	5.0/18.0	-
Iceland	1990	—	—	—	24.5	24.5	24.5	24.5	24.5	24.5	24.5	25.5	25.5	25.5	7.0	-
Ireland	1972	20.0	25.0	25.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	23.0	0.0/4.8/9.0/13.5	-
Israel	1976	8.0	12.0	15.0	18.0	17.0	17.0	17.0	18.0	16.5	15.5	16.0	16.0	16.0	0.0	-
Italy	1973	12.0	15.0	18.0	19.0	19.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	21.0	4.0/10.0	-
Japan	1989	—	—	—	3.0	3.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	-	-
Korea	1977	—	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	0	-
Luxembourg	1970	10.0	10.0	12.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	3.0/6.0/12.0	-
Mexico	1980	—	10.0	15.0	10.0	15.0	15.0	15.0	15.0	15.0	15.0	16.0	16.0	16.0	0.0	11.00
Netherlands	1969	18.0	18.0	20.0	17.5	17.5	17.5	19.0	19.0	19.0	19.0	19.0	19.0	19.0	6.0	-
New Zealand	1986	—	—	10.0	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	15.0	15.0	0	-
Norway	1970	20.0	20.0	20.0	20.0	23.0	23.0	24.0	24.0	25.0	25.0	25.0	25.0	25.0	0.0/8.0/15.0	-
Poland	1993	—	—	—	—	22.0	22.0	22.0	22.0	22.0	22.0	22.0	23.0	23.0	5.0/8.0	-
Portugal	1986	—	—	16.0	16.0	17.0	17.0	17.0	19.0	21.0	21.0	20.0	23.0	23.0	6.0/13.0	4.0/9.0/16.0 & 5.0/12.0/22.0
Slovak Republic	1993	—	—	—	—	23.0	23.0	23.0	19.0	19.0	19.0	19.0	20.0	20.0	10	-
Slovenia	1999	—	—	—	—	—	19.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	8.5	-
Spain	1986	—	—	12.0	12.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	18.0	18.0	4.0/8.0	2.0/5.0/9.0/13.0 & 4.0/5.0
Sweden	1969	17.65	23.46	23.46	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	0.0/6.0/12.0	-
Switzerland	1995	—	—	—	—	6.5	7.5	7.6	7.6	7.6	7.6	7.6	8.0	8.0	0.0/2.5/3.8	-

3. VALUE ADDED TAXES YIELD, RATES AND STRUCTURE

INTRODUCTION

Table 3.8. VAT/GST rates¹ (cont.)

	Implemented	Standard rate												Reduced rates ²	Specific regional rates
		1976	1980	1988	1992	1996	2000	2002	2004	2006	2008	2010	2011	2012	
Turkey	1985	–	–	10.0	10.0	15.0	17.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	1.0/8.0
United Kingdom	1973	8.0	15.0	15.0	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	20.0	20.0	0.0/5.0
Unweighted average		15.4	16.6	16.9	16.4	17.8	18.0	17.9	17.9	17.7	17.7	18.0	18.5	18.7	

Notes

1. Yearly data: the rates shown in the table are rates applicable on 1 January of each year. Reduced rates and specific rates applicable in specific regions are those applicable as at 1 January 2012.

2. Reduced rates: reduced rates include zero-rates applicable to domestic supplies (i.e. an exemption with right to deduct input tax). This does not include zero-rated exports.

Country notes

Australia: The GST was introduced on 1 July 2000.

Austria: A standard rate of 19% applies in Jungholz and Mittelberg.

Canada: The following provinces have harmonised their provincial sales taxes with the federal Goods and Services Tax and therefore levy a rate of GST/HST of: British Columbia 12%; New Brunswick, Newfoundland and Labrador, Ontario: 13%; Nova Scotia 15%. Québec applies GST at a rate of 5% and Québec Sales Tax at a rate of 9.5% (applied on a tax base that includes GST). Other Canadian provinces, with the exception of Alberta, apply a provincial sales tax to certain goods and services. British Columbians have voted to return to a separate provincial sales tax regime effective April 1, 2013.

France: Rates of 0.9%; 2.1%; 8.0%; 13.0%; 19.6% apply in Corsica; rates of 1.05%; 1.75%; 2.1%; 8.5% apply to overseas departments (DOM) excluding French Guyana.

Greece: Rates of 5.0%; 9.0% and 16.0% apply in the regions Lesbos, Chios, Samos, Dodecanese, Cyclades, Thassos, Northern Sporades, Samothrace and Skiros.

Israel: The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Mexico: A VAT rate of 11% applies in the border regions (the border zone is up to 20 kilometers within the Mexican borders and the whole territories of the states of Baja California, Baja California Sur, Quintana Roo and part of the state of Sonora).

Portugal: The standard VAT rate in the Islands of Azores is 16%. In the Islands of Madeira the standard rate is 22% (since 1st April 2012); reduced VAT rates in Azores are 4% and 9%. In Madeira reduced rates are 5% and 12% (since 1st April 2012).

Spain: Rates of 2.0%; 5.0%; 9.0%; 13.0% apply in the Canary Islands. Rates of 05.5% and 4% apply in Ceuta and Melilla.

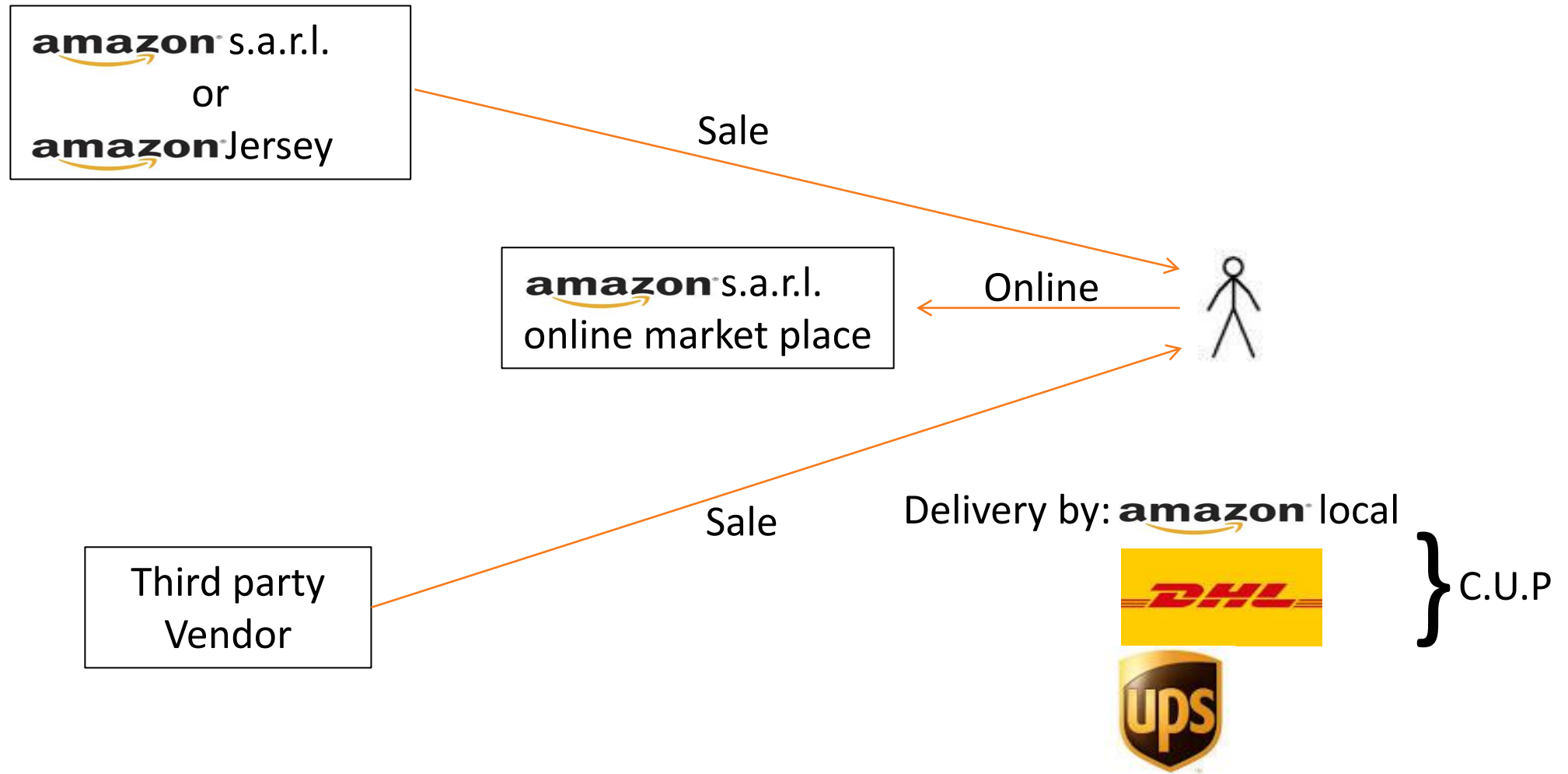
Source: National delegates – position as at 1 January 2012.

<http://dx.doi.org/10.1787/888932718763>

THE PROBLEM DEFINED

- VAT/SGT is a tax on consumption of goods and services levied at each stage of production
- The media, politicians and NGO's deal with anything to do with digital/the internet, as if it was one and the same problem
- Sales of goods
- Sales of services to businesses
- Sales of services to consumers

THE PROBLEM DEFINED



THE PROBLEM DEFINED: THIS IS NOT ABOUT GOODS?

- Consumer suffers local VAT; goods stopped on import/local border controls
- LVCR
 - Low value consignments
 - Not just an EU issue, anywhere where cost of transport per item is sufficiently low
 - FedEx complaint to EU Commission

VAT/GST RELIEF FOR LOW VALUE IMPORTS

3. VALUE ADDED TAXES YIELD, RATES AND STRUCTURE

Table 3.15. VAT/GST relief for low value imports¹

Country	Currency	Threshold in Local currency ²	Threshold in USD ³
Australia	AUD	1000	642
Austria	EUR	22	26
Belgium	EUR	22	25
Canada	CAD	20	16
Chile	CLP	0	0
Czech Republic	EUR	22	39
Denmark	EUR	10	10
Estonia	EUR	22	41
Finland	EUR	22	23
France	EUR	22	25
Germany	EUR	22	28
Greece	EUR	22	31
Hungary	EUR	22	49
Iceland	ISK	1500	11
Ireland	EUR	22	26
Israel	ILS	0	0
Italy	EUR	22	28
Japan	JPY	10 000	94
Korea	KRW	150 000	182
Luxembourg	EUR	22	24
Mexico	USD	300	300
Netherlands	EUR	22	26
New Zealand	NZD	400	263
Norway	NOK	200	21
Poland	EUR	22	49
Portugal	EUR	22	35
Slovak Republic	EUR	22	42
Slovenia	EUR	22	35
Spain	EUR	22	31
Sweden	EUR	22	22
Switzerland	CHF	62	41
Turkey	TRY	0.0	0
United Kingdom	GBP	15	23

1. This table does not include thresholds for goods imported by travellers themselves (see Table 3.14).

THE PROBLEM DEFINED: SERVICES TO BUSINESS

- Ideally all transactions taxed and tax recoverable
- Mainly services not taxed by supplier and purchaser must pay
 - Audit of purchase ledger (PL)/accounts payable (AP)
- Scope for fraud (see below) if purchase/import service VAT/SGT free but sell on plus VAT/SGT eg carbon credit trading and cloud computing

THE PROBLEM DEFINED: SERVICES TO CONSUMERS

- Electronically supplied services – eg telecoms, broadcasting, downloads, (mp3's, mp4's, ebooks etc)
- How to tax at place of consumption when supplier could be anywhere, perhaps a country with no tax
- THIS IS THE PROBLEM! (Ebooks -v- books)
- NB Governments can block IP addresses etc

OECD BEPS NO.1 – THE DIGITAL ECONOMY

- Not a separate world – an integral part of it
- Wrong to ring fence it from the taxation of economic activity in general
- It keeps changing! Eg , 3D printing (ie downloadable goods!!!)



OECD BEPS NO.1 – THE DIGITAL ECONOMY

- Legal structures – use of different legal entities to avoid a permanent establishment
- What is a permanent establishment? (See Article 5 and network servers – but what about cloud computing?)
- Align taxation to economic value add
- Controlled foreign company rules
- VAT rules for consumers, non recoverable businesses and on exempt transactions

BUT

- Technology can be the solution and not just the problem.
- Await other outcomes (and EU Mini One Stop Shop)

EU MINI ONE STOP SHOP

- Comes into effect 1 January 2015 for telecoms, broadcasting and electronically supplied services (“ESS”)
- Already in place for non EU suppliers although most register a company in Luxembourg to use 15% or 3% VAT rate to all EU consumers
- Register in home EU country and transact with home tax authority but account for tax on basis of rules and rates of non taxable person (ie someone without a VAT/SGT Tax Identification Number)
- Supplier protected if he has two pieces of evidence of customer’s location
- Some fixed rules eg wifi hotspots
- What will happen? Chaos? VAT in country of consumption instead of Luxembourg?
- All filings and payments online

QUASI PROFITS TAX?

- NGO's, politicians and media - \$100m's of sales, little tax on profit!
- What if for all mail order/ESS there was an additional VAT/SGT rate – d%
- Standard rate = s%; mail order/ESS rate (s+d)%
- However d% (which is a proxy for corporate income tax on presumed taxable profit) can be set against local corporate income tax (if any)
- So local company collects VAT/SGT at d% as a credit against its corporate income tax
- Foreign company collects VAT/SGT at d% and is a proxy for corporate income tax (query credit in home country for double taxation)

FRAUD

- Major issue with missing traders
- Passing risk on to innocent traders *does not work*
- Asking people to fill in more forms *does not work* (criminals tell lies)
- Need controls, education, data and fast action

OR

- Building risk out of the system eg Real Time VAT accounting and recovery via trusted third party/bank/government (eg VISA in Latin America)

SUMMARY

- VAT/SGT is:
 - Extremely efficient at raising tax
 - Increasingly important to governments
 - Carries fraud risk
 - Digital economy is changing but retain and use the tax rules from the mainstream
 - OECD – watch and learn approach

QUESTIONS?

CONTACT DETAILS

**Stephen Coleclough LLB (Hons),
CTA (Fellow), FIIT, ATT, FInst CPD,
FRSA, TEP, Solicitor**



**Secretary General Confédération Fiscale Européenne
Immediate Past President Chartered Institute of Taxation
Tax Consultant, Mishcon de Reya**

+44 207 406 6155

+44 7802 878 045

stephen.coleclough@mishcon.com