



**FISCAL AFFAIRS**

# **Digitalization and Challenges for the VAT**

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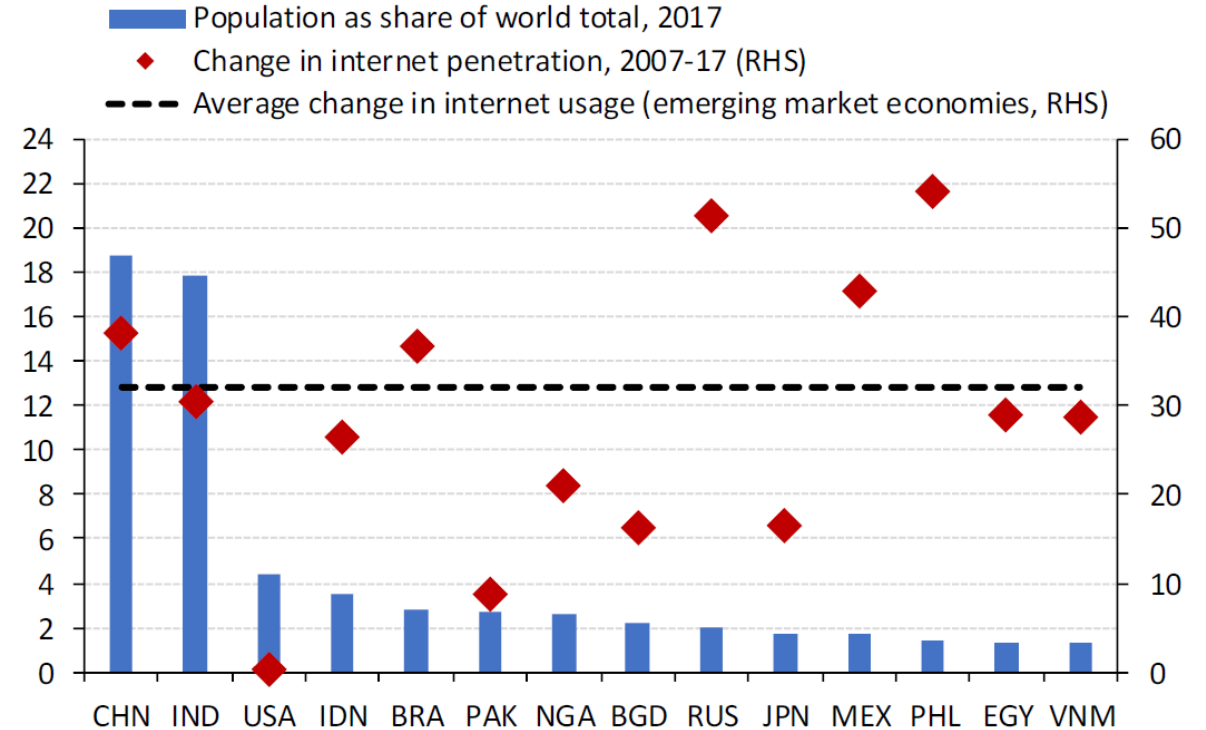
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Tax Policy 2

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# Digitalization is accelerating and business models are changing

- Old model:
  - ▶ Imports mostly through registered VAT payers
  - ▶ Goods come through customs
  - ▶ Most services performed in person
- New business models and consumption patterns
  - ▶ Digital goods and services
  - ▶ Direct imports by consumers
  - ▶ Peer-to-peer economy

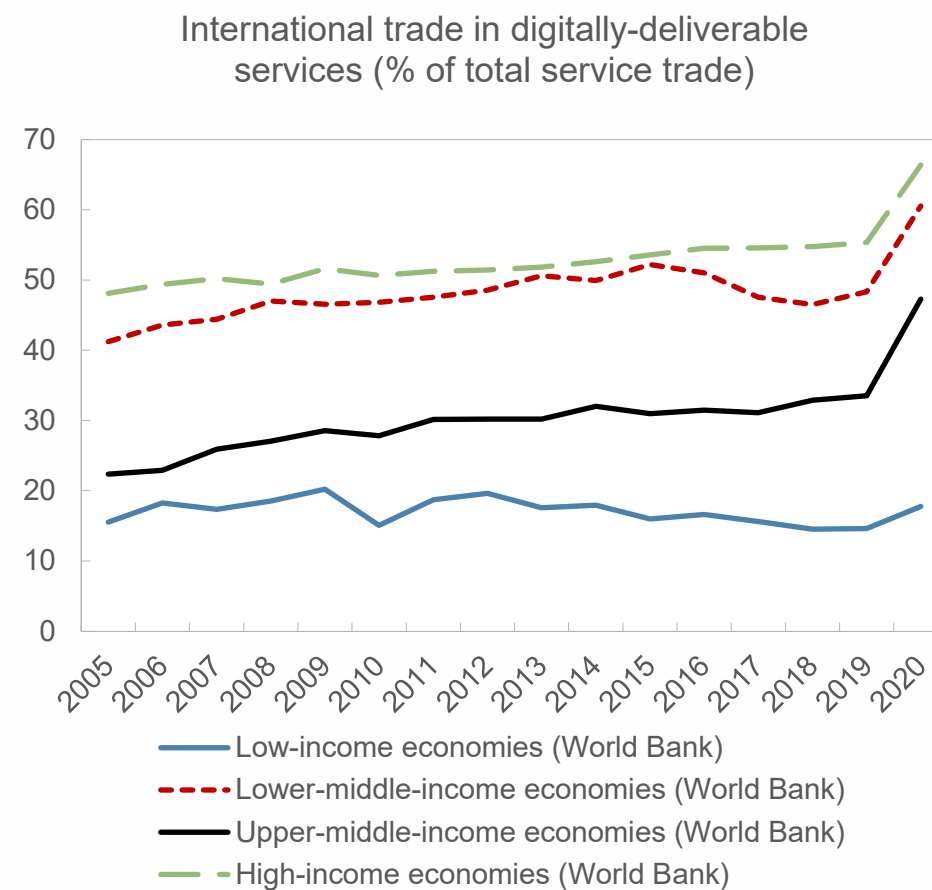
## Increase in Internet Usage for the 15 Most Populous Countries (percent)



Source: Aslam and Shah (2020)

# Digital goods and services: tax policy issues

- B2C
  - ▶ Generally easy: VAT should be paid at destination
  - ▶ (complication in case of travelers: place of consumption/permanent residence)
- B2B
  - ▶ No major issue
- User-created value
  - ▶ Barter-like transaction
  - ▶ Theoretically should apply VAT to the value of service



# Digital goods and services: tax administration issues

## Challenges in Collecting VAT

- No physical customs control at the border.
- Often no physical presence that could be made liable for collecting the VAT

## Solutions

- B2C: vendor collection model: nonresident suppliers (including digital platforms) charge and remit VAT
  - ◆ > 60 countries so far
  - ▶ Less effective: require financial intermediaries to withhold VAT
  - ▶ Unworkable: require self-assessment by final consumers
- B2B: reverse charge rule



**Administering the Value-Added Tax  
on Imported Digital Services and  
Low-Value Imported Goods**

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INTERNATIONAL MONETARY FUND

# Digital goods and services: examples

	Threshold	Scope of Services	Collection method
<b>Australia (2017)</b>	AUS\$75,000	Intangible supplies 'anything other than goods or real property'	Vendor Collection Model
<b>Bangladesh (2019)</b>	BDT 30 million	Streaming or download media and web-based services	Withholding by local payment provider
<b>India (2017)</b>	No threshold for non-residents For Indian Residents: INR 1 mn annual sales	A service is mediated over the internet or an electronic network and the nature of which renders their supply essentially automated and involving minimal human intervention, and impossible to ensure in the absence of information technology	Vendor Collection Model
<b>Indonesia (2020)</b>	Annual revenue 600m IDR, or 50m monthly revenue; and 12,000 users annually/1000 users monthly	Activities + Foreign digital service providers and intermediaries included on a government list	Vendor Collection Model
<b>Kenya (2020/21)</b>	None	Downloads of movies, apps and books, software; Streaming services & Subscription-based media; Data management; Tickets bought online for live events; Online e-learning; Sharing economy website services; Any other digital marketplace supply as determined by Commissioner	Vendor Collection Model
<b>South Africa (2014/19)</b>	ZAR 1 million	2104 – Narrow base: Online gaming and games of chance; Internet-based auctions; Online journals, blogs, newspapers, social media, webcasts, apps and web services; Online media, music, e-books and image; 2019 – Wider base to include any electronic service supplied by means of an electronic agent, electronic communication or the internet excluding education, where those services provided and regulated by the education authorities, telecommunications services, group company transactions	Vendor Collection Model

# Low value B2C imports: tax policy

## Review thresholds

- Revenue at stake vs collection cost
  - ▶ B2C import
    - ◆ then: rare overseas trip
    - ◆ now: click on order button
- Competition
  - ▶ Locally-produced or officially-imported goods cannot compete with untaxed imports

	2015	2018
B2C exports	US\$ 189 bn	US\$ 412 bn
International parcels	115.1 million	191.8 million

Sources: UNCTAD *Digital Economy/Information Economy Reports*; Universal Postal Union *Postal Economic Outlook*

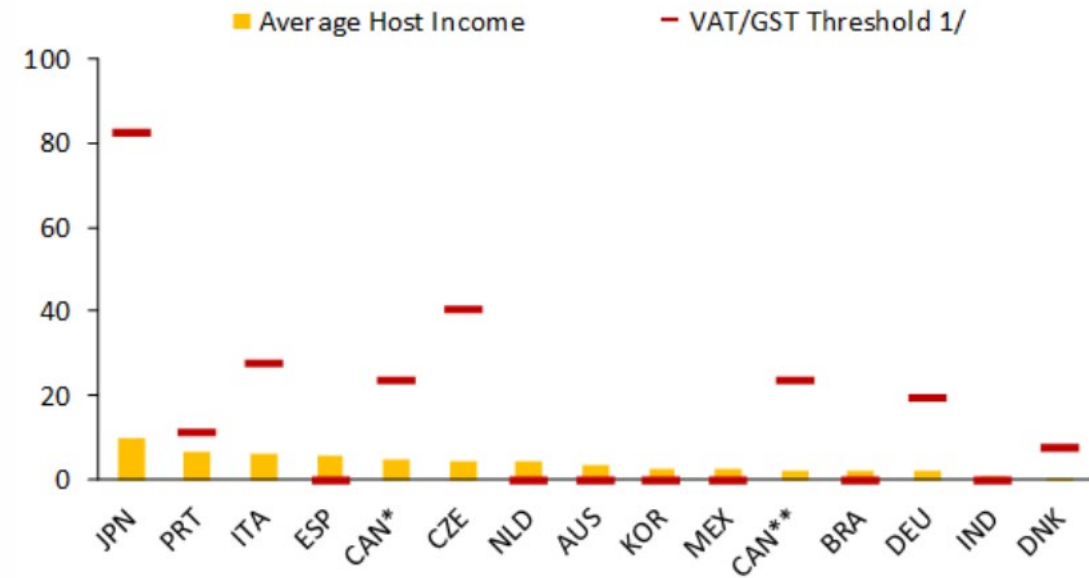
# Low value B2C imports: tax administration

- Challenges in Collecting VAT
  - ▶ Multiple cross-border orders below threshold
  - ▶ Small/disappearing sellers
  - ▶ Cumbersome collection
- Solutions
  - ▶ Vendor collection model
    - ◆ Cover digital marketplaces to avoid small traders from evading/disappearing
    - ◆ Combine with accelerated release at customs

# Peer-to-peer economy: tax policy

- Large platforms with small individual suppliers
  - ▶ What VAT threshold to use?
    - ◆ And how to deal with input VAT?
- Cross border: some ambiguity on taxing right of intermediary fees

**Average Income from Airbnb Inc. by Country vs. Indirect Tax Thresholds (US\$ thousands)**



Source: Aslam and Shah (2017).



# Peer-to-peer economy: tax administration

- Challenge
  - ▶ Many, often small, transactions, between many small agents
- Opportunity
  - ▶ Excellent data availability (electronic records) of platforms
    - ◆ Mandate data sharing
  - ▶ Scope for withholding taxes
    - ◆ Final for simple ones (tourist taxes per night)
    - ◆ Provisional for complex ones (income tax)

# VAT versus other taxes

- Corporate income tax
  - ▶ Sales without physical presence (PE): traditionally no taxing right
    - ◆ Digital PE: possible but controversial
  - ▶ Even with PE: limited taxing rights if only sales take place
  - ▶ Profit shifting especially for intangible goods
  - ▶ Tax competition: downward pressure on rates to attract tax bases
  - ▶ Pillar 1: allocate  $\frac{1}{4}$  of residual profit to destination country for 100 largest firms
  
- Digital service tax
  - ▶ Ring-fenced approach to collect tax
    - ◆ Addresses profit shifting, lack of PE
    - ◆ Controversial (trade war threatened)

VAT:

Vendor collection  
model feasible

Destination base

All firms and all sales  
covered

All sectors covered  
No controversy