

**Answers to technical questions raised during the panel discussion of  
VAT Webinar 5: VAT AND THE DIGITAL ECONOMY  
November 16, 2021**

*Disclaimer:* The technical answers reflect views of IMF staff and do not necessarily represent the views of the IMF, its Executive Board, or IMF management. They should not be viewed as technical advice or recommendation, as appropriate responses will be country specific.

**1. What is the best way to "sell" digital tax?**

As noted by Mark Konza during the panel discussion, there is a strong case for introducing VAT on inbound digital transactions, because when imported digital supplies and low value imports are not taxed or taxed more favorably, domestic businesses may be at a disadvantage. Levying VAT on digital services is akin to closing a loophole, which creates a level playing field for domestic suppliers.

**2. What is the best model for taxing cross-border digital transactions?**

Choosing an administrative collection model is a key consideration. Countries can rely on collection through platforms (vendor collection model) or the banking system (financial institution withholding). While banks have data about transactions and the consumer, the information is often rudimentary and insufficiently precise in respect of all relevant features of the transaction. Platforms, on the other hand, make administration possible because they have more detailed information about transactions and consumers. Consequently, the vendor-collection model coupled with involving platforms in the collection process is considered good practice. This [IMF guidance note](#) lists countries implementing this model, which includes Australia, New Zealand, Norway, and Singapore

**3. What experience can you share with us regarding the tax in respect of trading of intangible assets such as cryptocurrencies (BITCOIN) with VAT?**

Increasingly countries treat cryptocurrencies that are primarily used as payment tokens (such as Bitcoin) as a form of money, so that when they are used to buy or sell goods and services, only the supply of those goods and services are subject to VAT but not the supply of the cryptocurrency itself. However, gains and losses of the trading of cryptocurrencies are typically subject to income tax or capital gains tax and require reporting.

**4. How do the foreign companies identify themselves for the purpose of registration for digital tax purposes? How do they pay the VAT collected?**

Under the vendor collection model, a non-resident business is required to register in those foreign jurisdictions to which they supply taxable digital services (or low value goods) to final consumers, usually (but not always) if the aggregate value of such goods or services have exceeded or are expected to exceed a prescribed amount in a 12-month period. Such thresholds are often used to limit registration to businesses who are making sufficient sales in the country and are presumed to have the capacity to cope with the obligations of the VAT on imported digital services or low value goods. The vendor collection method typically provides simplified registration procedures and information requirements for non-resident businesses that vary from country to country. Importantly, such simplified VAT registration systems do not entitle the registrant to any input tax credits or deductions for purchases made in that country.<sup>1</sup> Payment options also vary, but may include wire transfers, online banking, and bank drafts. The overarching objective is to make both registration and return and payment requirements as easy as possible (see also next question).

**5. In the vendor collection model, how can the authorities be assured that the foreign vendor will correctly report the transactions and remit the VAT?**

As with other aspects of the VAT, the vendor collection model generally relies on voluntary compliance. To facilitate compliance, the VAT filing procedures for non-resident suppliers of cross-border services (and low value imports) are simplified to minimize administrative and compliance costs. Filing frequency is commonly required on a quarterly basis, though it can also be monthly, particularly for larger taxpayers. The VAT tax return normally requires non-residents to report only total taxable supplies and the VAT charged on those supplies. Fortunately, international experience has demonstrated that most non-resident businesses, particularly the larger ones, voluntarily comply with their obligations under the vendor collection model. However, it is also prudent to have a compliance strategy that addresses failure to register, failure to file, accurately report, and pay as required, leveraging existing instruments for exchange of information between tax administrations.

**6. How the revenue agency can detect/collect VAT from digital services?**

The starting point in applying the vendor collection method to imported digital services (or low value goods) is to clearly define the types of supply that will be taxed under the regime. This requires clearly defined place of taxation rules in the VAT law determining which supplies are taxed in the jurisdiction. For remotely supplied digital services, the place of taxation is typically defined by

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<sup>1</sup> For this reason, most countries allow foreign vendors to opt for the normal VAT registration system instead; see question No 7 below.

reference to the place where the final consumer has its usual residence.<sup>2</sup> As a result, non-resident suppliers making relevant supplies to final consumers are required to charge the VAT of the final consumer's country and remit the revenue to that country.

**7. Are non-resident suppliers under the vendor collection model entitled to input tax credits?**

Under the vendor collection model, non-resident suppliers are generally ineligible to claim input tax credits in respect of any purchases made in the importing country. This feature enables the vendor collection model to be based on a simplified registration framework. In many countries, however, non-resident suppliers have the option of registering for VAT in the traditional manner, which would entitle them to input tax credits under the normal rules.

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<sup>2</sup> See OECD International VAT/GST Guidelines.