European Commission

VAT Aspects of cross-border e-commerce - Options for modernisation

Final report – Lot 2

Analysis of costs, benefits, opportunities and risks in respect of the options for the modernisation of the VAT aspects of cross-border e-Commerce

March 2016

Deloitte.

EUROPEAN COMMISSION

Directorate-General for Taxation and Customs Union

Directorate C— Indirect Taxation and Tax Administration

Unit C.1— Value Added Tax

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Luxembourg: Publications Office of the European Union, 2016

PDF	ISBN 978-92-79-63795-7	doi:10.2778/56145	KP-07-16-051-EN-N

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List of abbreviations

B2B	Business to business
B2C	Business to consumer
C2C	Consumer to consumer
CAGR	Compounded annual growth rate
CGE	Computable general equilibrium
DSM	Digital Single Market
EC	European Commission
EU	European Union
FTE	Full time equivalent
GDP	Gross domestic product
IO	Information Obligation
MOSS	Mini one stop shop
MSI	Member State of Identification
MSC	Member State of Consumption
SAD	Single administrative document for Customs declarations
SCM	Standard cost model
SEM	Single Electronic Mechanism
SME	Small and medium-sized enterprises
TOR	Terms of reference
VAT	Value added tax

Executive Summary

Context and approach

In line with the Digital Single Market Strategy[1] objective of boosting e-Commerce growth within the EU, the European Commission is considering a number of policy Options aimed at simplifying the VAT and Customs system. These policy Options build on the recent legislation on telecommunications, broadcasting and electronic services (‘TBE services’) provided to final consumers (B2C) within the EU which introduced the destination principle accompanied with the implementation of a Mini One Stop Shop (i.e. the MOSS).

This report forms part of a broad study providing an in-depth economic analysis of VAT aspects of e-Commerce. The study considers the widening of the MOSS to other areas of B2C e-Commerce, the elimination of the VAT exemption for the importation of small consignments, and the elimination of current registration thresholds for intra-EU B2C supplies of goods. The objective is to reduce the administrative burden on trade and remove distortion of competition, to support the full achievement of the Digital Single Market.

The Options assessed in this report were formulated following a design process that took into consideration inputs from stakeholders, the European Commission and other policy initiatives at EU level, which allowed forming a view on the problems and deriving the policy objectives and Policy Options.

The Policy Options were assessed with regard to their financial and economic impacts through a number of tools devised for quantitative and qualitative analysis. Data gathering tools consisted of desk research, surveying consumers in 25 Member States, interviewing businesses and tax authorities in selected Member States, carrying out mock purchases, facilitating and attending stakeholder workshops and online surveying of businesses.

For the analysis of the data, a Standard Cost Model (SCM) and Computable General Equilibrium (CGE) Model were applied to measure the administrative burden of businesses and the magnitude of effects on cross-border e-Commerce arising from the administrative burden, respectively. The economic analysis of the Policy Options included also a sensitivity analysis, using different e-Commerce growth scenarios. The main analysis considers the medium growth scenario (e-Commerce Compounded Annual Growth Rate – CAGR – of 12%), while the sensitivity analysis allows for lower and higher e-Commerce growth (CAGR of 6% under the low growth scenario and CAGR of 18% under the high growth scenario). An additional scenario allows for the impact of the Digital Single Market on cross-border e-Commerce within the EU as well (‘DSM scenario’).

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[1] http://ec.europa.eu/priorities/digital-single-market/docs/dsm-communication_en.pdf

Problem Assessment

The analysis of the current status of e-Commerce in the EU[2] estimated total online spend on goods and services at EUR 540 billion across the EU-28 in 2013. Cross-border e-Commerce accounts for about 18% of this figure, or EUR 96.8 billion. The majority of this spending comes from within the EU, with non-EU spending accounting for 28% of cross-border e-Commerce.

With regard to the businesses perspective, almost 15% of EU businesses are estimated to engage in cross-border e-Commerce, with this figure rising to about 35% of large firms (in terms of numbers of firms the large majority selling online across borders are small enterprises). The administrative burden associated with the current VAT treatment of e-Commerce represents a major burden for these firms, estimated to be about EUR 8 000 per Member State in which a business is registered for VAT. Additional issues include dealing with complex legislation and administrative procedures in different countries, monitoring distance sales thresholds, differences in distance sales thresholds across Member States, and distortion of competition with businesses from third countries (due to the small consignment exemption) and between EU businesses (due to the differences across VAT rates and distance sales thresholds).

The current complex and fragmented framework is also raising concerns about compliance. Tax authorities consider non-compliance as a significant issue on both intra-EU distance sales and on B2C import of goods with a value of up to EUR 150. EU-wide VAT loss associated with non-compliance on cross-border online transactions was estimated to be between EUR 2.8 billion and EUR 4.2 billion, but it is very difficult also for Member States to measure the compliance level. Tax authorities have identified many types of non-compliance (such as under-valuation and mis-labelling on imports and ignoring distance sales thresholds on intra-EU sales), as well as the use of avoidance schemes. While efforts are made to improve non-compliance monitoring and enforcing, tax authorities admit that the use of compliance measures is not sufficiently effective and there is room for improvement, such as better use of administrative cooperation between EU Member States and with non-EU countries and further development and use of technological tools.

The analysis suggests that the current administrative burden associated with VAT on cross-border online transactions represents a barrier to the growth of e-Commerce in the EU. Cross-border e-Commerce is particularly affected, since the administrative burden may either increase prices or deter businesses from selling cross-border altogether. This may in turn have ramifications for productivity and competitiveness in the EU. For instance, the analysis estimated that reducing the administrative burden on cross-border e-Commerce has the potential to increase the value of e-Commerce in the EU by between 0.3% and 0.7% which equates to between EUR 3.1 billion and EUR 5.2 billion annually.

When the growth rates of e-Commerce are taken into consideration (CAGR of 12%, up to 18% in the high growth scenario), it becomes clear that the problems mentioned above (administrative burden, non-compliance and consequent VAT loss, distortion of competition) will only become more pressing in the near future.

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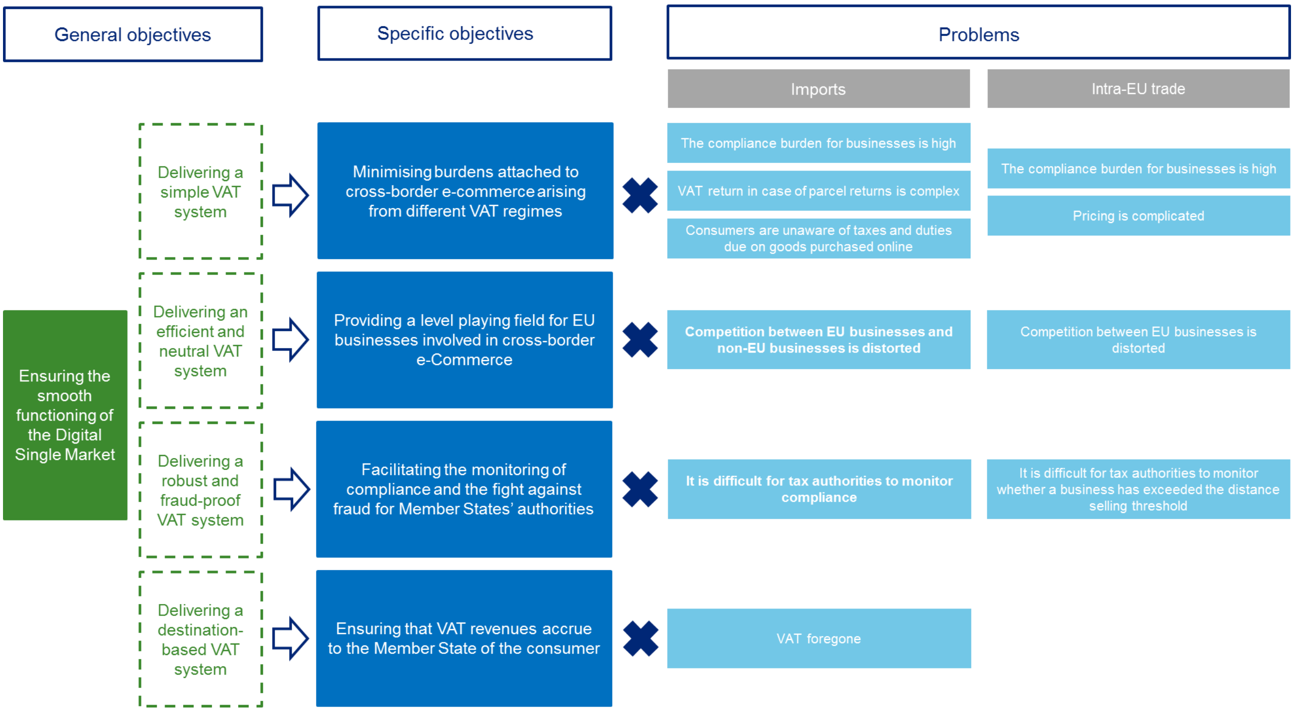
[2] Performed under Lot 1 of the study.

Policy Objectives and Options for Policy Intervention

A clear formulation of the general, specific and operational objectives of the policy intervention is important for setting out the political priorities and aims for action. Policy Options are developed with a view to addressing the problems in line with the policy objectives. The figure below presents the general and specific policy objectives of the proposed policy action in relation to the identified problems.

Figure 1 – Policy Objectives of the intervention



The following six Policy Options are assessed.

- **Option 1:** Status Quo
- **Option 2:** Removal of the distance sales thresholds and the small consignment exemption (with no simplification measure)
- **Option 3:** Option 2 but with the introduction of a common VAT threshold (Common country or exemption thresholds) for EU sales of both goods and services (5000 EUR or 10 000 EUR) – which would come in addition to the existing domestic thresholds (up to 114 000 EUR)
- **Option 4:** Option 3 plus Single Electronic Mechanism applying to intra-EU supplies of goods and services and to the import of all goods under the Customs threshold of EUR 150
- **Option 5:** Option 4 plus amendments to the Single Electronic Mechanism (home country legislation and home country control, subject to applying rate/exemptions of the Member State of Consumption)
- **Option 6:** Option 4 plus fully harmonised EU rules for Single Electronic Mechanism, subject to applying the rates/exemption of the Member State of Consumption

The table below provides an overview of the key features of the different Policy Options.

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Table 1 – Features of the Policy Options assessed

Features	Option1	Option2	Option3	Option4	Option5	Option6
General requirement to register and account for tax in the Member State of Consumption	✓	✓	✓			
Distance Selling thresholds for goods	✓					
Simplified registration for EU and non-EU supplies of telecommunications, broadcasting and e-services	✓	✓	✓			
VAT exemption for the importation of small consignments	✓					
Intra-EU threshold for B2C supplies of goods and services			✓	✓	✓	✓
Simplified registration for Intra-EU supplies of goods and services				✓	✓	✓
Simplified registration for non-EU supplies of goods and services				✓	✓	✓
Fast-track customs arrangements for VAT pre-declared goods (except for safety and security)				✓	✓	✓
Primary responsibility for audit with the Member State of Consumption.	✓	✓	✓	✓		
VAT obligations for the business dependent on the Member State of consumption	✓	✓	✓	✓		
Domestic VAT obligations for business supplying intra-EU cross-border.					✓	
Harmonised EU rules for business supplying cross-border.						✓

Assessment of the Policy Options

The table below provides an overview of the key results of the analysis.

Table 2 – Overview of the assessment of the Policy Options

	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6
VAT revenues	VAT foregone due to non-compliance estimated between EUR 2.6 and 3.8 billion VAT foregone due to VAT exemption for importation of small consignments. EUR 0.75 – 1 billion	EU cross-border trade: EUR 2.303 billion VAT revenues from imports from third countries[3]: EUR 0.326	**EUR 5 000 Threshold** VAT revenue below threshold: EUR 0.360 billion VAT revenues from intra-EU trade: EUR 3.164 billion VAT revenues from imports from third countries EUR: 0.326 billion **EUR 10 000 Threshold** VAT revenue below threshold: EUR 0.388 billion EU cross-border trade: EUR 3.150 billion VAT revenues from imports from third countries: EUR 0.326 billion	VAT revenue below threshold: EUR 0.388 billion VAT revenues from cross-border intra-EU trade: EUR 9.128 billion VAT revenues from imports from third countries: EUR 0.757 billion	VAT revenue below threshold: EUR 0.388 billion VAT revenues from cross-border intra-EU trade: EUR 9.183 billion VAT revenues from imports from third countries: EUR 0.757 billion	VAT revenue below threshold: EUR 0.388 billion VAT revenues from cross-border intra-EU trade: EUR 9.179 billion VAT revenues from imports from third countries: EUR 0.757 billion
Administrative burden (EU businesses)	EUR 4.166 billion	EUR 4.684 billion	**EUR 5 000 Threshold** EUR 4.554 billion **EUR 10 000 Threshold** EUR 4.451 billion	EUR 2.418 billion	EUR 1.871 billion	EUR 2.054 billion
Intra-EU e-Commerce	Value estimated between EUR 2.1 and EUR 3.7 billion	Decrease in volume of 59 million transactions (-1.6%) Increase in prices:	**EUR 5 000 Threshold** Decrease in volume of 16 million transactions (-0.4%)	Increase in volume of 40.5 million transactions (1.1%) Decrease in prices of -0.03%	Increase in volume of 47.4 million transactions (1.29%)	Increase in volume of 44.1 million transactions (1.2%) Decrease in prices

[3] Under options 2 to 6, VAT revenues from imports from third countries refer only to imports up to EUR 150.

	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6
		1.1% Increase in value of 0.5 EUR billion (0.9%)	Increase in prices: 0.77% Increase in value of 0.5 EUR billion (0.3 %) **<u>EUR 10 000 Threshold</u>** Decrease in volume of 5.3 million transactions (-0.1%) Increase in prices: 0.68% Increase in value of 0.7 EUR billion (0.5%)	Increase in value of EUR 1.48 billion (1.07%)	Decrease in prices of -0.15% Increase in value of EUR 1.57 billion (1.13%)	of 0.1% Increase in value of EUR 1.52 billion (1.1%)
Total e-Commerce	Value estimated of about EUR 540 billion across the EU-28	Decrease in volume of EUR 111 million transactions (-0.4%) Increase in prices: 0.5% Increase in value of 3.5 billion (0.3%)	**<u>EUR 5 000 Threshold</u>** Decrease in volume of 154 million transactions (-0.5%) Increase in prices: 0.84% Increase in value of 3.5 EUR billion (0.3 %) **<u>EUR 10 000 Threshold</u>** Decrease in volume of 163 million transactions (-0.6%) Increase in prices: 0.9% Increase in value of 3.9 EUR billion (0.3%)	Decrease in volume of EUR 113.9 million transactions (-0.39%) Increase in prices: 0.73% Increase in value of 3.77 billion (0.33%)	Decrease in volume of EUR 104.7 million transactions (-0.36%) Increase in prices: 0.68% Increase in value of 3.57 billion (0.32%)	Decrease in volume of EUR 108.4 million transactions (-0.37%) Increase in prices: 0.69% Increase in value of 3.6 billion (0.32%)
Compliance	The actual EU VAT loss is likely to be closer to the upper end of the estimated range.	➢ The removal of distance sales threshold is expected to improve the compliance control by tax authorities; ➢ The increase in the administrative burden it is likely to increase the level of non-	➢ Improvement of intra-EU compliance, but likely worsening among businesses trading below the distance sales threshold; ➢ overall limited impact on compliance and fraud; ➢ Introduction of a compliance risk of under-declaration of cross-border sales in order to remain below	➢ Further improve both voluntary compliance and compliance control on intra-EU cross border trade and on the import of goods with value up to EUR 150; ➢ supports the fight against by sustaining the reduction of undervaluation and incorrect labelling of the goods, or split imports.;	➢ very similar to Option 4; ➢ expected to further increase voluntary compliance by providing additional simplification to the SEM (home country legislation). ➢ potential to further	➢ very similar to Option 5; ➢ additional voluntary compliance from the application of fully harmonised EU rules; ➢ likely to facilitate compliance control.

	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6
		compliance among businesses ➢ The removal of small consignment exemption simplifies the VAT system and should reduce non-compliance (including fraud)	the threshold(s)	SEM on imports has the potential to improve compliance control	improve compliance controls and reduce fraud, in case of effective administrative cooperation between the MSI and all the MSCs	

Impacts on VAT revenues

With respect to the Status Quo, **Option 2 increases to a limited extent the VAT revenues of Member States,** as an effect of the elimination of the small consignment exemption. It also transfers the VAT revenue from intra-EU trade to the Member State of Consumption as an effect of the elimination of the distance selling threshold (for the share below the distance selling threshold in the Status Quo).

Under **Option 3**, the VAT revenue corresponding to the cross-border transactions below the common EU VAT exemption threshold set at EUR 5 000 is estimated of about EUR 0.360 billion, and of EUR 0.380 billion with the EUR 10 000 threshold. Overall, the VAT collected is slightly lower than under alternative 2 (VAT exemption of transactions below threshold), as the VAT below threshold is not collected by the Member State identification. The differences in VAT revenue between the two scenarios are small.

Under **Option 4,** Member States are likely to benefit of a notable **increase of VAT revenues** arising from the introduction of the SEM in combination with the elimination of the distance selling threshold leading to higher compliance and increased trade. VAT revenues from imports are also expected to increase (expected to more than double) with respect to the Status Quo, as an effect of the use of the SEM for all parcels below the Customs thresholds of EUR 150 by non-EU traders (either via direct registration or via third party registration).

Option 5 and **Option 6** have similar positive impacts on VAT revenues for Member States, even if Option 6 is slightly less favorable than Option 5.

The figures estimated for Options 4, 5 and 6 represent a notable increase with respect to the Status Quo (as well as with respect to Options 2 and 3), which is due to a large extent to an increased compliance with VAT-related obligations. The largest share of such increase can be attributed to intra-EU e-Commerce transactions processed via the SEM (which account for 60%-70% of the total VAT revenues), as well as outside of the SEM (20%-30% of the total VAT revenues). Imports from third countries represent about 10% of the total, with transactions processed via the SEM representing 8%-8.5% of the total, whereas imports processed outside the SEM are expected to account for the remaining 2%-1.5% of the total. The removal of the small consignment exemption (as under options 2 and 3) and an increase in prices (also for imported goods) are additional factors contributing to such increase.

The overall VAT revenue from (intra-EU) cross-border e-Commerce transactions is estimated to increase notably under Options 4, 5 and 6, as an effect of higher compliance and of the positive impacts of such options on intra-EU e-Commerce volume and value. The share of such increased revenues obtained by Member States however will vary by country, depending on a number of factors, such as the contribution to cross-border e-Commerce flow by country of destination and of origin, the change in VAT threshold and the proportion of businesses affected by such change. Overall, the size of the domestic market may insulate larger European economies (such as Germany and France) from the potentially adverse effects on cross-border trade deriving from being major countries of origin. In addition, countries such as the UK and Spain would be expected to capture an above-average share of additional VAT revenues, given that spending on cross-border e-Commerce relative to the size of the economy, is higher in these markets. The impact in the UK is likely to be particularly pronounced since the current threshold for VAT registration for international businesses is approximately EUR 100 000. Thus the reduction in the threshold may significantly increase the share of spending that is subject to VAT. Germany, France, Luxembourg and the Netherlands also have registration thresholds of EUR 100 000 and may therefore see a greater than average impact on tax revenues.

Finally, under Options 4 to 6, Member States are also likely to incur in costs for upgrading/adapting their MOSS systems to the SEM requirements. Such costs are expected to be somewhat lower than those incurred to set-up the MOSS, as the SEM represent an adaptation of such system.

Impacts on administrative burden

With respect to the Status Quo, **Option 2** represents an **increase of about 12% of the administrative costs for EU businesses** as a result of the removal of the threshold. In addition, the large majority (about 90%) of micro-businesses will cease to trade cross-border or be non-compliant as an effect of the increase of the administrative costs.

Option 3 is likely **to increase the administrative costs for EU businesses** with respect to the Status Quo, but to a lower extent than Option 2. If the **threshold is set at EUR 5 000**, it is estimated that administrative costs for business would **increase by approximately 9%** in comparison to the status quo. If the **threshold is set at EUR 10 000** the costs is expected to **increase by 7%**.

Option 4 is likely to **reduce the administrative burden for EU businesses of 42%** with respect to the Status Quo (40% is estimated if the threshold is set at EUR 5 000 instead of EUR 10 000). In both cases, EU businesses will benefit from a clearer legislative framework applying throughout the EU. Overall, it is estimated that about 83% of businesses engaged in cross-border e-Commerce and above the EUR 10 000 threshold will register to the SEM[4], representing about 62% of the volume of cross-border e-Commerce.

Option 5 is expected to f**urther lower the administrative costs for EU businesses** using the SEM with respect to the costs estimated under Option 4 and thus with respect to the Status Quo, leading to a **55% decrease** in the administrative burden.

Finally, **Option 6** is expected to **further lower the administrative costs** for EU businesses using the SEM **(51% decrease)** with respect to the costs estimated under Option 4 and under the Status Quo, but to a lower extent than Option 5 (as businesses will have to be subject to two set of rules). It should be kept in mind however that this option is difficult to model and depends very much on the level of requirements which will be agreed upon and which due to the unanimity requirement might be relatively high in the end.

Under Options 4, 5 and 6 Postal operators and couriers are likely to experience higher processing costs because of a higher volume of parcels to pass through Customs. Conversely, the simplified procedures available both via and outside the SEM are expected to counter-balance such increase. As a result, it is estimated that portal operators and couriers will benefit from a reduction processing costs of about 24%. In addition, third parties (including postal operators, couriers and large marketplaces) would have a stronger role and more responsibilities, as they will have the possibility to register with the SEM and report and pay VAT on behalf of non-EU businesses (becoming agents).

[4] Representing about 18% of all businesses engaged in cross-border e-Commerce

The table below provides an overview of the (likely) volume of consignments processed under the different options, the related costs and VAT losses due to non-compliance. Volumes and costs under Options 4, 5 and 6 are likely to be very similar, so the results are presented

Table 3 – Overview of volumes and processing costs for postal operators and couriers under the different policy options.

	Status Quo	**Options 2/3**	**Options 4/5/6**
Number of consignments EUR 0 – 150 on which VAT is applied	Minimum 43 million between EUR 22 and EUR 150 – Up to 187 million if all Member States exercise option to tax mail orders	187 million	In SEM : 141 million Outside SEM: 46 million
Processing Costs per consignment EUR 0 – 150, per category	Between EUR 0 and 22: Minimum EUR 302 million Between EUR 22 and EUR150: EUR 387 million	Between EUR 0 and EUR 150 EUR 1 678 million	In SEM: EUR 231 million Outside SEM: EUR 293 million
Total Processing Costs	Minimum EUR 689 million	EUR 1 678 million	EUR 524 million
Non-Compliance EUR	Minimum EUR 0.189 billion[5]	0.625 EUR billion	0.173 EUR billion

Under Options 4 to 6, businesses will be likely to incur in costs for adapting their systems and procedures to the new rules and to the requirements of the SEM, including IT costs, process re-engineering, training, etc., and similar to those sustained for the MOSS.

Similarly, postal operators and couriers will need to develop or adapt their information systems in order for them to make sure that they receive electronic information in advance of customs clearance in order to correctly channel SEM and non-SEM consignments. Providing a robust estimate of such one-off costs is difficult as for some operators it may only be a matter of making relatively minor adjustments to the existing systems for some but others may have to build an entirely new system.

An additional consideration is the forthcoming changes in 2020 to the Union Customs Code which will put security-related obligations on both postal operators and couriers in respect of the advanced information they will need to provide anyway to EU customs administrations in advance of clearance (end of any exemption granted to postal operators in this field by 2020). Further, it is critical in considering any costs faced by this sector that under the Status Quo Member States currently lose significant amounts of VAT revenues due to VAT foregone as well as substantial losses due to non-compliance. EU business are also at a competitive disadvantage to non-EU suppliers that are able to make supplies VAT free. It is also relevant that Member States apply the current exemption differently and that some Member States have already introduced restrictions to the exemption notably France who excluded e-Commerce supplies. It is not infeasible that other Member States will follow this

[5] Estimate for small consignment only (i.e. consignment between EUR 0 and EUR 10/22), see European Commission (2015) Assessment of the application and impact of the VAT exemption for importation of small consignments, prepared by EY, accessed at http://ec.europa.eu/taxation_Customs/resources/documents/common/publications/studies/lvcr-study.pdf

trend and remove the exemption due to competitive issues. Therefore, the set-up costs faced by operators can be seen in the context of an ongoing reduction of 24% in processing costs, increased VAT revenues for Member States of EUR 8 to 9 billion, as well as a more stable harmonised regime. In addition, the postal operators and couriers will be beneficiaries of the increase in e-Commerce generally whether domestically or intra-EU.

Impacts on compliance

One of the key outputs from the study is the extent of non-compliant activity under the status quo. This activity is having a profound impact on EU business who as a result are not able to compete on level terms with suppliers from outside the EU as well as those businesses' who abuse the current distance sales thresholds in intra-EU trade particularly where there are VAT rate differentials. Further, as identified above the non-compliance is also leading to substantial losses in revenues for Member States.

Within the status quo, the overall VAT foregone due to non-compliance for EU Member States has been estimated between EUR 2.6 and EUR 3.8 billion. However, based on some relevant information from some Member States[6] on systematic non-compliance on import, the EUR 3.8 billion estimate on overall VAT foregone due to non-compliance can be considered as very conservative.

With respect to the Status Quo, the removal of the distance selling threshold under **Option 2** is expected to facilitate and therefore improve the compliance control by tax authorities. However, the increase in the administrative burden it is likely to increase the level of non-compliance amongst the businesses with limited cross border trade. The removal of small consignment exemption is likely to simply the VAT system and reduce non-compliance (including fraud), as a result of more efficient compliance controls (e.g. by reviewed risk assessment). **Option 3** is expected to generally improve compliance on intra-EU trade. However, the non-compliance is likely to increase in relation to businesses currently trading below the distance sales threshold (similarly to Option 2). The Option would also improve compliance on low value import due to simpler system, which allows more efficient compliance control. **Option 4** is expected to further improve both voluntary **compliance** and compliance control on intra EU cross border trade in goods and non-TBE services and on B2C e-Commerce trade from non-EU businesses. **Option 5** takes on the same changes as Option 4 but allows for the use of home country (MSI) VAT rules while applying the VAT rate of the MSC. This Option would likely increase voluntary VAT compliance with respect to Option 4 (and to the Status Quo) as further simplification is brought by the application of domestic rules. **Option 6** takes on the same changes as Option 4 but allows for common EU VAT rules while applying the VAT rate of the MSC. This Option would likely increase voluntary VAT compliance with respect to Option4 (and to the Status Quo) as further simplification is brought by the application of the harmonised set of rules.

[6] See recent information from UK (HMRC (2015), 'VAT gap estimates)' and from France (Sénat Commission des finances (2015), 'Le E-Commerce: proposition pur une TVA payée à la source'

Impacts on intra-EU and total e-Commerce

With respect to the Status Quo, **Option 2** is likely to have a **negative impact on both intra-EU and total e-Commerce** because the average price of imports will increase leading to a fall in the volume of transactions and the removal of thresholds may lead to smaller firms exiting the cross-border market.

Option 3 (similar to Option 2) is likely to result in a decrease in intra-EU and total e-Commerce sales because of the burden to register for SMEs exceeding the EUR 5 000 threshold. Increasing the threshold to EUR 10 000 would have less negative effects than the lower threshold but is still likely to adversely affect e-Commerce sales. In addition, as in options 2 the increase in import prices (resulting from the application of VAT to imports below EUR 22) is likely to lead to a fall in the volume of transactions.

Under Option 4, the introduction of the SEM (with a registration threshold of EUR 10 000) is likely to have lower negative impacts on total e-Commerce (as transactions are expected to decrease of 0.39% instead of 0.6% in option 3) and on prices (increase of 0.73% instead of 0.9% as in option 3). More importantly, Option 4 is expected to have a positive impact in intra-EU e-Commerce. Intra-EU e-Commerce volumes are expected to increase of 1.1% (similar to the high growth scenario and the DSM scenario), prices to slightly decrease (-0.03%) and value to increase of 1.07% (up to 1.1% in the high growth scenario and 1.2% in the DSM scenario). This shift towards intra-EU cross-border e-Commerce is largely driven by the change in prices, which in turn reflects the reduction in the administrative burden, as well as the removal of the substantial distortions that EU businesses currently face from high levels of non-compliance and from the small consignment exemption.

Options 5 and 6 are likely to have impacts similar to Option 4, with a general (but limited) decrease in the volume of total e-Commerce (-0.36% and -0.37% respectively) and an increase in its value (0.32% for both options). As for Option 4, the larger benefits are expected for intra-EU cross-border e-Commerce. Option 5 is expected to see a growth of 1.29% in volume (as under high growth and DSM scenarios) and of 1.13% in value (up to 1.23% under high growth scenario, and of 1.16% under the DSM scenario). Option 6 is estimate to have similar result, i.e. a growth of 1.20% in volume (stable under the different scenarios) and 1.10% in value (up to 1.19% under high growth scenario, and of 1.12% under DSM scenario) of intra-EU e-Commerce. Such positive impacts are driven by the reduction in administrative burden (reflected in prices), as well as from the removal of the distortions that EU businesses currently face from high levels of non-compliance and from the small consignment exemption.

Overall, the combined effect of the removal of the current distance sales threshold and VAT exemption threshold and of the availability of the SEM under options 4, 5 and 6 will level the playing field for EU business, increase VAT revenues for Member States and also ease the way for complaint non-EU business to engage in B2C e-commerce to EU customers.

Qualitative assessment of the Options vs. the status quo

The table below summarises the impacts of the Policy Options with respect to the key dimensions adopted in the analysis.

Table 4 – Qualitative assessment of the Options vs. the status quo

Key impacts	Option1	Option2	Option3	Option4	Option5	Option6
Impact on Member States						
Member States' revenues from intra-EU trade	=	+	+	+++	+++	+++
Cost for Member State to implement	=	-	-	- -	- -	- -
Effects on the volume and value of imports from third countries	=	--	+	+++	+++	+++
Impact on businesses						
Administrative burden	=	- -	-	++	+++	+++
Competition and growth in the EU						
Effects on intra-EU e-Commerce for goods and services	=	- - -	-	+	++	++
Effects on intra-EU e-Commerce prices	=	-	-	+	++	++
Effects on intra-EU e-Commerce value	=	+	++	+++	++	++
Compliance						
Effects on Compliance	=	- - -	- - -	+ +	+ + +	+ +

Legend		
+++ much better suited	++ better suited	+ slightly better suited
= no difference		
- less suited	- - slightly less suited	- - - much less suited

The Impact on SMEs

Micro-enterprises and SMEs account for more than 99% of businesses in the EU, and are also engaged in B2C e-Commerce. Small and medium-sized enterprises are already active in cross-border B2C e-Commerce, and are increasingly interested in this channel to expand their activities.

SMEs and micro-enterprises have to face a complex legislative framework for cross-border transactions, which generates compliance issues. It also distorts competition between EU businesses and non-EU businesses (which benefit from the small consignment exemptions), and among EU businesses (where businesses established in a country with a low VAT rate can apply the VAT rate of that country up until the threshold set in the EU Member State of destination while businesses established in a Member State with a high VAT rate cannot benefit from the same advantage). In addition, the current framework imposes a high compliance burden on businesses (especially for businesses selling goods cross-border). In order to determine the correct place of supply businesses have to monitor for each of the Member States they sell to whether they exceed the distance selling threshold. Determining the place of supply is difficult as the distance selling thresholds differ between Member States, distribution chains are complex and different rules apply to B2B and B2C sales. The compliance burden is aggravated for those businesses that exceed the distance selling threshold in a Member State and must register and comply with the VAT rules in that Member State. The threshold is also important as Member States decided not to introduce one for the 2015 place of supply changes which has being problematic to many SMEs.

A key aspect of this study was to analyse the impact on SMEs of the different options in particular the inclusion of a threshold under Options 3, 4, 5 and 6. The analysis broadly looked at thresholds of EUR 5 000 and EUR 10 000, with a scenario analysis carried out for a threshold of EUR 100 000. The former two thresholds were used for Option 3 on the basis of the views expressed by Member States at the Dublin Fiscalis seminar where many indicated that they are not in favour of such thresholds. The threshold of EUR 10 000 was carried forward for the analysis in Options 4, 5 and 6 on the basis that it provided the biggest reduction in administrative burden while ensuring that the principle of taxation at destination was largely maintained.

The analysis also considered two types of intra-EU thresholds 1) an exemption threshold i.e. no VAT would apply to intra-EU transaction up to the threshold and 2) a place of origin threshold i.e. domestic VAT arrangements would apply up to the threshold. These thresholds were analysed with the conclusion that a place of origin threshold is preferable as it is less costly for Member States, it is the least distortive in terms of intra-EU trade, it does not have a material effect versus the status quo on non-EU traders and administratively it is easier to implement for both business and Member States. Based on these impacts as well as the views expressed by business and Member States at the Dublin Fiscalis seminar the place of origin threshold was used for the options included in the impact assessment.

The table below clearly outlines that the thresholds of EUR 5 000 and EUR 10 000 benefit the largest number of businesses while causing the least distortions. The EUR 100 000 threshold, compared to the EUR 10 000 threshold, would lead to a 200% increase in potential distortions by taxing at origin while only increasing the number of businesses eligible under the threshold by 16% and a corresponding 16% reduction in overall administrative burden.

Table 5 – Effects of VAT thresholds in businesses engaged in EU Trade (Option 4)

Threshold	No. of business Eligible	% of Business Eligible	Potential reduction in burden with the availability of the SEM	Intra-EU cross-border impact		Distortion effect
				% of e-Commerce trade taxed at the origin	VAT Revenues taxed at origin	
EUR 5 000	400 000	72%	EUR 822 million	3.7%	EUR 360 million	Low
EUR 10 000	429 000	77%	EUR 887 million	3.9%	EUR 388 million	Low/Medium
EUR 100 000	509 000	91%	EUR 1054 million	9.5%	EUR 1 188 million	High

Policy Options vs. Policy Objectives

The policy Options respond to the policy objectives in several ways. Table 6 illustrates the extent to which the policy objectives are met by each Option by allocating a number of tick marks (✓) from one to four. Four ticks indicates the highest positive impact while one indicates that the impact on the policy Option is positive. No marks have been given to Option 1 as this is the baseline scenario.

Table 6 – Policy objectives vs Policy Options

Specific Objectives	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6
Minimising burdens attached to cross-border e-Commerce arising from different VAT regimes.				✓✓	✓✓✓✓	✓✓✓
Providing a level playing field for EU businesses involved in cross-border e-Commerce.		✓	✓	✓✓✓✓	✓✓✓✓	✓✓✓✓
Facilitating the monitoring of compliance and the fight against fraud for Member States' authorities.		✓	✓	✓✓✓	✓✓✓✓	✓✓✓
Ensuring that VAT revenues accrue to the Member State of the consumer		✓	✓	✓✓✓	✓✓✓✓	✓✓✓✓

The evaluation in Table 6 takes account of both quantitative and qualitative data collected and analysed in this study. It is clear from the analysis that the removal of the distance sales thresholds and the exemption for the importation of small consignments have a positive impact overall. However, it is also clear that their impact is minimal without the availability of a single electronic mechanism.

The analysis indicates that broadly speaking Options 4, 5 and 6 are the options which can best address the specific objectives for modernising VAT for cross-order e-Commerce. These options fulfil in particular the key objectives of ensuring a level playing field for EU business and that tax revenues accrue to the Member State of the consumer. However, it is also relevant to reflect that there is generally a positive correlation between a reduced administrative burden for accounting for taxes and high compliance rates. In comparing these 3 options, Option 5 is the most positive as a business established in a Member State can make supplies to a customer in another Member State under broadly the same rules as a domestic transaction, the VAT rate applicable being the exception. In contrast, option 4 would require a business to potentially have to deal with 28 different sets of rules depending on the Member State of consumption while Option 5 would require two sets of rules. While on paper this is still a significant reduction compared to Option 4, experience from recent negotiations on the invoicing Directive, the VAT standard VAT return as well as the obligations under the MOSS indicate that the harmonised intra-EU rules will likely be the case of upwards harmonisation i.e. the rules for intra-EU transactions will reflect the most complex in EU Member States. Therefore, Option 5 which is the least complicated for business also has further benefits as it will be easier for the Member State of identification to ensure compliance.

Conclusion

The analysis of the status quo indicated that the current framework for e-Commerce trade presents several issues. Businesses have to face major administrative costs to comply with VAT-related obligations (estimated to EUR 8 000 per business per each Member State they are registered). Additional issues related to the current framework for distance sales include dealing with complex legislation and administrative procedures in different countries, monitoring distance sales thresholds, differences in distance sales thresholds across Member States, and distortion of competition with businesses from third countries (due to the small consignment exemption) and between EU businesses (due to the differences across VAT rates and distance sales thresholds). The current complex and fragmented framework also raises concerns about compliance. Tax authorities consider non-compliance as a significant issue on both intra-EU distance sales and on B2C import of goods with a value of up to EUR 150. EU-wide VAT loss associated with non-compliance for intra-EU trade was estimated to be between EUR 2.6 billion and EUR 3.8 billion, but it is very difficult also for Member States to measure the compliance level. The small consignment exemption leads also to compliance issues. About 144 million[7] parcels are currently not taxed (as they are below the EUR10/22 threshold), while the VAT collected imports is lower than expected, due to under-evaluation and mis-declarations.

Such framework puts EU businesses (both active online and off-line) at disadvantage with respect to the competition from third countries, as they have to face an uneven playfield (due to distortions of competition with businesses from third countries and between Member States) and a significant administrative burden.

The application of the distance sales thresholds and of the small exemption threshold is at the basis of many of these issues, therefore their removal responds to the needs of businesses and Member States (as confirmed also during the Dublin Fiscalis Seminar). The resulting framework however requires the introduction of simplification measures that support businesses engaged in cross-border e-Commerce, such as the SEM, which at the same time support compliance (as it is easier for businesses to comply voluntarily, and for Member States to monitor and ensure compliance).

[7] Estimated for 2015. This is expected to grow in line with e-Commerce growth.

Modelled on the MOSS, the SEM is expected to have similar beneficial impacts on administrative burden and compliance, which easily overcome the set-up and maintenance costs both for businesses and Member States,

Even in a simplified framework, micro and small enterprises may benefit from targeted simplification measure that support their cross-border activities. Out of the different possibilities considered under this study, a common place of origin threshold (i.e. domestic VAT arrangements would apply up to the threshold) is preferable as it is less costly for Member States, it is the least distortive in terms of intra-EU trade, it does not have a material effect versus the status quo on non-EU traders and administratively it is easier to implement for both business and Member States. The threshold of EUR 10 000 was carried forward, as it provides the biggest reduction in administrative burden while ensuring that the principle of taxation at destination is largely maintained (causing thus least distortions).

Overall, options 4, 5 and 6 would result in the highest increase in VAT revenue, due to the combined effect of tax base widening, creating a better level playing field and offering a significant reduction of administrative burden, which in turn should also significantly improve business compliance. Option 5 in particular is the one with the highest positive impacts. These are estimated in a 55% reduction of the administrative burden for businesses, a growth of 1.29% in volume (as under high growth and DSM scenarios) and of 1.13% in value (up to 1.23% under high growth scenario, and of 1.16% under the DSM scenario) of intra-EU cross-border trade and in an increase of 0.32% of total e-Commerce (up to 0.52% under the high growth scenario and 0.33% under the DSM scenario).

Within such a framework, EU businesses would derive the greatest benefits, due to the reduction of distortions and of the administrative burden. Compliance is likely to become simpler, both for businesses (voluntary compliance) and for Member States (monitoring and enforcing compliance, and increase in VAT revenues). In particular, non-EU compliant businesses will benefit from such a framework. Finally, ‘traditional’ domestic businesses will benefit from this, as the uniform application of the destination principle will lead to a better level playing field in the domestic market.

1 Introduction

This section provides an introduction to the report, by briefly describing the policy context, by summarising its scope and objectives, and by presenting the structure of the document.

1.1 Policy context

Over the last five years, e-Commerce in Europe has grown by between 17% and 20% per year to become a key part of the digital economy and an important driver of economic growth. From 2009 to 2014, the contribution of e-Commerce to GDP has almost doubled. Recognising the importance of e-Commerce, the European Commission is committed to ensuring the free movement of goods and services and to ensuring that "individuals and businesses can seamlessly access and exercise online activities under conditions of fair competition" as set out in their Digital Single Market strategy[8].

To this end, the European Commission are considering a number of Policy Options aimed at simplifying the VAT and Customs systems and, ultimately, promoting e-Commerce growth within the EU. These Policy Options are designed to build on recent legislation: in January 2015, new legislation pertaining to telecommunications, broadcasting and electronic services ('TBE services') provided to final consumers (B2C) within the EU entered into force. The legislation introduced the destination principle accompanied with the implementation of a Mini One Stop Shop (MOSS).

The destination principle is seen as fundamental to the delivery of a simple, efficient, neutral and robust VAT system, fit for the Single Market, and in line with the European Commission's goals identified in its 2011 Communication on the Future of VAT[9]. Moreover, the implementation of the MOSS is seen as a major milestone. Its smooth functioning should pave the way for a more general use of this concept.

It has been suggested that the destination principle should be extended to the supply of all goods and services. Most recently, in its May 2015 Communication on a Digital Single Market Strategy for Europe[10], the European Commission indicated that it will make a proposal in 2016 to extend the single electronic mechanism to all intra-EU and third country online sales of other services and tangible goods.

1.2 Objective and scope of the assignment

This report forms part of a broad study providing an in-depth economic analysis of VAT aspects of e-Commerce. The study considers the widening of the Mini One Stop Shop (MOSS) to other areas of

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[8] http://ec.europa.eu/digital-agenda/en/our-goals, consulted on 28 May 2015.
[9] http://ec.europa.eu/taxation_Customs/resources/documents/taxation/vat/key_documents/communications/com_2011_851_en.pdf
[10] http://ec.europa.eu/priorities/digital-single-market/docs/dsm-communication_en.pdf

B2C e-Commerce, the elimination of the VAT exemption for the importation of small consignments, and the elimination of current registration thresholds for intra-EU B2C supplies of goods. The objective is to reduce the administrative burden on trade and remove distortion of competition, to support the full achievement of the Digital Single Market. .

The overall study consists of three Lots. This document comprises the final report for Lot 2. It focuses on the **analysis of costs, benefits, opportunities and risks in respect of the Options for the modernisation of the VAT aspects of cross-border e-Commerce**. It concentrates on:

- Presenting the relevant problems related to the VAT aspects of e-Commerce and their drivers;
- Analysing the policy objectives;
- Providing an overview of the Policy Options;
- Assessing the impact of the Policy Options under consideration.

Lot 2 directly links to the other two parts of the study. Lot 1 of this study has already provided an economic analysis of the VAT aspects of e-Commerce. In addition, Lot 3 provides an evaluation of the implementation of the destination principle for TBE services and of the Mini One Stop Shop which came into effect in January 2015. Lot 2 builds upon the results of both Lot 1 and Lot 3 for its analysis.

Concerning the **geographical scope**, Lot 2 builds upon the data from the Member States directly covered by the other two Lots (i.e. Austria, Belgium, France, Denmark, Germany, Hungary, Ireland, Italy, Luxemburg, Poland Sweden and UK). Results for the other Member States have been extrapolated to the greatest possible extent. The analysis of Lot 2 covers the EU28 Member States at aggregated level. Redistribution effects among Member States are considered when possible.

1.3 Structure of the report

This report is structured as follows:

- **Section 1** provides an overview of the policy context and of the scope and objectives of the assignment, and describes the structure of the document;
- **Section 2** outlines the methodology and approach used, and the main models and data sources used for the analysis;
- **Section 3** presents the assessment of the problems related to the current VAT rules and the policy objectives guiding the intervention;
- **Section 4** examines the characteristics and main impacts of each of the Policy Options covered by the study;
- **Section 5** presents additional elements for the analysis of the Policy Options covered by the study;
- **Section 6** summarises the key findings from the analysis.

The report also includes a number of annexes:

- **Annex 1:** References
- **Annex 2:** key elements from the Fiscalis Seminar ;
- **Annex 3:** key results from the online survey to businesses;
- **Annex 4:** methodological note on the assumptions used for the analysis;
- **Annex 5:** the Standard Cost Model (SCM); and
- **Annex 6:** the Computable General Equilibrium (CGE) model.

2 Methodological Approach

This section provides a description of the approach adopted for this study. Firstly the approach to the impact assessment is detailed highlighting the main elements of the European Commission's guidelines. Secondly, the impacts of the Policy Options that are described and the way in which they are assessed is explained. Finally, the methodological tools that were employed for data collection and assessment of the Options are detailed.

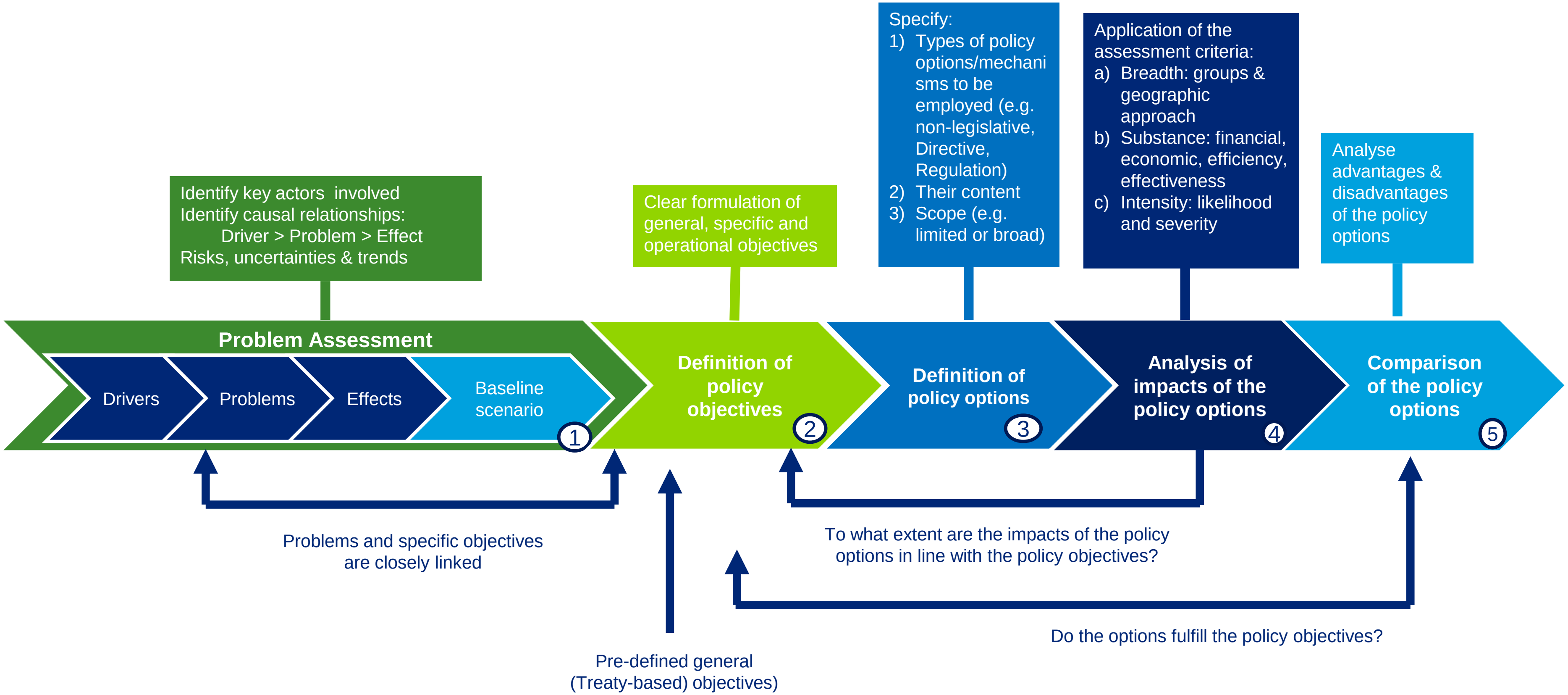
2.1 Impact Assessment Approach

The objective of the study is to carry out an **impact assessment analysis** that will facilitate the Commission's work preparing the future policy on VAT aspects of cross-border e-Commerce. This assignment (Lot 2) focuses first on the problem analysis for the current VAT application rules on goods and services supplied via e-Commerce across Europe and the implications of the Policy Options elaborated. Second, it assesses the impacts of the Policy Options aimed at addressing the problems identified as well as new problems that may emerge. In doing so, we tailored the standard procedure and steps of the European Commission's Impact Assessment guidelines ('Guidelines') to the specific objectives and needs of the study, taking into account both the specific needs and objectives of Lot 2, and the links with the other two Lots of the assignment. Consequently, the problem assessment derives from the work of Lot 1, which indeed focuses on the analysis of the VAT aspects of e-Commerce, as well as the stakeholders' consultation. Similarly, Lot 3 consists of an evaluation of the implementation of the 2015 Place of Supply rules and the MOSS and thus contains important insights to the current situation.

2.1.1 General approach

The approach to this study is in line with steps contained in the Guidelines. The standard approach to the impact assessment is tailored to respond at best to the general and specific aspects of the study.

Figure 2 – Approach to the study



Source: Deloitte elaboration of Commission's Guidelines

The approach comprises of the following tasks (see Figure 2):

Task 1 – Problem assessment: the reason for this task is to identify the problems, their drivers and effects as well as the causal relationship between these. Establishing causal links is imperative in order to develop a robust problem assessment on the one hand and to ensure that the Policy Options are defined in such a way that they address the actual challenges on the other hand.

Task 2 – Definition of policy objectives: the reason for this task is to elaborate a clear formulation of the general, specific and operational objectives of the policy intervention. A clear definition of the policy objectives is important, as they set out the political priorities and aims for action in the relevant field;

Task 3 – Development of Policy Options: this task consists of establishing the relevant Policy Options that are most likely to achieve the policy objectives and address the problems. This includes a clear specification (for each of the Policy Option) of the type of Policy Options and mechanisms to implement them, their content, the scope, etc. As part of the activities carried out so far, the initial set of six Policy Options included in the ToR has been re-structured and fine-tuned in consultation with the Commission, stakeholders and experts.

Task 4 - Analysis of impacts of Policy Options: this task focuses on assessing the expected impacts of the selected Policy Options. The aim of this step is to assess impacts across the main policy dimensions (financial, economic, social, geographical, legal and environmental) as well as potential trade-offs and synergies;

Task 5 – Comparison of Policy Options: this task focuses on comparing the Policy Options with the Status Quo (Option1) based on their relative strengths and weaknesses. The aim of the comparison is to provide an overview of the impacts of each Policy Option with respect to the Status Quo based on a common set of indicators.

2.1.2 Impacts investigated

Impacts covered by the study

The analysis of the impacts of the Policy Options (Task 4) involves an assessment of the financial, economic, social, geographical and environmental impacts as well as extra-EU impacts. Specifically the impacts assessed include:

The **analysis of the Policy Options** is then presented followed by the key findings. As far as the impacts are concerned, the following impacts are taken into consideration:

- Impacts on Member States, including
  - Effects for Member States' revenues (taking into account sub-Options where 10, 20 or 30% of VAT receipts would be kept by the Member State of Identification as collection cost);
  - Costs for Member States to implement specific Options;

  - Effects on the volume and value of imports from third countries, and corresponding VAT revenues for Member States.

- Impacts on businesses engaged in B2C cross-border e-Commerce, including:

  - Administrative costs they would incur under the different Options, distinguishing (whenever possible) between large, medium-sized and small businesses);
  - Additional costs they could incur under the different Options;
  - Tangible and intangible benefits they would profit for under the different Options.

- Impacts on competition and growth in the European Union, including:

  - Specific impact on e-Commerce for goods and services
  - Cross-border trade, growth and employment;
  - Effects on consumers (prices and consumption);
  - Competitiveness of EU businesses.

- Impacts on compliance.

The general approach of assessing the impacts involves assessing each Option against the Status Quo, which represents the baseline scenario, based on the expected evolution of key external trends key external trends in the absence of any new policy measures. The impacts in comparison to the Status Quo are then quantified based on data, scenarios and/or sensitivity analysis.

Other impacts considered

It is possible that e-Commerce is associated with some **environmental impacts**. In particular, it is possible that e-Commerce may be associated with increased energy consumption and electronic waste associated from ICT use. However, the evidence around this is limited[11].

In addition, e-Commerce has a transformative effect on economy and society that affects the conduct of business and general lifestyle. This may have consequences for the environment that may be positive or negative. Again, there is little evidence around this.

We assume that the overall environmental impact associated with the various Policy Options will be limited and therefore do not investigate this further.

In addition, according to the Commission's Impact Assessment Guidelines[12], **other impacts** to be considered include economic and social cohesion, impacts in developing countries, sustainable development and fundamental rights.

Within our analysis, impacts on economic and social cohesion are partially included as part of the analysis on the consumers' prices and consumption, while impacts on sustainable development are partially included in the consideration on environmental impacts. Impacts in developing countries, especially on working conditions in developing countries, and on fundamental rights are relevant for e-

[1111] See: Fitcher K. (2008), E-Commerce, Sorting Out the Environmental Consequences, Journal of Industrial Ecology, 6(2), Berkhout and Hertin (2001), Impacts of information and communication technologies on environmental sustainability: Speculations and evidence. Report to the Organisation for Economic Cooperation and Development. Brighton. Sussex, UK: University of Sussex, among others.
[12] See: http://ec.europa.eu/smart-regulation/guidelines/tool_16_en.htm

Commerce as well as for all industrial and commercial activities. However, it is outside the scope of this study to provide a detailed analysis of such impacts (for which we do not have sufficient elements). Overall, we assume that the overall impacts of the Policy Options on these aspects will be very limited.

2.2 Methodology

As mentioned above, the EC guidelines on Impact Assessment methodology[13] is tailored to meet the study requirements, which include the analysis of both the business and government perspective regarding VAT aspects of cross-border e-Commerce. Covering these aspects requires the collection of both quantitative and qualitative information and the application of a range of methodological tools. This part of the assignment builds upon the results of both Lot 1 and Lot 3, as well as on the analysis of a series of secondary data.

Given the large relevance of the quantification of a large number of economic impacts for the analysis of the Policy Options, a micro-oriented approach is combined with a macro-oriented approach. This involves using the Standard Cost Model methodology and the Computable General Equilibrium methodology (described in section 2.2.2 and more in detail in Annex 4 and 5 respectively).

The key models adopted for the analysis required a series of secondary data and assumptions, which are described in section 2.2.3.

Data collection and analysis relied on a number of sources of evidence, which are outlined in section 2.2.4

2.2.1 Approach to analysing the impacts

The large set of impacts to analyse required the use of different models for analysis, different sets of assumptions and of data gathering tools.

Table 7 below provides an overview of the approach and tools used to assess each impact, of the key sets of assumptions and sources used. As mentioned earlier, each of them is explained in more detail afterwards.

[13] See: http://ec.europa.eu/smart-regulation/guidelines/tool_16_en.htm

Table 7 – Approach to the analysis of impacts

Impact	Approach used	Tools for analysis	Key assumptions	Key sources
Impacts for Member States' revenues, costs and benefits for Member States to implement the Option	Quantitative analysis Qualitative analysis	SCM	Costs similar to the MOSS Different scenarios for e-Commerce growth Compliance monitoring based on risk profiling	Data from Lot 1 and Lot 3 (Member States' interviews and questionnaires) Stakeholder workshops Desk research Member States' interviews
Impacts on administrative burden for businesses	Quantitative analysis	SCM	Impacts of OSS similar to those of MOSS Number of businesses Number and behaviour of micro-businesses engaged in cross-border e-Commerce	Data from Lot 1 and Lot 3 (businesses interviews) Stakeholder workshops Business online survey
Impacts on competition and growth	Quantitative analysis	CGE model	Different scenarios for e-Commerce growth Number of businesses Number and behaviour of micro-businesses engaged in cross-border e-Commerce	Consumer survey SCM Desk research
Impacts on compliance	Quantitative analysis Qualitative analysis	Projections	Different scenarios for e-Commerce growth	Data from Lot 1 and Lot 3 (Member States' interviews and questionnaires) Stakeholder workshops Desk research Mock purchases

Source: Deloitte analysis

2.2.2 Tools for the analysis

This sub-section provides a very brief description of the two main models used to conduct the analysis. For each of them, we indicate where to find more detailed explanations.

Standard Cost Model

The Standard Cost Model (SCM) methodology was applied to estimate the administrative burden for enterprises in order to comply with legal requirements translated into Information Obligations (IOs).

Our objective was to identify and quantify the costs a 'typical' business engaged in cross-border B2C e-Commerce transactions of goods and/or in TBE services has to face to comply with the current VAT-related requirements (Status Quo), and how such costs are likely to change under the different Options considered.

The key elements (including IOs, frequency of the obligations, average costs) derive from the analysis carried out under Lot 1 and Lot 3.

The detailed description of on the SCM approach and the key parameters used are part of Lot 1 and Lot 3 reports. A more detailed description of the key elements used for Lot 2 and the detailed figures elaborated are presented in Annex 4.

Computable General Equilibrium (CGE) model

In order to assess the magnitude of the effects on cross-border e-Commerce arising from the administrative burden, a Computable General Equilibrium (CGE) model has been developed. The CGE model is a dynamic single-region, multi-sector representation of the EU economy. Through a series of equations it describes the behaviour of key agents in the economy – households, firms, the government and the foreign sector – and how their interactions shape the markets for factors of production, goods and services, and savings and investment. Within the retail sector, the model distinguishes between online and offline trade and between domestic, intra-EU and non-EU e-Commerce.

For the purposes of this assignment (Lot 2) the CGE model was used in order to estimate the impact of the administrative burden by calculating the response of the economy to the removal of this burden, drawing on the outputs of the Standard Cost Model and the consumer survey. These impacts are estimated under a number of different scenarios for the growth of e-Commerce (see section 2.2.3 and Annex 5 for more detail.)

2.2.3 Quantification of the impacts

Along with the qualitative analysis, this report also aims to quantify the impact of the Policy Options on businesses, government revenues and the Single Market.

The assessment of the impacts of the options rests on a large number of analysis and assumptions, which are explained in detail in annex 4.

Here we only provide the key elements for the analysis of the policy options, i.e.

- Number of businesses;
- Timeline adopted:
- Growth rates;
- VAT revenues and compliance.

Number of businesses

The total value of cross-border e-Commerce is estimated to be EUR 96.8 billion (calculated from the consumer survey and MOSS receipts as part of Lot 1); the revenues of businesses of different sizes are then estimated based on this total figure and the revenue contributions shown in the table above. Based on these figures and data on the number of businesses engaged in cross-border trade collected as part of Lot 1, the average cross-border revenues of firms of different sizes can be estimated.

Table 8 – Average cross-border e-Commerce revenues of firms, by size

	All businesses	Micro businesses	Small businesses	Medium businesses	Large businesses
Number of firms	557 908	442 444	81 716	24 594	9 154
Share of e-Commerce revenues by firm size	100%	4.1%	12.6%	21.6%	61.7%
Cross-border e-Commerce revenues (EUR billions)	96.8	4.0	12.2	20.9	59.7
Average cross-border e-Commerce revenues	173 505	9 041	149 298	849 801	6 521 739

Source: Eurostat, Business Enterprise Statistics, Information Society Statistics, 2013

Timeline

The analysis of the financial impacts (which includes the quantification of the administrative burden for businesses and of VAT revenues for Member States, as well as of the processing costs for postal operators and couriers) uses 2015 as baseline.

This assumption implies that all the changes introduced by each Option are implemented immediately. The same assumption is also taken for the take-up rate (e.g. of the SEM). This assumption implies that operators (EU and non-EU businesses, postal operators and couriers, marketplaces, etc.) will be ready to implement the necessary changes and thus achieve the maximum expected take-up immediately

Growth rates

In order to ensure a consistent like-for-like comparison of the policy options, it is important to assume the same growth rates across all scenarios including the status quo. The policy options are then compared relative to this baseline.

These growth rates capture exogenous trends in the e-Commerce market, including underlying trends in consumers' propensity to buy online, the expansion of the cross-border online market due to the DSM strategy and the growth of international online markets. In keeping with the assumptions agreed for the Lot 1 analysis, three rates are considered: 6%, 12% and 18%. The same rates of growth are used for EU and non-EU trade. For simplicity and to reduce the number of scenarios presented in each chapter of the report, only the medium growth scenario results have been included in the main body of the report; the additional scenarios are included in section 5.

VAT revenues and compliance

In Option1 and in all the other Options covered by the study, we estimated the volume and value of parcels imported to the EU from thirds countries due to B2C e-Commerce purchases of EU consumers for the following groups of parcels:

- Small value consignments, i.e. parcels below the 10-22 EUR threshold; and
- Parcels above the small value consignment threshold and below the Customs threshold, i.e. parcels between 10-22 EUR and 150 EUR.

The estimates are based on the data provided by two recent studies on volume and corresponding value of small value consignments (parcels below 10-22 EUR) in 2013[14], and on the distribution of parcels by value[15].

The table below provides an overview of the volume and value of parcels below the Customs threshold estimated for the study under the medium growth scenario (CAGR of 12%).

Table 9 – Volume and value of parcels below the Customs threshold

	Volume	Value (EUR)
Small value consignments	144 067 840	2 967 797 504
Parcels between EUR 10-22 and EUR 150	43 220 352	1 685 593 728
Total parcels below EUR 150	187 288 192	4 653 391 232

Source: Deloitte analysis

The corresponding value was estimated using an average value of EUR 20 per parcel, in line with available literature, and the corresponding (theoretical maximum) VAT revenue estimated applying a standard VAT rate of 20%.

Different assumptions on compliance were considered under the different policy options covered by the study.

2.2.4 Data gathering tools

In this sub-section we briefly recall the several tools used to gather qualitative and quantitative inputs throughout the entire assignment (thus including Lot 1 and Lot 3). For each of them we provide references to more detailed explanations.

[14] European Commission (2015), Assessment of the application and impact of the VAT exemption for importation of small consignments, prepared by EY, accessed at http://ec.europa.eu/taxation_Customs/resources/documents/common/publications/studies/lvcr-study.pdf on June 12th 2015

[15] Hintsa J., Mohanty S., Tsikolenko V., Ivens B., Leischnig A., Kähäri P., Hameri AP., and Cadot (2014), The import VAT and duty de-minimis in the European Union – Where should they be and what will be the impact?, accessed at http://www.euroexpress.org/uploads/ELibrary/CDS-Report-Jan2015-publishing-final-2.pdf on January 26th 2015.

Consumer survey

The consumer survey, carried out in 25 countries, was used to gather information on the status quo. In particular, the data gathered from the survey acted as inputs for the CGE model and also formed part of the analysis of the model's outputs. For information on the range of data collected from the survey see section 1.2.1 and Annex 2 of Lot 1 report.

Interviews and Questionnaires

Data gathered from the interviews and questionnaires informed the parameters used for the impact assessment analysis. In particular, insights from business engaged in B2C e-Commerce on the administrative cost associated with current VAT rules was particularly useful to this assignment.

Mock purchases

In order to assess compliance with the rules for intra-EU B2C supplies of goods through distance selling and for B2C supplies of goods by non-EU suppliers, Deloitte conducted real and mock online purchases from EU and non-EU e-Commerce traders. Data was gathered from 150 companies based inside the EU and outside the EU. A detailed description and analysis of the purchases are included in Annex 4 of Lot 1 report, while the main findings from the exercise are summarised in section 4 of Lot 1 report,

Stakeholder workshops

As mentioned earlier, and in accordance with the Commission's Guidelines on Impact Assessment, we had a cooperative approach to impact assessment, discussing relevant elements for the analysis with key stakeholders as well as with the Commission. During the assignment, we organised two stakeholder workshops to discuss and validate the problem assessment (See Annex 8 of Final report for Lot 1). In addition, some elements of the Policy Options were discussed with stakeholders during the Fiscalis Group meeting held in Dublin on September 2015 (the key elements from the discussion on Options are in Annex 3).

Business online survey

In accordance with the Commission, over the summer we carried out a short online survey among the businesses already contacted for the study to gather further inputs on some elements of the Policy Options. An overview of the answers received is in Annex 3

Desk research

In order to collect the qualitative and quantitative data necessary to the analysis, and to validate the assumptions made, we conducted extensive research among available literature and datasets. The full list of sources used is in Annex 1

3 Reasons for intervention

This section presents the results of the problem assessment step. Problems in relation to intra-EU trade, imports and external factors are detailed followed by a problem tree illustrating the link between the problems identified, their drivers and their high-level effects. The policy objectives derived from the Digital Single Market (DSM) Strategy for Europe are then explained in the current context.

3.1 Problem assessment

This section presents the relevant problems related to the VAT aspects of e-Commerce and their drivers. These have been identified on the basis of the following information sources:

- Our desk research;
- Two stakeholder workshops held on 30 March and 17 April 2015[16];
- Interviews conducted with national tax authorities, national postal operators and businesses during our fieldwork in eight Member States (as part of Lot 1 activities); and
- Interviews with international couriers.

First, the problems and drivers related to intra-EU trade and the problems and drivers related to imports are presented. This is followed by a description of the external factors that must be taken into account when analysing the problems. Finally, all of this is visually presented in a problem tree.

3.1.1 Intra-EU trade

With respect to intra-EU trade, three main problems have been identified. Firstly, **the compliance burden for businesses is high**: in order to determine the correct place of supply (POS) they have to monitor for each of the Member States they sell to whether they exceed the distance selling thresholds. Determining the POS is difficult as the distance selling thresholds differ from Member State to Member State, distribution chains are complex and different rules apply to B2B and B2C sales.

The compliance burden is aggravated for those businesses that exceed the distance selling threshold in a Member State and must register and comply with the VAT rules in that Member State. This implies complying with the tax legislation and administrative procedures of that Member State as well as communicating – often in another language – with the tax administration of that Member State. The complex VAT system also makes pricing more complicated for businesses. The more Member States a business exceeds the threshold in, the more complex the situation becomes.

[16] Minutes of the two stakeholder workshops are included in Lot 1.

During the fieldwork interviews, some businesses mentioned that they do not consistently monitor the distance selling thresholds in all Member States in which they are active. It has occurred that a business was unaware of the fact that it had exceeded the distance selling threshold in a Member State until it was alerted about this by the tax authority of that Member State. Another way in which businesses may be alerted about this is when they receive questions from their consumers on the applied VAT rate. Some smallest businesses were even unaware of the need to monitor their sales per Member State of destination.

High administrative burden and complexity of rules on intra-EU trade leads to significant level of non-compliance, which has been covered in more detail in the report of Lot 1.

Secondly, **it is difficult for tax authorities to monitor whether a business has exceeded the distance selling threshold** because they do not have access to the necessary data. Tax authorities from the Member State of destination do not have access to the sales data of businesses established in another Member State. At the same time, there is no incentive for tax authorities to monitor whether businesses established in their Member State are exceeding the distance selling thresholds in other Member States. There is consequently an insufficient exchange of information between tax authorities from different Member States.

During the fieldwork interviews, some national tax authorities explained how they are trying to overcome these difficulties. The tax authorities of at least two Member States, for example, analyse online e-Commerce rankings and price comparing sites in order to identify businesses that may have exceeded the distance selling threshold in their Member States. While this method can provide them with useful indications, several challenges remain (e.g. it can be difficult to identify the legal person behind a website and to match this information with existing tax data). One tax authority also mentioned that while cooperation between national tax authorities usually functions well, this is less the case when it comes to monitoring distance sales thresholds. Some Member States also recur to data from payment providers and large marketplaces, but data protection rules limit this possibility. Also, web-crawling using web robots is used in some countries.

Finally, the current rules may lead to a **distortion of competition between EU businesses** where businesses established in a country with a low VAT rate can apply the VAT rate of that country up until the threshold set in the EU Member State of destination. Businesses established in a Member State with a high VAT rate cannot benefit from the same advantage.

During the fieldwork interviews, most businesses acknowledged that this problem indeed exists in theory, but that it is of lower importance than the compliance burden. One of the interviewed tax authorities also explained that in their case, they analysed until which point there is a distortion of competition, and set their distance selling thresholds on this basis – thus mitigating this problem.

The distortion of competition caused by current rules creates also opportunities for tax fraud and avoidance covered in more detail under Lot 1.

3.1.2 Imports

With respect to imports, five main problems have been identified. Firstly, **the compliance burden on businesses is high** due to the complexity of the VAT and Customs rules. The combined effect of the VAT exemption for small consignments and the Customs threshold results in three different regimes: depending on the value of the goods, no VAT or Customs duties may be due (goods with a value below the VAT threshold of 10 EUR up to 22 EUR), or only VAT but no Customs duties (goods with a value above the VAT threshold of 10 EUR up to 22 EUR, but below the Customs threshold of 150 EUR), or both VAT and Customs duties (goods with a value above 150 EUR). For goods on which no VAT or Customs duties are due, simplified procedures may be applicable in some Member States for the Customs clearance of these goods, while other Member States may not apply such simplifications. Moreover, some Member States may treat these goods differently when they are shipped by postal operators (under the Universal Postal Convention) or by others. Similarly, for goods on which VAT but no Customs duties are due, simplified Customs clearance procedures may be applicable in some Member States while others do not apply such simplifications. Some Member States may also have arrangements in place for a "simplified" use of classification codes for these goods.

Secondly, **it is difficult for Customs authorities to monitor compliance** with the rules, as the value of consignments is not always easy to determine. According to a recent study, "there are significant differences for the frequency of verifications between the Customs offices in the various Member States. Generally, the level of verifications is considered rather low, most likely due to the fact that such verifications are time and resource consuming and due to the lack of available resources with the competent authorities. This leads often to mis-declaration of imported goods, either with lower values being declared or incorrect classification of goods."[17] The complexity of monitoring compliance on import was confirmed also by our interviews with tax authorities, which is described under Lot 1.

Thirdly, the small consignment exemption has led to **significant amounts of VAT foregone** at EU level, which will continue to grow given the foreseen increase in e-Commerce. The VAT foregone at EU level as a result of the small consignment exemption has been estimated in a recent study on the application and impact of the VAT exemption for importation of small consignments.[18] This study estimates that the total VAT foregone has grown from EUR 117.63 million in 1999 to EUR 534.78 million in 2013, an increase of 355%. In addition, Member States may lose revenue because goods are Customs cleared for free circulation on behalf of the final consumer, the latter being a private individual who doesn't have to fulfil any VAT formalities when those goods are transferred to other Member States.

Fourthly, the current rules may lead to a **distortion of competition between EU businesses and non-EU businesses** as the VAT small consignment exemptions apply to import from third countries but not to intra-EU or domestic sales, so that EU businesses are negatively impacted. Moreover, the current rules may also lead to a **distortion of competition between non-EU businesses** as the thresholds of 10 EUR up to 22 EUR do not equally apply in all Member States and as such the import conditions are not equal in all Member States.

Regarding the distortion of competition between EU businesses and non-EU businesses, the above-mentioned study indeed found evidence for competitive distortions resulting from the small consignment exemption, leading to loss of VAT revenues for Member States as well as reports of business closures, business relocations and booming fulfilment industries outside the EU.[19]

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[17] European Commission (2015), 'Assessment of the application and impact of the VAT exemption for importation of small consignments', p. 23, .
[18] Ibid., pp. 41-50.
[19] Ibid., p. 71.

By contrast, it appears that the distortion of competition between non-EU businesses due to the different import conditions in different Member States is a less important problem. During the fieldwork interviews, one of the tax authorities commented that the margin between which Member States can set their thresholds (10 – 22 EUR) is too small to lead to distortions of competition.

Finally, specific attention must be paid to the situation of national postal operators and international couriers. As **consumers are often not aware of the taxes and duties due** on goods purchased online, they may refuse to accept the parcels delivered to them when they discover that they must pay an additional amount in order to receive the parcel. In addition, in case of **parcel returns or undelivered items**, the process to get VAT refunded is very lengthy and complex.

3.1.3 External factors

When discussing the VAT aspects of e-Commerce, a number of external factors must be taken into account as well.

Firstly, it is important to take into account the interplay between VAT rules and other legislation at EU or MS level (especially EU Customs legislation), as well as the VAT and Customs rules of third countries. Changes introduced under the VAT regime may not have the desired effect due to requirements imposed by other legislation at EU or MS level, and may lead to changes in the VAT and Customs rules of third countries that apply to imports from the EU.

Secondly, technological developments play an important role too. For example, the increased security of the payment process has contributed to the growth of e-Commerce. Increased digitalisation may also bring about fundamental changes in the old economy, e.g. by eroding the distinction between goods and services.

Finally, the consumers' attitude is an important external factor as well, as consumers are increasingly checking and comparing prices before purchasing goods or services.

3.1.4 Problem tree

Figure 3 presents the problem tree, which illustrates the link between the problems identified, their drivers and their high-level effects. A **problem tree** helps establishing a de facto hierarchy between the causal elements (at the bottom of the tree) and their consequences (on top of the tree). It also helps representing visually the different elements identified and their casual relationships.

The **external factors** are represented at the bottom of the figure (in a dotted box). As described in section 3.1.3, they include the interplay between VAT rules and other legislation at EU or Member State level (especially EU Customs legislation), as well as the VAT and Customs rules of third countries, and consumers' attitude.

Drivers represent issues deriving from the current legislative framework that stakeholders encounter in their activities causing costs and/or preventing additional trade. They are represented at the basis of the figure, distinguishing between those more related to intra-EU trade and those more related to imports from third countries. Drivers related to the intra-EU trade include different rules applying to goods and services and to B2B and B2C sales, difficulties in identifying the PoS, different rules and procedures among Member States, lack of monitoring and reliable information for Member States. Drivers for imports include the interaction between the VAT and Customs rules, generating three different regimes for goods, different procedures among Member States, consumers' awareness of

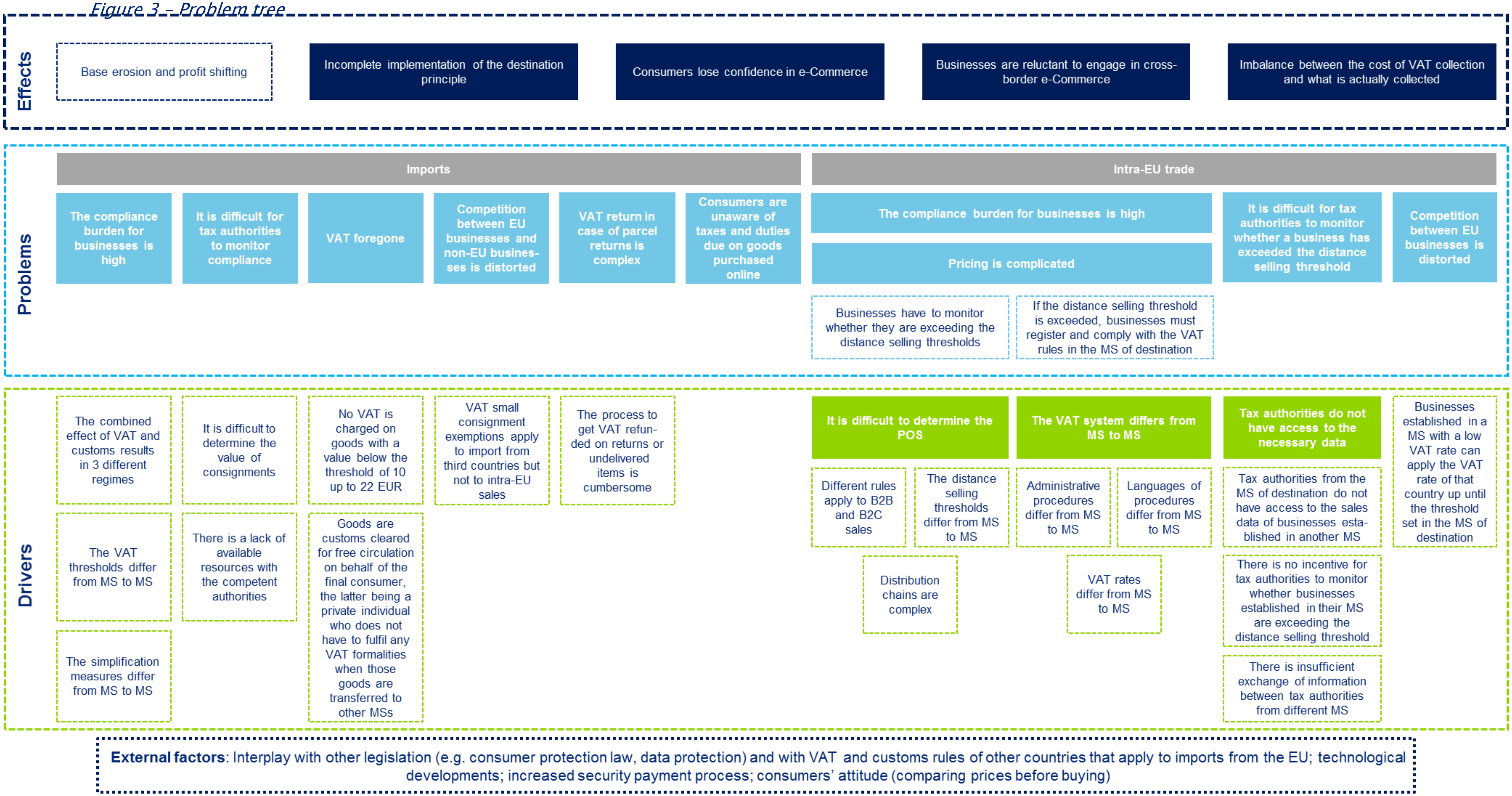
VAT and Customs rules, complex return process and lack of available resources with competent authorities.

Problems derive from the drivers identified. Problems for intra-EU trade include **high compliance burden** for businesses, difficulty for tax authorities in **monitoring the distance selling threshold** for lack of available information, and **distortion of competition between EU businesses** (where businesses established in a country with a low VAT rate can apply the VAT rate of that country up until the threshold set in the EU Member State of destination, while businesses established in a Member State with a high VAT rate cannot benefit from the same advantage). With regard to imports, five main problems have been identified, i.e. high **compliance burden on businesses,** difficulty for tax authorities in **monitoring compliance** as the value of consignments is not always easy to determine, **significant amounts of VAT foregone** at EU level, **distortion of competition between EU businesses and non-EU businesses** as the VAT small consignment exemptions apply to import from third countries but not to intra-EU or domestic sales and **low consumers' awareness** of taxes and duties due for online purchases.

Finally, **effects** are the expression of the problems acknowledged. The effects identified include **base erosion and profit sharing**, **incomplete implementation of the destination principle** for taxation, **reduction of consumers' confidence** in e-Commerce, **reluctance of businesses to engage in cross-border e-Commerce** and **imbalance between the collection costs of VAT and the actual VAT revenues**.

Figure 3 provides a visual representation of these issues and their causal relationships.

Figure 3 – Problem tree



3.2 Policy Objectives

The European Commission's policy objectives in the area of cross-border e-Commerce are set out in the Digital Single Market (DSM) Strategy for Europe that was released on 6th May 2015.[20] With respect to the VAT aspects of cross-border e-Commerce, the DSM Strategy sets the following objectives: to minimise burdens attached to cross-border e-Commerce arising from different VAT regimes, to provide a level playing field for EU business and to ensure that VAT revenues accrue to the Member State of the consumer.[21] The table below presents the general and specific policy objectives which we derived from the DSM Strategy.

Table 10 – General and specific policy objectives

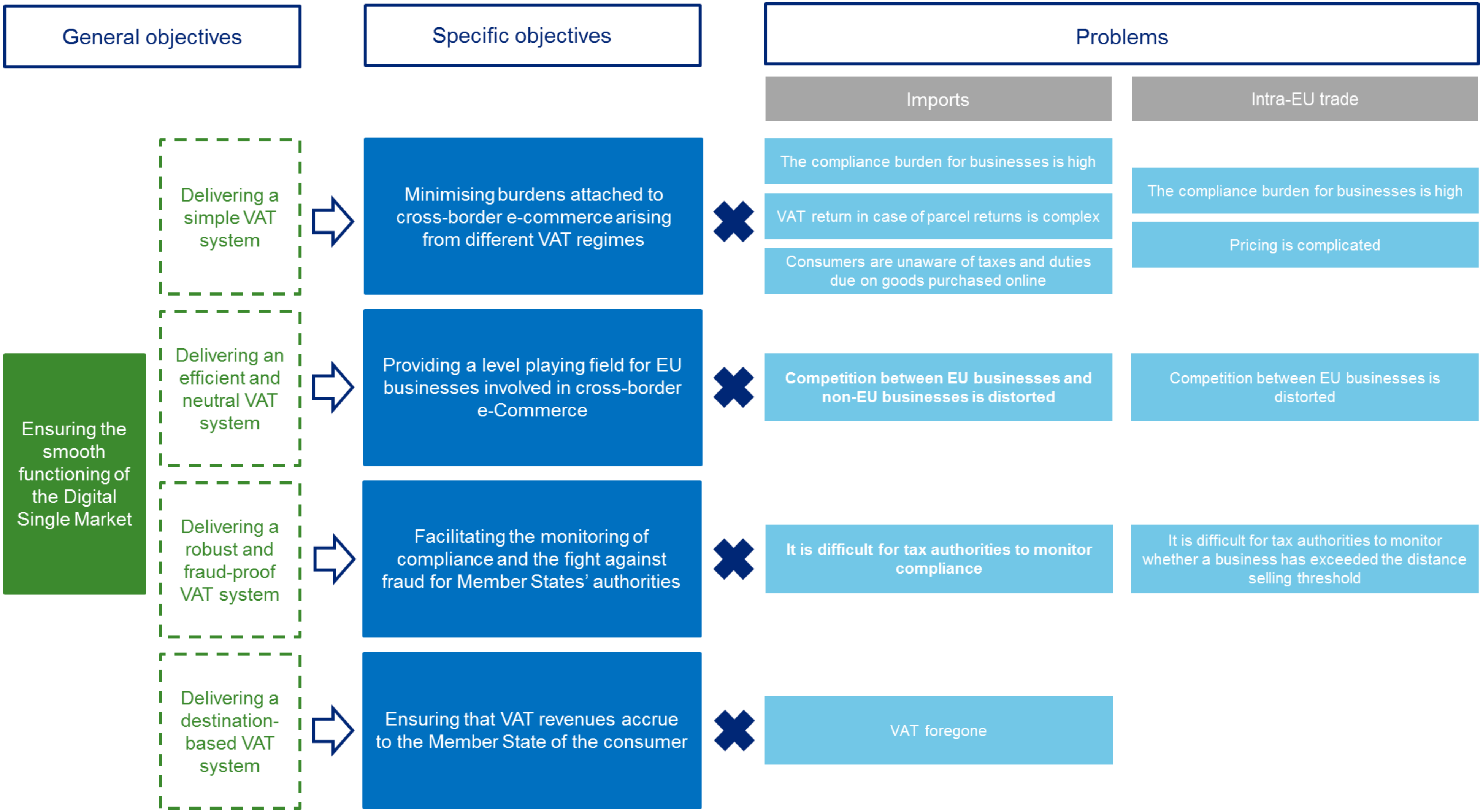
General objectives		Specific objectives
Ensuring the smooth functioning of the Digital Single Market	Delivering a simple VAT system	Minimising burdens attached to cross-border e-Commerce arising from different VAT regimes
	Delivering an efficient and neutral VAT system	Providing a level playing field for EU businesses involved in cross-border e-Commerce
	Delivering a robust and fraud-proof VAT system	Facilitating the monitoring of compliance and the fight against fraud for Member States' authorities
	Delivering a destination-based EU VAT system	Ensuring that VAT revenues accrue to the Member State of the consumer

Source: Deloitte analysis

These objectives reflect the problems identified in the previous section, as illustrated in the figure below.

[20] European Commission, *A Digital Single Market Strategy for Europe*, 6 May 2015, COM(2015) 192 final.
[21] *Ibid*., pp. 8-9.

Figure 4 – Objectives tree



4 Assessment of the Policy Options

This section presents the results of the impact assessment. Firstly an overview of the Policy Options is provided followed by an explanation of how the assessment results are presented. Following this is a full assessment of the six Policy Options which includes an overview of their structure, the roles of stakeholders under the Option, the expected impacts and the assessment results. Finally, for each Policy Options an overview of the key findings is presented.

4.1 Overview

4.1.1 Identification of Policy Options

Table 11 below summarises the six Policy Options covered by the assessment, as they were formulated following a design process that took into consideration inputs coming from a number of sources, including stakeholders' views and problems (as discussed during the workshops and interviews), EC internal debate and other policy initiatives at EU level (such as the Digital Single Market strategy).

Table 11 – Overview of the Policy Options

Status Quo
Option 1: Status Quo (no change)
Policy changes
Option 2: Removal of the distance sales thresholds and the small consignment exemption (No simplification)
Option 3: Option 2 but with the introduction of a common VAT threshold for EU sales of both goods and services (EUR 5000 or EUR 10 000[22]) – which would come in addition to the existing domestic thresholds (up to EUR 114 000)
Option 4: Option 3 plus Single Electronic Mechanism applying to intra-EU supplies of goods and services and to the import of all goods under the Customs threshold of EUR 150[23]
Option 5: Option 4 plus amendments to the Single Electronic Mechanism (home country legislation and home country control, subject to applying rate/exemptions of the Member State of Consumption)
Option 6: Option 4 plus fully harmonised EU rules for Single Electronic Mechanism, subject to applying the rates/exemption of the Member State of Consumption

Source: Deloitte analysis

The six Policy Options listed above start from the current situation and build upon each other, introducing each incremental change with respect to the previous Option.

Option 1 (Status Quo) represents the basis for the analysis, i.e. the baseline scenario against which compare the impacts of the other Options. The legislative therefore include the distance selling threshold for intra-EU sales of tangible goods, the small value consignment for imports below the EUR10-22 threshold and the 2015 Place of Supply Rules and the MOSS for TBE services. It does not introduce any new policy measure.

Option 2 removes the distance selling threshold for intra-EU sales of tangible goods, the small value consignment for imports below the EUR10-22 threshold, *de facto* imposing to EU businesses to register for VAT purposes in every Member State they have sales, and imposing the collection of VAT to small value imports from third countries.

Option 3 builds upon Option 2 and introduces a common VAT threshold for EU sales of both goods and services to (partially) mitigate the negative effects of the changes introduced by Option2.

Option 4 includes further simplification measure, by introducing a Single Electronic Mechanism applying to intra-EU supplies of goods and services and to the import of all goods under the Customs threshold of EUR 150. Under this framework, businesses could mitigate the costs related to VAT registration in other Member States, but would still be subject to the legislative framework (and audit)

[22] This threshold cannot be sector specific but the main beneficiaries will be small e-Commerce start-ups.
[23] With three Options offered to business on import: supplier registration, intermediary registration or simplified Customs declaration.

of all the Member States they are VAT-registered. This means that businesses would be subject to up to 28 different set of rules (domestic rules and the other 27 Member States' rules).

Both Option5 and 6 build upon Option 4, presenting two possibilities to reduce the set of rules businesses would be subject to, while still applying the destination principle to determine the appropriate VAT rate. Under **Option 5,** home country rules would apply to all transactions, including those cross-border (still applying the VAT rate of the Member State of Consumption). Businesses would therefore be subject to one set of rules only. Under **Option 6**, fully harmonised EU rules for the Single Electronic Mechanism would apply (still applying the VAT rate of the Member State of Consumption). Businesses would therefore be subject to two set of rules, i.e. home country rules for domestic transactions, and the common EU rules for cross-border transactions.

The options above reflect the policy decision of moving towards a broader and more uniform application of the destination principle in indirect taxation, described briefly in section 1.1. The Policy Options incorporate the propose of the proposal most of the 2014 report by the Commission Expert Group on Taxation of the Digital Economy[24] and of the Digital Single Market strategy[25] to pursue the destination principle for all supplies of goods and services (all Options since Options 2). Furthermore, they include the proposal included in the 2011 Communication on the Future of VAT[26]to broaden the MOSS to a One Stop Shop (OSS) applying to all intra-EU and third country online sales of tangible goods (Options 4-6).

The table below provides an overview of the key features of each of the policy options included in the study.

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[24] See: http://ec.europa.eu/taxation_Customs/resources/documents/taxation/gen_info/good_governance_matters/digital/report_digital_economy.pdf, consulted on 27 September 2015.

[25] Commission Communication of 6 May 2015 on a Digital Single Market Strategy for Europe, COM(2015)192 final, http://ec.europa.eu/priorities/digital-single-market/docs/dsm-communication_en.pdf consulted on 27 September 2015.

[26] See http://ec.europa.eu/taxation_Customs/resources/documents/taxation/vat/key_documents/communications/com_2011_851_en.pdf

Table 12 – Key features of the policy options

	Option1 (Status Quo)	Option2	Option3	Option4	Option5	Option6
B2C e-Commerce cross-border transactions of goods (intra-EU)	Optional application of distance selling threshold (EUR 35 000 or EUR 100 000)		Common VAT threshold (EUR 5 000/EUR 10 000)	Common VAT threshold (EUR 5 000/EUR 10 000) Possibility to register for the SEM		
B2C e-Commerce cross-border transactions of TBE services	Application of place of supply rules as from January 1st 2015 Possibility to register for the MOSS		Common VAT threshold (EUR 5 000/EUR 10 000)			
Imports of small value consignments	No VAT applied Couriers and postal operators responsible for clearance at Customs	Application of VAT rate of the Member State of destination Couriers and postal operators responsible for clearance at Customs		Application of VAT rate of the Member State of destination Possibility to pre-pay VAT and process imports via SEM Simplified procedures for non-SEM transactions with standardised VAT rate		
Imports of goods between EUR 10-22 and EUR 150	VAT applied (rate of the Member State of destination) Couriers and postal operators responsible for clearance at Customs					
VAT rate applied	Application of destination principle (unless applying the distance selling threshold)	Application of VAT rate of Member State of destination/ consumption	Application of VAT rate of Member State of destination/ consumption (unless below the common VAT threshold)			
VAT revenues in Member States	Retention fee for Member State of Identification for transactions declared via the MOSS (TBE services[27])			Retained revenue of 0%, 10%, 20% or 30% for Member State of Identification for transactions declared via the SEM		
Audit and other administrative rules (invoicing, chargeability, bad debt relief)	Application of rules of the Member State of Consumption (unless applying the distance selling threshold)	Application of rules of the Member State of Consumption	Application of rules of the Member State of Consumption (unless below the common VAT threshold).		Application of home country rules (1 set of rules)	Application of a fully harmonised EU rules for cross-border transactions (2 sets of rules)

Source: Deloitte analysis

[27] Under the current legislative framework, the retention fee for the Member State of Identification is fixed at 30% for 2015 and 2016, at 15% for 2017 and 2018 and is 0% from 2019.

4.1.2 Results presented

In the following paragraphs, the results of the impact assessment analysis are presented per each Optionin comparison to the Status Quo. For each Option, we firstly present a detailed description firstly, which includes the following elements:

- Structure and aim of the Policy Option;
- Process flow;
- Roles and responsibilities of the stakeholders, i.e.
  - Member States (distinguishing between Member States of Consumption and Member States of Identification),
  - Businesses (distinguishing between EU and non-EU businesses and, for EU-businesses, among large, medium-sized and small enterprises, as well as on those providing goods, or services, or a combination of both), and
  - Postal operators and couriers.

The **analysis of the Policy Options** is then presented followed by the key findings. As far as the impacts are concerned, the following impacts are taken into consideration:

- Impacts on Member States, including
  - Effects for Member States' revenues (taking into account sub-Options where 10, 20 or 30% of VAT receipts would be kept by the Member State of Identification as collection cost);
  - Costs for Member States to implement specific Options;
  - Effects on the volume and value of imports from third countries, and corresponding VAT revenues for Member States.
- Impacts on businesses engaged in B2C cross-border e-Commerce, including:
  - Administrative costs they would incur under the different Options, distinguishing (whenever possible) between large, medium-sized and small businesses);
  - Additional costs they could incur under the different Options;
  - Tangible and intangible benefits they would profit for under the different Options.
- Impacts on competition and growth in the European Union, including:
  - Specific impact on e-Commerce for goods and services
  - Cross-border trade, growth and employment;
  - Effects on consumers (prices and consumption);
  - Competitiveness of EU businesses.
- Impacts on compliance.

As mentioned earlier, relevant social impacts are analysed as part of the Impacts on competition and growth in the European Union (such as the impacts on employment and on income distribution). Other types of impacts are considered to be minimal (such as environmental impacts).

As already mentioned in section 2, the analysis of the policy options presented in this section is based on a number of data and assumptions including medium growth and immediate take-up. For clarity of the exposition, this section only presents the key sub-Option for Options 4, 5 and 6, i.e. the application of place of supply rules with the common VAT threshold of EUR 10 000. The other sub-options (i.e. VAT exemption with the common VAT threshold of EUR 5 000 are discussed in section 5), together with a sensitivity analysis of the results.

4.2 Option 1: Status Quo

4.2.1 Structure of the Option

The Status Quo does not introduce any change with respect to the current framework. Therefore it includes different frameworks:

- Distance selling thresholds of 35 000 or 100 000 EUR for B2C cross-border sales of goods;
- 2015 place of supply rules for TBE services, and related simplification measures;
- Small consignment exemption for imported goods below EUR 10-22.

The characteristics and impacts of these frameworks have been analysed in greater details in Lot 1 (distance selling threshold and small consignment exemption) and Lot 3 (2015 place of supply rules for TBE services and MOSS) respectively.

4.2.2 Analysis of the impacts of Policy Option 1

Below we present the key findings from such analysis, which are discussed in greater detail in Lot 1 and Lot 3.

Impacts on businesses and Member States

Our analysis has suggested that the overall costs that business face when engaging in cross-border B2C e-Commerce amount to almost **EUR 4.166 billion**, or about **EUR 24 000 per company per year**[28]**,** or about (on average) **EUR 8 000** for each Member State in which a company is VAT-registered.

Two information obligations (IOs) emerge as critical for EU businesses engaged in cross-border B2C e-Commerce, namely:

- IO1 VAT registration; and
- IO6a: VAT declarations/returns.

Together these IOs represent about 85% of the compliance costs for businesses.

When considering only the costs for businesses providing cross-border TBE services, the costs that businesses face when engaging in cross-border B2C e-Commerce amounts to about **EUR 1.414 billion** Costs however differ largely between those businesses that use simplification measures accompanying the 2015 place of supply rules (e.g. the MOSS), and those that do not use them. For

[28] This is calculated by dividing by the number of companies engaged in cross-border e-Commerce; see section 3.2. of Lot 1 Final Report.

the first group of businesses ('in the MOSS'), costs amount to about EUR 2 172 per company per year, or about (on average) EUR 430 per company for each Member State in which a company sells TBE services. For the second group of businesses ('outside the MOSS'), costs amount to amount to about EUR 41 626 per company per year or about (on average) EUR 5 203 per company for each Member State in which a company sells TBE services[29]. The different administrative burden estimated for businesses engaged in cross-border B2C e-Commerce and for businesses supplying TBE services (EUR 8 000 per company per Member State vs. EUR 5 203 per company per Member State) can be explained by the different composition of the samples of businesses used to carry out the estimates. The sample of businesses used to estimate the administrative burden of businesses supplying TBE services cross-border included a larger share of small enterprises with respect to the other sample (SMEs were estimated to sustain an administrative costs per company per Member State of about EUR 5 000[30]).

Initial data coming from the MOSS system for the first two quarters of 2015 show that the overall amount of VAT revenues during 2015 will be of about EUR 3 billion.

The amount of imported parcels below the EUR 10-22 threshold was estimated of 114.85 million in 2013[31], corresponding to 144.07 million in 2015, under the medium growth scenario[32]. Similarly, the corresponding amount of VAT foregone is estimated of EUR 652.91 million in 2015, under the medium growth scenario[33].

Impacts on competition and growth in the European Union

Our analysis has suggested that the current administrative burden associated with cross-border e-Commerce constitutes a barrier to the growth of e-Commerce in the EU, with cross-border e-Commerce especially likely to be adversely affected.

The analysis of the Option1 (Status Quo) points out also to the adverse effects of VAT foregone from the small consignment exemption and of high level of non-compliance in cross-border distance sales on competition.

The adverse effect of the small consignment exemption leads to an uneven playing field **between EU businesses and non-EU businesses** as the VAT small consignment exemptions apply to import from third countries, so that businesses from third countries can benefit from lower final prices. Moreover, the current rules may also lead to a **distortion of competition between non-EU businesses** as the thresholds of 10 EUR up to 22 EUR do not equally apply in all Member States and as such the import conditions are not equal in all Member States. Available studies confirm such adverse effects on competition, providing evidence for competitive distortions resulting from the small

[29] See the Final Report for Lot 3.
[30] See the Final Report for Lot 1.
[31] European Commission (2015), Assessment of the application and impact of the VAT exemption for importation of small consignments, prepared by EY, accessed at http://ec.europa.eu/taxation_Customs/resources/documents/common/publications/studies/lvcr-study.pdf on June 12th 2015.
[32] This was estimated applying to the 2013 data the Cumulated Annual Growth Rate (CAGR) estimated under the low growth (6% CAGR), medium growth (12% CAGR) and high growth (18%) scenarios elaborated under Lot 1.
[33] This was estimated applying to the data on volume of parcels under the different scenario an average value of EUR 20 plus 30% of transport costs, and applying to the corresponding value the EU VAT average rate of 22%.

consignment exemption, leading to loss of VAT revenues for Member States as well as reports of business closures, business relocations and booming fulfilment industries outside the EU.[34]

The application of the distance sales threshold leads to difficulty for tax authorities in **monitoring the distance selling threshold** for lack of available information as well as to **distortion of competition between EU businesses** (where businesses established in a country with a low VAT rate can apply the VAT rate of that country up until the threshold set in the EU Member State of destination, while businesses established in a Member State with a high VAT rate cannot benefit from the same advantage).

The analysis suggests the following:

- The current administrative burden may limit the size of the EU e-Commerce market by between 0.3% and 0.7%; under the medium growth scenario, this represents between EUR 3.1 billion and EUR 5.2 billion of foregone online trade annually;
- The current regime affects cross-border trade in particular, constraining the size of the market by 1.2% - 2.6%; under the medium growth scenario, this represents foregone cross-border online trade of between EUR 2.5 billion and EUR 4.2 billion annually.

The administrative burden may be associated with a mark-up on overall prices online of about 1.0%; cross-border e-Commerce prices faced by consumers may be about 4.5% higher than they otherwise would be.

Compliance

As a result of the assessment of compliance on B2C cross border supplies of goods, the following conclusions were drawn:

- Non-compliance is considered by tax authorities as a significant issue on both intra EU distance sales and on B2C import of goods with a value of up to EUR 150, proven by active EU level discussions and increasing attempts to collect more information on B2C cross border sales and improve controls;
- Tax authorities find it challenging to measure the level of compliance, given the administrative costs involved;
- Testing the compliance by mock purchases further confirmed the lack of VAT information provided by suppliers on cross-border B2C supplies, which made it difficult to check the level of compliance. However, the results seem to indicate a considerable level of non-compliance.

Tax authorities have identified many types of non-compliance (including avoidance schemes), such as:

- Under-valuation and mis-labelling on imports and
- Ignoring distance sales thresholds, use of ‘split supplies’, ‘parcel motel’ and rate shopping on distance sales.

[34] European Commission (2015), ‘Assessment of the application and impact of the VAT exemption for importation of small consignments’, p. 71

The main compliance measures applied by tax authorities to B2C cross-border supplies are the general measures used also for other supplies:

- Preventive measures;
- General auditing and control procedures;
- Sampling and risk profiling.

More recently, tax authorities have started to use technological tools, such as web trawling and data analytics, and the collection of additional information from other businesses (e.g. account holders, financial institutions or postal operators).

Tax authorities admit that the use of compliance measures is not sufficiently effective and there is room for improvement, mainly by:

- Better use of administrative cooperation between EU Member States and with non-EU countries; and
- Further development and use of technological tools.

The estimated VAT loss due to non-compliance on B2C cross-border sales, based on B2C total cross-border online spend (as estimated in the study), general VAT gap and data provided by two Member States, ranges from EUR 2.6 billion to EUR 3.8 billion, whilst the actual respective EU VAT loss is likely to be closer to the upper end of the estimated range. Moreover, based on some relevant information from some Member States[35] on systematic non-compliance on import, the EUR 3.8 billion estimate on overall VAT foregone due to non-compliance can be considered as very conservative[36].

4.3 Policy Option 2: Removal of the distance sales thresholds and the small consignment exemption (No simplification)

Option 2 introduces two policy changes:

- Removal of the distance selling thresholds of EUR 35 000 – 100 000; and
- Removal of the VAT exemption for the importation of small consignments under the threshold of EUR 10-22.

The two changes will be examined separately and the impacts compared with the Status Quo (Section 4.3.3).

Under Option 2, both the distance selling threshold and the VAT exemption threshold for the importation of small consignments are removed. Therefore, e-Commerce B2C cross-border transactions are taxed for VAT purposes applying the destination principle from the first EUR, with no exceptions or simplification measures. As a consequence, businesses have to register for VAT purposes in all the Member States where they sell to. Cross-border transactions of TBE services are taxed in the Member States of consumption and subject to related simplification measures such as the MOSS.

[35] See recent information from UK (HMRC (2015), 'VAT gap estimates)' and from France (Sénat Commission des finances (2015), 'Le E-Commerce: proposition pur une TVA payée à la source'

[36] A more detailed analysis is provided under Lot 1

4.3.1 Removal of distance selling thresholds

Structure and aim

Under this Policy Option, the existing special distance sales thresholds will be removed i.e. all intra-EU cross-border B2C sales of goods will be taxed in the MS of destination (at a VAT rate applicable in that MS) notwithstanding the value of supply or the extent of sales by the supplier in that MS. The Option does not implement any new simplification measures.

This Policy Option links directly with the following specific objectives:

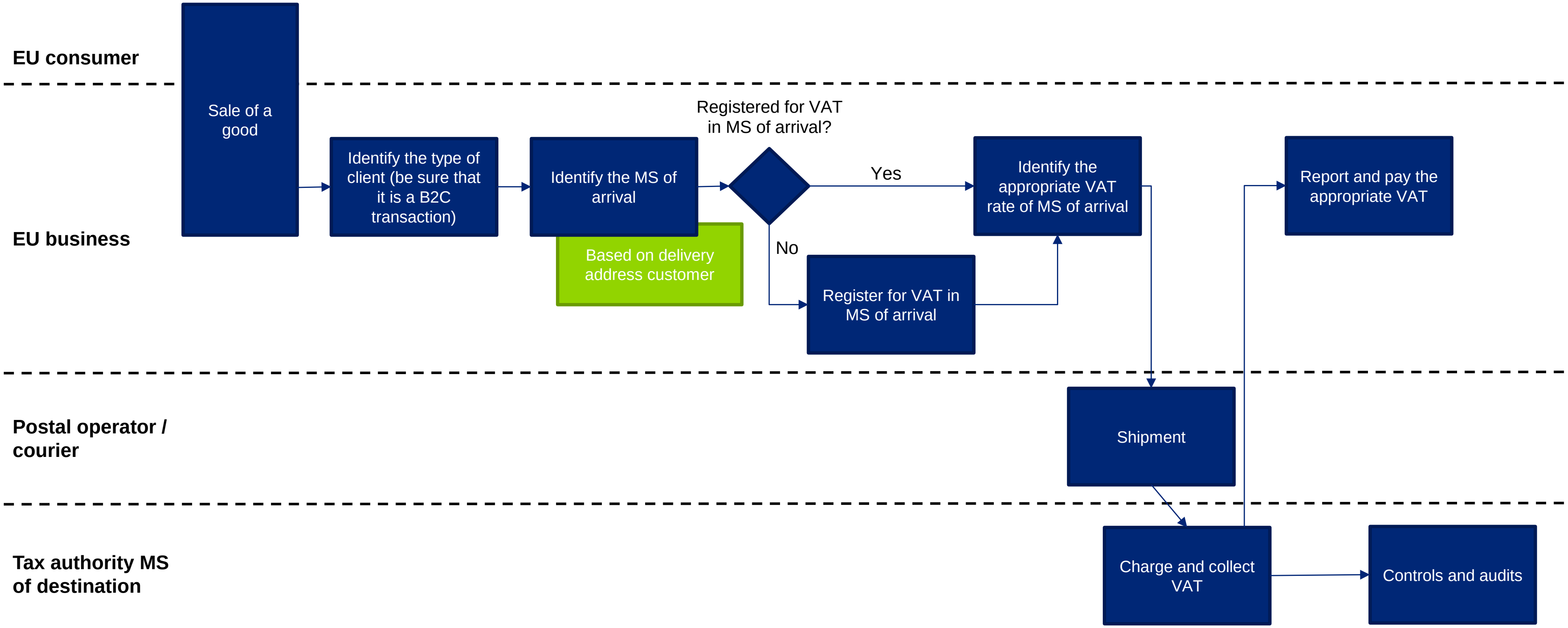
- Providing a level playing field for EU businesses involved in cross-border e-Commerce, as all businesses selling goods and services in the same Member State of consumption will apply the same VAT rate, and will not be able to benefit from a lower VAT rate in their home country;
- Facilitating the monitoring of compliance and the fight against fraud for Member States authorities;
- Ensuring that VAT revenues accrue to the Member States of the consumer, as the principle of taxation at destination is applied with no exceptions.

This Policy Option relates only partially to the objective of minimising the burdens attached to cross-border e-Commerce arising from different VAT regimes as it simplifies the regimes of selling thresholds, but creates new administrative obligations for businesses.

Process flow

The figure below provides an overview of the process flow related to this Policy Option.

Figure 5 – Process flow for Option 2, removal of distance sales threshold



Roles and responsibilities of the stakeholders

Member States

Both Member States of Identification and Member States of Consumption do not have to maintain and monitor the distance sales thresholds for businesses selling goods and services cross-border via e-Commerce.

Businesses

This Option does not modify roles and responsibilities for non-EU businesses. However, it modifies the process for EU businesses engaged in cross-border e-Commerce. Since these businesses cannot benefit from distance selling thresholds, they must therefore register for VAT purposes, submit VAT returns and pay VAT to all Member States they trade with. Specifically, a business selling and dispatching goods and services to a customer in another MS has to:

- Identify the status of the customer (taxable person or non-taxable person);
- Charge VAT on the supply at the correct VAT rate of the MS of destination (incl. reduced rate if applicable);
- Register for VAT in the MS of destination;
- Declare and pay VAT in MS of destination ;
- Apply other relevant rules of the MS of destination – invoicing, chargeability, auditing etc.

There are no substantial differences in the roles and responsibilities depending on the size of the business (as the same regime applies with no distinctions). However, as the change only applies to goods, this Option impacts only businesses which trade goods or a combination of goods and services.

Postal Operators and Couriers

This Option does not introduce any change in the role and responsibilities of postal operators and couriers.

4.3.2 Removal of small consignment exemption

Structure and aim

Under this Option, the existing exemption of VAT applied for import of low value commercial consignments under EUR 10-22 threshold would be removed. As a result, VAT would be applied at a rate of the MS of import to all consignments notwithstanding their value up until EUR 150. The Customs procedure applied would be the same as the current procedure for imports between small consignment threshold and the EUR 150 Customs threshold. The Option does not entail new simplification measures, however the existing Customs Options and simplifications will continue, as well as any administrative simplifications.

The small consignment threshold would be removed for both B2B and B2C imports. However, for the purposes of this study we will assess only the impact of the policy change to B2C commercial imports.

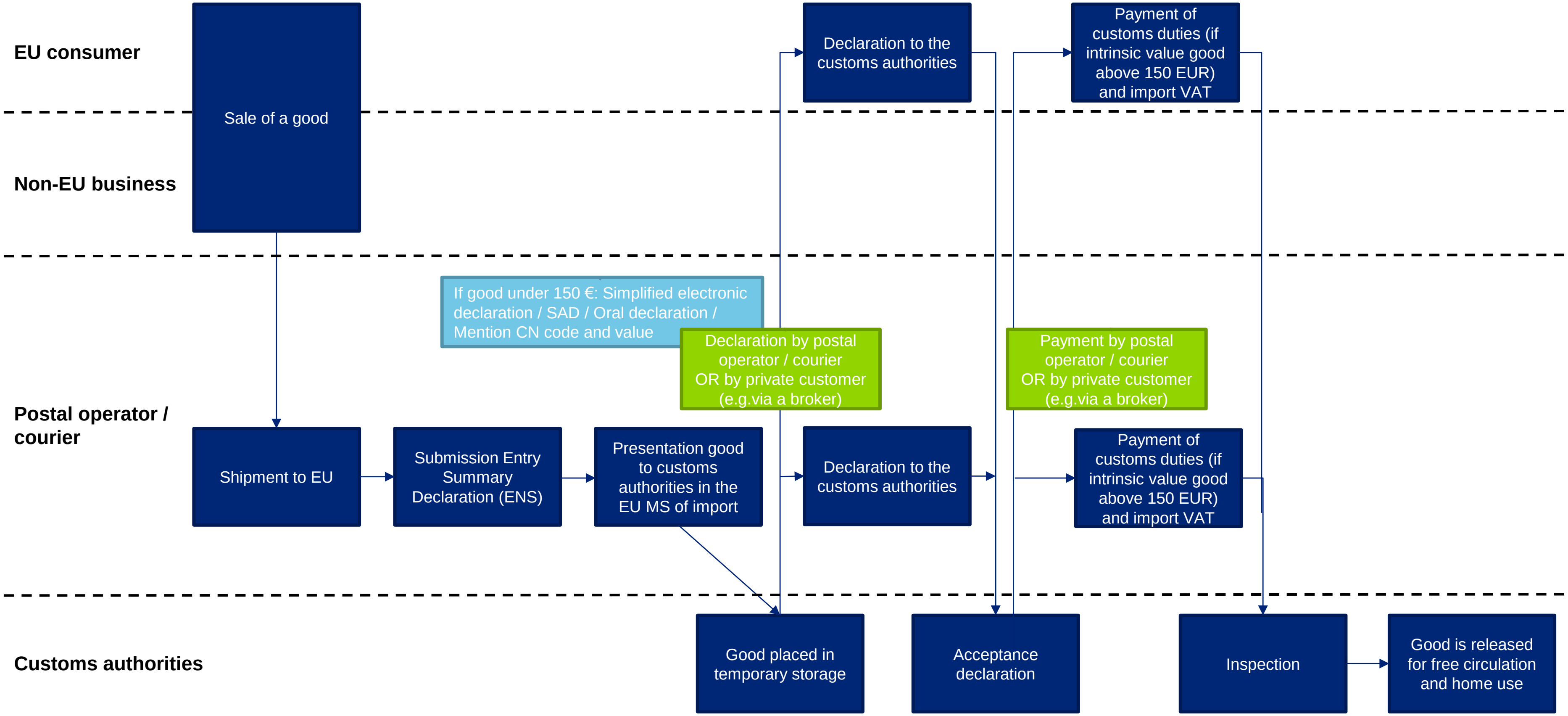
This Policy Option links directly with the following specific objectives:

- Providing a level playing field for EU businesses involved in cross-border e-Commerce, as it removes the potential distortion between the EU and non-EU traders, where today the EU traders need to apply VAT on intra-EU supplies, but non-EU traders can exempt the imports of low value supplies;
- Facilitating the fight against fraud for Member States' authorities and ensuring that VAT revenues accrue for the Member State of consumption, as it has the potential to reduce avoidance of VAT by undervaluation and incorrect labelling of the goods (used to benefit from the exemption), or split imports, which may have additional positive impact on Governments' revenue.

Process flow

The figure below provides an overview of the process flow related to this Policy Option.

Figure 6 – Process flow for Option 2, removal of small consignment exemption



Source: Deloitte analysis

Roles and responsibilities of the stakeholders

Member States

The removal of the small consignment exemption leads to an increase in the volume of parcels to be processed by Member States' Customs authorities when first entered into the territory of the Customs Union, as well as to an increase in the VAT revenues.

The responsibility for the Customs controls (and for the collection of import VAT) rests with the Member State where the parcel is when first entered into the territory of the Customs Union, which might not be the Member State where the consumer resides. In such cases, the VAT rate to be applied will be that of the MSC, which will than benefit from an increase in VAT revenues.

This Option does not foresee additional simplification measures.

Businesses

This Option does not modify roles and responsibilities for EU businesses (unless they are involved in direct B2C imports), as the small consignment exemption only concerns imports, and thus mostly non-EU businesses engaged in B2C e-Commerce.

This Option has notable implications for non-EU businesses, as a part of their sales will become subject to Customs procedures. This will lead to an increase in the price of their goods below the value of the small consignment exemption (EUR 10-22), which will have to include the value of the VAT.

Many large non-EU businesses have one or (often) more warehouses in the EU, and are registered for VAT purposes in one or more EU Member States, therefore will not be largely affected by this Policy Option. In fact, as emerged from our interviews, the business models of those enterprises foresees the import of goods as B2B transactions, while the B2C transaction is intra-EU. Therefore, we expect that small and medium-sized non-EU businesses will be the most negatively affected by this Policy Option.

The Option affects only businesses that trade goods or a combination of goods and services since the change introduced only applies to goods.

Postal Operators and Couriers

Postal operators and couriers will have to process a larger amount of parcels at Customs, with a potential increase in the time required for the Customs procedures and thus an increase in delivery time or resources needed.

4.3.3 Analysis of the impacts of Policy Option 2

Impacts on Member States

Expected impacts

The removal of the distance selling threshold and of the small consignment exemption is expected to affect Member States in several ways:

- **VAT revenues**: they are expected to increase as an effect of the removal of the small value exemption (with the removal of the small consignment exemption, more goods are subject to import VAT).

Such additional revenues will benefit mostly the Member States of Consumption with respect to the Status Quo. With the removal of the thresholds, intra-EU B2C cross-border e-Commerce transactions and imports will be taxed at the VAT rate of the Member State of Consumption from the first EUR.

VAT revenues from TBE services are not expected to change with respect to the Status Quo, as Option 2 does not modify the framework for these services.

- **Volume of audits and Customs controls**: As an effect of the removal of the distance selling threshold, businesses will have VAT-related obligations (including registration, submission of returns, etc.) with all the Member States where they have B2C cross-border e-Commerce sales. This could potentially lead to a significant increase in the number of businesses required to register for VAT.

  At present, it is estimated that about one million micro-businesses may be engaged in cross-border e-Commerce[37]. Were these businesses to register, the amount of potential audits would increase by a factor of 5. However, for the vast majority of businesses the costs related to such obligations would likely exceed the revenues from cross-border sales and/or the costs of non-compliance, meaning that they are likely to cease trading cross-border or to fail to register for VAT. Therefore the increase of the potential number of audits of EU businesses will be limited.

  Similarly, removal of the small value consignment exemption would lead to a notable increase of the number of parcels to be processed at Customs (small value consignments are estimated to amount to about 60% of the total volume of parcels)[38], with need for additional resources.

Results

VAT revenues from both intra-EU transactions and imports from third countries are likely to increase with respect to the Status Quo, as an effect of the removal of distance selling threshold and of the small value exemptions. Such increase is likely to be counterbalanced by the vast majority (about 90%) of micro-businesses either dropping cross-border markets or non being compliant, and an overall increase of the non-compliance rate (estimated at 65%) due to the largest volumes of parcels to be processes.

The table below presents the overview of the analysis.

Table 13 – Impact of Option 2 on VAT revenues for Member States

Intra-EU e-Commerce	
VAT loss due to non-compliance (EUR billion)	4.278
VAT revenue (EUR billion)	2.303
Imports from third countries	
Total volume of parcels below EUR 150	187 288 192
VAT loss due to non-compliance (EUR billion)	0.605

[37] See section 2.2
[38] See 12.European Commission (2015), Assessment of the application and impact of the VAT exemption for importation of small consignments, Ibid.

VAT revenue (EUR billion)	0.326

Source: Deloitte analysis

Impacts on businesses

Expected impacts

The removal of the distance selling threshold and of the small consignment exemption are expected to affect EU and non-EU businesses, mainly increasing their **administrative costs**.

As an effect of the removal of the distance selling threshold, businesses will have VAT-related obligations (including registration, submission of returns, etc.) with all the Member States where they have B2C cross-border e-Commerce sales. This could potentially lead to a significant increase in the number of businesses required to register for VAT.

While large enterprises are likely to be registered for VAT purposes in many Member States already, small and medium-sized enterprises will be more affected by these obligations, as they might be below the distance selling threshold in some of the Member States they have sales in. However micro-businesses are expected to be the ones mostly affected by this measure, as they are the most likely to have cross-border sales below the distance selling threshold.

As for many of the micro-businesses currently engaged in cross-border e-Commerce the costs related to such obligations would likely exceed the revenues from cross-border sales and/or the costs of non-compliance, they likely to cease trading cross-border or to fail to register for VAT[39]. Therefore the increase in administrative costs will likely reduce the number of businesses active cross-border.

Finally, postal operators and couriers will have to pass through Customs a larger share of parcels, with possible implications on their processing costs and on timing of the delivery.

Businesses active in TBE services are not expected to be affected with respect to the Status Quo, as Option 2 does not modify the framework for these services.

Results

Our analysis estimates that the **overall administrative costs** for businesses active on cross-border e-Commerce will amount to **EUR 4.683billion**, corresponding to EUR 23 600 (on average) per company (EUR 23 598) and to about EUR 8 000 (EUR 7 863) per company per each Member State they have sales in.

This represents an **increase of about 12%** with respect to the Status Quo, as an effect of the additional VAT-related obligations deriving from the removal of the distance selling threshold. Such figure has been estimated considering that only about 5% of micro-businesses currently active in cross-border e-Commerce will be likely to comply (while the rest will be likely to cease trading cross-border or to fail to register for VAT)[40].

[39] See section 2.2.3
[40] See Annex 4, assumption 1 for more details.

The **number of businesses** estimated to be engaged in cross-border e-Commerce is estimated to increase to 137 856 businesses, mostly micro-businesses. However, this figure only includes the small minority (estimated of about 5%) of micro-enterprises complying with the new VAT-related obligations, as their turnover from cross-border e-Commerce transactions is higher than EUR 8 000, i.e. the estimated administrative burden to comply with VAT-related obligations.

Businesses engaged in cross-border e-Commerce (including SMEs currently active in this area), are likely to incur in costs to modify their internal systems and processes to comply with MSC VAT rules (e.g. invoicing, chargeability, auditing).

Such additional costs will be (at least partially) compensated by lack of the internal costs related to monitoring the distance selling threshold. Of course, as VAT related obligations differ greatly across Member States, the overall legislative framework businesses will have to comply with will be more complex than in the Status Quo.

The costs for businesses providing cross-border TBE services will not change with respect to the Status Quo.

The removal of the small consignment exemption is likely to affect mostly small and medium-sized enterprises from third countries. While large enterprises are more likely to have warehouses/be registered for VAT purposes in EU Member States already, small and medium-sized enterprises are more likely to be affected by these obligations (although the small consignment exemption is not specifically benefitting small businesses).

Non-EU businesses will benefit from a clearer legislative framework legislative code applying throughout the EU with respect to the Status Quo.

Finally, as mentioned earlier, postal operators and couriers are likely to pass through Customs a larger share of parcels, with possible implications on processing costs and on timing of the delivery. Processing costs are likely to increase, and to become closer to those of parcels between EUR 10-22 and EUR 150, that a recent study estimated of EUR 8.96 per parcel[41].

The table below provides an overview of the volume of small consignment parcels, their corresponding values and processing costs for operators.

Table 14 – Impact of Option 2 on small value consignments processing costs

	Volume	**Value (EUR million)**	**Processing costs (operators) (EUR billion)**
Medium growth	144 067 840.00	2 968	1.291

Source: Deloitte analysis

Impacts on the market for e-Commerce in the European Union

Expected impacts

The elimination of the distance selling thresholds and the removal of the small consignment exemption are expected to affect the wider economy through multiple channels:

[41] European Commission (2015), Assessment of the application and impact of the VAT exemption for importation of small consignments, ibid.

- **Fixed administrative costs:** removing the thresholds and requiring all businesses to register in every Member State in which they make online states could potentially lead to a significant increase in the number of businesses required to register for VAT.

  In case of micro-businesses engaged in cross-border e-Commerce registered for VAT purposes, the administrative burden estimated in the SCM would be expected to increase by almost EUR 25 billion; this would mean that the administrative burden is more than twice the value of cross-border e-Commerce sales for these micro-businesses. Given the magnitude of the administrative burden relative to revenues for micro-businesses, it is estimated that only about 10% of micro-businesses may register. Based on the SCM, this would imply an increase in fixed administrative costs of 42%. Relative to total costs in the retail sector, this represents an increase of about 0.2%. If this is passed on to consumers, this would be expected to reduce demand for e-Commerce.

- **Variable administrative costs:** removing the small consignments exemption on imports to the EU is expected to increase the costs per transaction associated with VAT compliance. Previous research indicates that this may increase the administrative costs per non-EU cross-border transaction from EUR 2.34 to EUR 8.96 for small consignments[42]. The same study suggests that about 60% of non-EU cross-border transactions are exempt under the existing system. This would imply that the elimination of this exemption increases variable administrative costs on non-EU online imports of about 170%, from about 5.5% of transaction value to up to 15% of transaction value.

  To the extent that these additional administrative costs are passed on to consumers, this will raise prices and reduce demand for non-EU online imports. At the same time, online goods from EU suppliers may become relatively cheaper, leading to consumers substituting towards EU suppliers.

- **Average VAT rate on online imports:** the removal of the small consignments exemption means that the average VAT rate paid on imports will increase. While high levels of non-compliance will tend to mitigate this effect, the average VAT rate may nonetheless increase by up to 4.6%.

- **Supply of cross-border e-Commerce:** as mentioned above, the increase in the administrative burden facing micro-businesses may mean that some of them cease to trade online cross-border, this would reduce the total size of the market.

  Data from Eurostat indicates that micro-businesses contribute about 4.1% of total e-Commerce sales in the EU. While it is not expected that all micro-businesses would cease trading cross-border with the elimination of the thresholds, there may be significant market exit. For instance, were 90% of micro-businesses to leave the market, the direct supply of online goods to other EU markets may fall by 3.1%. However, this effect may be mitigated by the fact that other businesses increase their sales in response; domestic online markets may also benefit from increased supply.

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[42] European Commission, *Assessment of the application and impact of the VAT exemption for importation of small consignments,* May 2015.

This effect is inversely related to the effect of the fixed administrative costs: if more micro-businesses leave the market or are non-compliant this reduces the administrative burden (with a positive effect on the wider economy) but also reduces the volume of cross-border trade and reduces tax revenues (leading to a negative impact).

The interactions between these channels and between the direct and indirect impacts will determine the overall effects on prices and sales volumes in the EU e-Commerce market. These impacts are estimated using a CGE model of the European Union. The results reported here are based on an assumed growth rate of e-Commerce of 12%. Additional growth scenarios are reported in Section XX.

Results

The table below shows the resulting estimated impacts on the volume of e-Commerce in the EU, both in percentage terms and absolute terms (millions of transactions). As can be seen from Table 15, the elimination of the small consignments exemption and the VAT registration thresholds is expected to negatively affect e-Commerce volumes in the EU. This effect is driven by the decrease in cross-border transactions, while an increase in domestic e-Commerce may partially offset these effects.

Table 15 – Impact of Option 2 on EU e-Commerce volumes, 2020 (millions of transactions, %)

	Estimated impact
Total e-Commerce	-111
	-0.4%
Cross-border e-Commerce	-271
	-4.6%
EU Cross-border e-Commerce	-59
	-1.6%
Non-EU Cross-border e-Commerce	-212
	-9.9%

Source: Deloitte analysis

This change in the total volumes of e-Commerce in the EU is accompanied by a change in prices, in particular prices for goods and services purchased cross-border. This increase in prices is due to a combination of increased administrative costs, which are expected to be directly reflected in prices, and a reduction in the international supply of goods that will in turn reduce competitive pressure and further increase prices.

Table 16 – Impact of Option 2 on EU e-Commerce prices, 2020

	Estimated impact
Total e-Commerce	0.5%
Cross-border e-Commerce	2.6%
EU Cross-border e-Commerce	1.1%
Non-EU Cross-border e-Commerce	5.7%

Source: Deloitte analysis

The predicted impacts on different types of transaction are described in more detail below:

- The **removal of the small consignments exemption** is expected to increase the administrative costs associated with non-EU imports from about 5.5% of the transaction value to up to 13%. At the same time, the fact that more imports will be subject to VAT will increase average prices by a further 4.6%. While competitive pressures mean that not all of this increase in administrative costs is passed on to consumers, prices are nonetheless expected to increase by up to 5.7%. This in turn drives a fall in the volume of non-EU online imports of about 10% as consumers substitute towards domestic or EU suppliers, or to offline purchases.

- The **removal of the exemption thresholds** has a negative impact on EU cross-border e-Commerce through two channels: it increases the number of businesses incurring administrative costs, increasing the overall burden, and may cause some micro-businesses to cease trading cross-border. The former channel may lead to a direct increase in prices, with an increase in the administrative burden of 60% being associated with an increase in overall labour costs of 0.6%. The increase in the administrative burden facing EU businesses is therefore estimated to increase EU cross-border e-Commerce prices by up to 2.1%.
- The second effect has a direct impact on cross-border e-Commerce volumes, with the market expected to contract by up to 1.5% as a direct result of some smaller businesses leaving the market. Combined with the impact of increased administrative costs, the EU cross-border e-Commerce market is estimated to contract by about 1.6%
- The negative impacts on cross-border e-Commerce are partially offset by increased demand for domestic online goods. This occurs because domestic online purchases become relatively less expensive than cross-border purchases (particularly from outside the EU) and because businesses deterred from selling cross-border may instead increase their supply to their domestic market. Nonetheless, the net effect on e-Commerce in the EU is estimated to be negative.

As a consequence of these changes in the volumes and prices of e-Commerce, the value of cross-border online trade is also expected to decrease, as shown below. These figures show that the impact on the value of e-Commerce trade is generally less negative than the impact on e-Commerce volumes. However, this is largely due to an increase in the prices faced by consumers, so should not be interpreted as a mitigating factor.

Table 17 – Impact of Option 2 on the value of e-Commerce, 2020 (EUR billions, %)

	Estimated impact
Total e-Commerce	3.5
	0.3%
Cross-border e-Commerce	-1.7
	-0.9%
EU Cross-border e-Commerce	0.5
	0.3%
Non-EU Cross-border e-Commerce	-2.2
	-4.2%

Source: Deloitte analysis

Along with these impacts on the e-Commerce market, the removal of the small consignment exemption and the elimination of registration thresholds are also expected to have wider economic impacts:

- Labour productivity is expected to decrease by up to 0.1% as the increased compliance burden means that more workers are assigned to unproductive administrative tasks.
- Employment in the retail sector is expected to fall slightly overall: while the increased compliance burden means that more workers will be assigned to administrative tasks the overall fall in e-Commerce values may decrease hiring for other tasks.
- The removal of the small consignment exemption will increase the prices of online imports and reduce demand for these goods and services, suggesting a competitive advantage for EU businesses. However, it is expected to be domestic firms rather than businesses in other Member States that benefit most from this.

Impacts on compliance

Removal of distance sales threshold

The removal of distance sales threshold simplifies the VAT system by removing the specific rules, which according to the insights from tax authorities is expected to facilitate and therefore improve the compliance control by tax authorities. This is specifically expected to reduce the large scale organised avoidance and fraud on distance sales.

However, as the change increases significantly the compliance burden for businesses currently trading below the threshold (although partly mitigated by the decreased burden from removal of the need to monitor thresholds), it is likely to increase the level of non-compliance amongst the businesses with limited cross border trade, who may decide to take a risk and continue declaring the sales as part of domestic supplies. The risk of non-compliance may be bigger amongst the group of traders currently not registered for domestic VAT. As above, such an increase may be partly mitigated by more efficient compliance controls, including cross-border administrative cooperation on controls.

Removal of small consignment exemption

The removal of small consignment exemption simplifies the VAT system and should reduce non-compliance (including fraud), as a result of more efficient compliance controls (e.g. by reviewed risk assessment).

The change may also improve compliance due to a ‘forced’ change in trading practices of non-compliant non-EU traders. If they have currently used false declaration to avoid paying any VAT, now they would need to start paying (at least some) VAT (or arrange the VAT to be paid) in order to continue trading.

An evidence on the high level of non-compliance where small consignment exemption cannot be applied can be found from a recent French Senate report (France does not apply small consignment exemption to mail orders).[43] Therefore the level of non-compliance is expected to increase in this Option and in calculations 65% of VAT foregone due to non-compliance is used (compared to 50% in Option 1).

[43] Sénat Commission des finances (2015), Le E-Commerce: proposition pur une TVA payée à la source. http://www.senat.fr/fileadmin/Fichiers/Images/redaction_multimedia/2015/2015-Documents_pdf/20150917_e_commerce.pdf , consulted on 18 December 2015

4.3.4 Key findings

Option 2 removes both the distance selling thresholds of EUR 35 000 – 100 000 and the VAT exemption for the importation of small consignments under the threshold of EUR 10-22. This Option adversely affects Member States of Identification and Member States of Consumption, as well as EU and non-EU businesses.

Impacts on Member States

The table below summarises the key impacts on Member States' VAT revenues.

Table 18 – Overview of Member States' VAT revenues for Option 2

Member States	VAT revenues (EUR billion)
VAT revenues (EU cross-border trade)	2.303
VAT revenues (imports from third countries)	0.325

Source: Deloitte analysis

VAT revenue for Member States are expected to increase as an effect of the removal of the small value consignment exemption, with a redistribution of the (relatively small amount of) VAT deriving from the removal of the distance selling threshold. The increase is estimated to be of about 18% with respect to the (estimated) VAT loss from the small value consignment exemption in 2013.

Impacts on businesses

The table below summarises the key impacts on the administrative burden on businesses.

Table 19 – Overview of administrative costs for Option 2

	Businesses		
Administrative burden	Goods	Services	Goods and services
Total (EUR billion)	3.246	1.437	4.683
per company (EU businesses) (EUR)	23 589	2 172 (MOSS registered) 41 626 (non registered for MOSS)	2 172 (MOSS-registered) 23 589 (goods) 41 626 (non registered for MOSS
per company per Member State (EUR)	7 863	434 (MOSS registered) 5 203 (non registered for MOSS)	434 (MOSS-registered) 7 863 (goods) 5 203 (non registered for MOSS)
No of companies	137 586	10 604 (MOSS registered) 33 969 (non registered for MOSS)	137 586

Source: Deloitte analysis

In comparison with the Status Quo, this Option represents an increase of about 12% of the burden on businesses with respect to the administrative costs to businesses, as a result of the removal of the threshold. Only a small minority of micro-enterprises (estimated of about 5%) will be likely to comply with the new obligations, while the rest will be likely to cease trading cross-border or to fail to register for VAT.

VAT revenue for Member States are expected to increase as an effect of the removal of the small value consignment exemption, with a redistribution of the (relatively small amount of) VAT deriving from the removal of the distance selling threshold.

Impacts on the market for e-Commerce in the European Union

The table below provides an overview of the key economic impacts assessed for this Option

Table 20 – Overview of economic impacts for Option 2

	Total e-Commerce	Cross-border e-Commerce	EU cross-border e-Commerce	Non-EU cross-border
EU e-Commerce volume				
Millions of transactions	-111	-271	-59	-212
%	-0.4%	-4.6%	-1.6%	**-9.9%**
EU e-Commerce prices				
%	0.5%	2.6%	1.1%	5.7%
e-Commerce value				
EUR billions	3.5	-1.7	0.5	-0.3
%	0.3%	-0.9%	0.3%	-4.2%

Source: Deloitte analysis

At a broader economic level, there is likely to be a negative impact on cross-border e-Commerce because the average price of imports will increase leading to a fall in the volume of transactions and the removal of thresholds may lead to smaller firms exiting the market.

Impacts on compliance

With regard to **compliance**, the **removal of distance sales threshold** simplifies the VAT system is expected to facilitate the compliance control by tax authorities and reduce the VAT fraud on distance sales. However, the increase in the administrative burden is still likely to increase the level of non-compliance amongst the businesses currently benefitting from the threshold, who may decide to take a risk and continue declaring the sales as part of domestic supplies. The risk of non-compliance may be even bigger amongst the group of traders currently not registered for domestic VAT.

The removal of **small consignment exemption** simplifies the VAT system and should enable slightly more efficient compliance controls (e.g. by reviewed risk assessment). However, as the volume of parcels subject to VAT increases, there is higher motivation for non-EU suppliers to undervalue and mislabel the parcels to reduce their VAT cost. An evidence on the high level of non-compliance where small consignment exemption cannot be applied can be found from a recent French Senate report

(France does not apply small consignment exemption to mail orders).[44] Therefore the level of non-compliance is expected to increase in this Option and in calculations 65% of VAT foregone due to non-compliance is used (compared to 50% in Option 1)

[44] Sénat Commission des finances (2015), Le E-Commerce: proposition pur une TVA payée à la source. http://www.senat.fr/fileadmin/Fichiers/Images/redaction_multimedia/2015/2015-Documents_pdf/20150917_e_commerce.pdf , consulted on 18 December 2015

4.4 Policy Option 3: Option 2 but with the introduction of a common VAT threshold for EU sales of both goods and services (EUR 5000 or EUR 10 000[45]) – which would come in addition to the existing domestic thresholds (up to EUR 114 000)

Option 3 builds on Option 2, it removes the existing small consignment exemption and distance selling thresholds, but introduces a new type of cross-border threshold, aimed to provide a simplification to businesses having incidental or low value cross border sales (mainly smallest businesses).

> Under Option 3, both the distance selling threshold and the VAT exemption for the importation of small consignments are removed and the supplies of goods are generally taxed in the Member State of destination. To simplify the legislative framework for businesses, this Option introduces a common VAT threshold for the cross border supplies of goods and services of business (set at EUR 5 000 and 10 000). Supplies below the threshold can either be treated under domestic rules (alternative 1) or being exempt from VAT (alternative 2). Cross-border transactions of TBE services are taxed in the Member States of consumption and subject to related simplification measures such as the MOSS. This Option does not introduce any additional changes related to imports.

In this section, we only present the results of the qualitative analysis with the use of domestic rules or VAT exemption for supplies below the common VAT threshold. The sub-Option introducing a VAT exemption is analysed in more detail in section 5. Both values of the thresholds (EUR 5 000 and EUR 10 000) are considered.

4.4.1 Structure and aim

Under this Option, the existing small consignment thresholds and distance selling thresholds are removed. A new threshold is introduced, applicable to businesses established in the EU. The application of this threshold is Optional for businesses.

The optional threshold is based on the businesses total amount of annual B2C cross-border sales of goods and services, and it provides an exemption to the cross-border supplies below threshold to suppliers who are not registered for VAT in the MS of establishment. The threshold applies in parallel to the domestic VAT registration threshold, but it does not apply to imports and exports or B2B sales.

Two levels of the cross-border B2C threshold are assessed in the study: EUR 5000 and EUR 10 000.

As this Policy Option directly aims to reducing the administrative burden for smallest businesses, which could discourage them to extend their business beyond the country of establishment, it is directly linked with the following specific objective:

- Minimising burdens attached to cross-border e-Commerce arising from different VAT regimes.

[45] This threshold cannot be sector specific but the main beneficiaries will be small e-Commerce start-ups

This Option and its related specific objective directly link to the Digital Single Market Strategy, and its objective of reducing VAT related burdens and obstacles when selling across borders[46].

Two alternatives are considered for the common VAT threshold, with different implications in terms of VAT treatment of cross-border e-Commerce B2C sales below the value of EUR 5000 and EUR 10 000, namely:

- Application of domestic VAT rules for cross-border B2C sales below the value of the threshold;
- Exemption from VAT for cross-border B2C sales below the value of the threshold.

The first alternative (application of domestic rules) is relatively simple to implement, as cross-border supplies can be declared for VAT purposes together with domestic supplies, and businesses can deduct inputs VAT directly (provided the business is domestically registered for VAT). On the other hand, under this alternative VAT rate is changed on supplies, which may influence pricing. However, this effect is reduced by the right for businesses to deduct input VAT. If business is not liable for VAT on their domestic supplies (as they trade below the domestic threshold), they can extend that domestic exemption also to their cross-border supplies.

The second alternative (exemption from VAT of cross-border supplies below the common VAT exemption threshold) is more complex to implement, as cross-border supplies need to be declared separately (if business is domestically VAT registered), and businesses cannot deduct input VAT. Conversely, the absence of VAT on outputs may lead to lower consumers' prices, even though this benefit is reduced by non-deductible VAT costs.

First alternative: application of domestic VAT for sales below the threshold.

Under this alternative, businesses will apply domestic rules to B2C cross-border e-Commerce transactions below the threshold (which is set at EUR 5 000 and EUR 10 000 respectively for the purpose of this study). As a consequence, the businesses below the domestic VAT registration threshold will continue to be exempt from VAT, however VAT registered businesses will declare and tax the cross-border supplies together with their domestic supplies applying the domestic VAT rate.

This mechanism will introduce an entirely new threshold for cross-border B2C services. Within the current framework for TBE services (i.e. place of supply rules and MOSS as an accompanying simplification measures, with no exemption threshold), this Option introduces a possibility to revert back to domestic rules (without the use of MOSS) in case of limited cross-border sales, however it introduces an additional burden for those businesses, as they have to monitor the threshold.

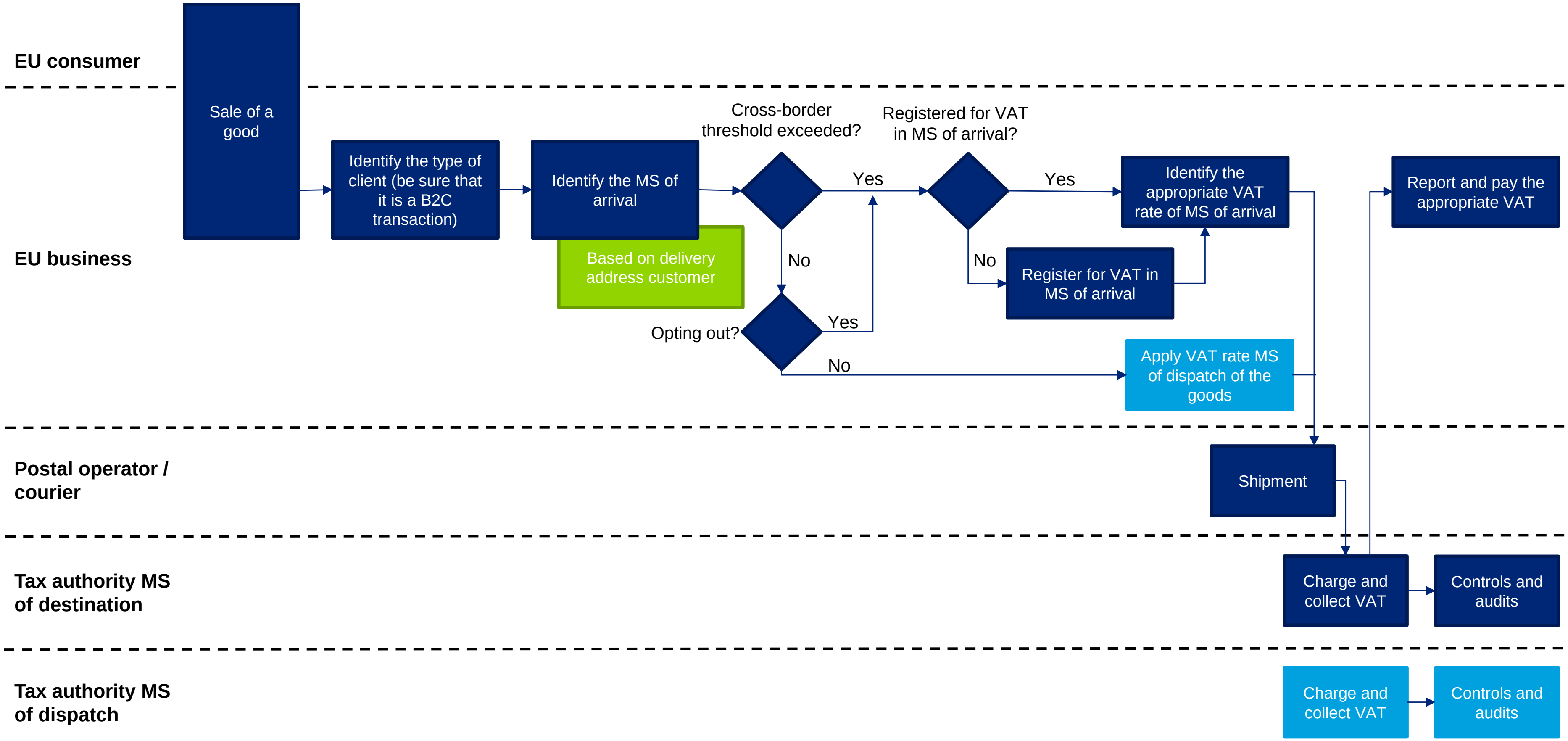
This alternative is relatively simple to implement, as cross-border supplies can be declared for VAT purposes together with domestic supplies, and businesses can deduct inputs VAT directly. On the other hand, under this alternative VAT rate is changed on supplies, which may influence pricing. However, this effect is reduced by the right for businesses to deduct input VAT.

[46] See: http://ec.europa.eu/priorities/digital-single-market/docs/dsm-communication_en.pdf

Process flow

The figure below provides an overview of the process flow related to the alternative (i) for this Policy Option.

Figure 7 – Process flow for Option 3, common VAT threshold, alternative (i)



Source: Deloitte analysis

Second alternative: application of exemption for cross-border sales below the threshold.

Under this alternative, businesses are exempt from VAT for B2C e-Commerce cross-border sales below the exemption threshold (which is set at EUR 5 000 and EUR 10 000 respectively for the purpose of this study). This exemption applies notwithstanding whether the business is VAT registered for their domestic supplies or not.

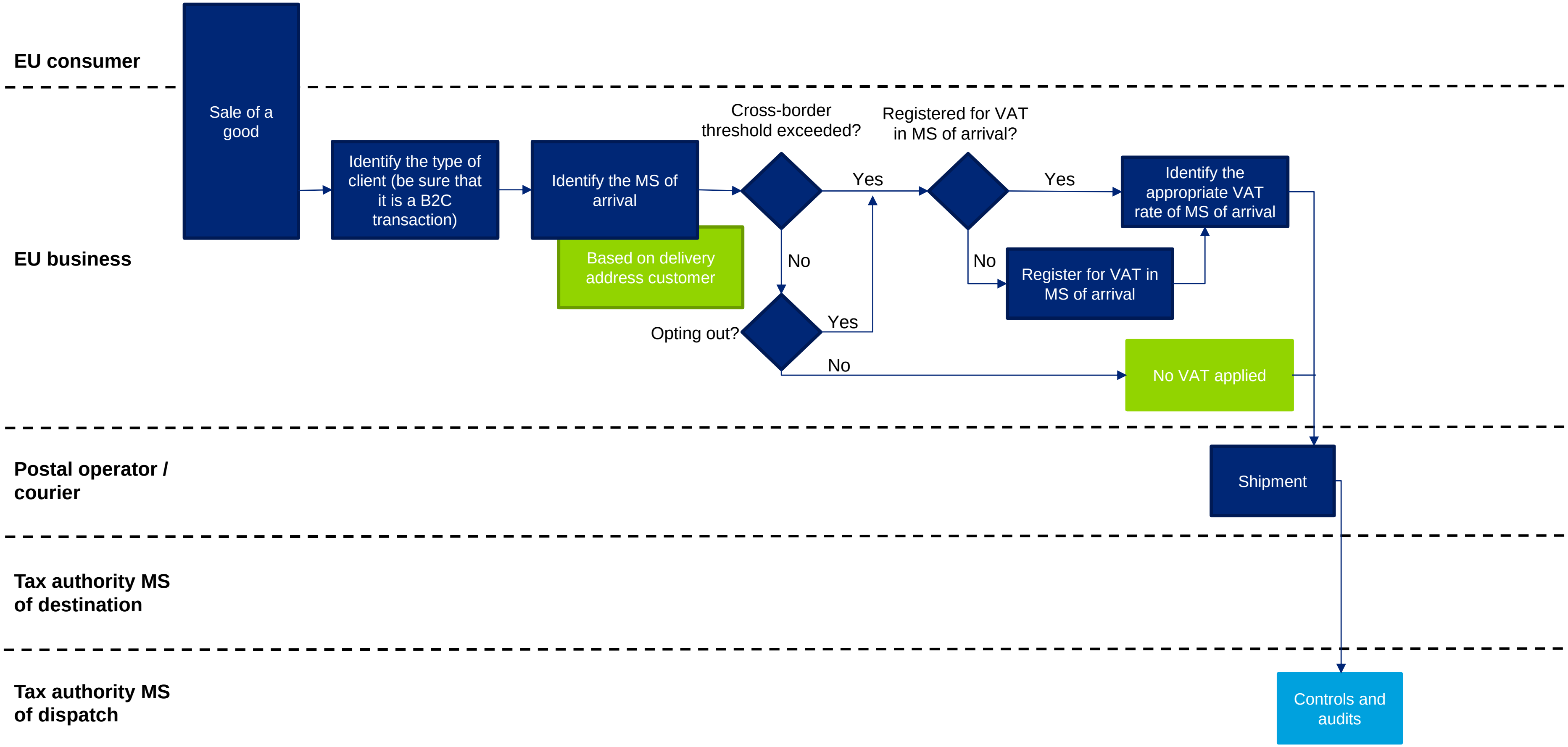
This mechanism will introduce an entirely new exemption threshold for cross-border B2C services. Within the current framework for TBE services (i.e. place of supply rules and MOSS as an accompanying simplification measures, with no exemption threshold), this Option introduces a simplification to businesses with limited cross-border sales as they are not required to register and declare VAT in other Member States, however the impact of this simplification is reduced by the new burden of having to monitor the threshold.

This alternative is more complex to implement, as when VAT registered, the cross-border supplies need to be declared separately, and businesses cannot deduct input VAT directly linked to these supplies. Conversely, the absence of VAT on outputs may lead to lower consumers' prices, even though this benefit is reduced by non-deductible input VAT costs.

Process flow

The figure below provides an overview of the process flow related to the alternative (ii) for this Policy Option.

Figure 8 – Process flow for Option 3, common VAT threshold, alternative (ii)



Source: Deloitte analysis

4.4.2 Roles and responsibilities of the stakeholders

Member States

Monitoring the new threshold is the responsibility of businesses. However, Member States are responsible for controlling and auditing the compliance with the threshold as part of their general control procedures.

Businesses

This Option is not mandatory and so businesses may still apply the general rules to sales below the threshold. However, the changes have the ability to particularly impact micro-businesses and e-Commerce start-ups since they are likely to have limited cross-border sales and could benefit from the exemption. If applying this Option, EU businesses need to:

- Monitor and keep records on their cross-border B2C sales of goods and services;
- Closely monitor the threshold, which requires:
  - Checking whether the supply is a cross border supply of goods or services for the purposes of the threshold (e.g. goods dispatched to a customer in another MS or services supplied remotely to a customer residing in another MS), using customer declared residence as a basis (a simplification);
  - Identifying the status of the customer (taxable person or non-taxable person), based on customer declaration;
- Declare cross- border sales together with their domestic taxable supplies in the local VAT return (no additional burden), if VAT registered.

Essentially, this new threshold acts as an exemption from VAT to these businesses that are not registered and do not pay VAT and in case of first alternative also to those businesses that are registered and pay VAT domestically. In case of second alternative, they can declare and pay this amount as domestic VAT, although it refers to cross-border sales). As mentioned above, cross-border supplies below the threshold (for monitoring the threshold) will be identified in a simplified way, based on the residence declared by the customer.

Businesses exceeding the threshold (or opting out) need to:

- Identify the status of the customer (taxable person or non-taxable person);
- Identify the residence of the customer, based on two pieces of evidence[47];
- Charge VAT on the supply at the correct VAT rate of the MS of destination (incl. reduced rate if applicable);
- Register for VAT in the MS of destination;
- Declare and pay VAT in MS of destination;
- Apply other relevant rules of the MS of destination – invoicing, chargeability, auditing etc.

Medium-sized and large businesses (especially active in e-Commerce) should not be affected by this Option, as they are generally expected to be above the threshold.

[47] This being an extension of the current requirements for e-services.

There are no differences in the roles and responsibilities depending on whether businesses trade goods, services or a combination of the two, as the threshold applies to all cross-border supplies.

This Option does not modify roles and responsibilities for non-EU businesses.

Postal Operators and Couriers

This Option does not introduce any change in the role and responsibilities of postal operators and couriers.

4.4.3 Analysis of the impacts of Policy Option 3

Impacts on Member States

Impacts on VAT revenues

Introducing a common VAT threshold of either EUR 5 000 or EUR 10 000 of EU cross-border sales below which businesses engaging in cross-border online trade are not required to register for VAT-related obligations in other Member States would partially reduce the effects of Option 2.

The introduction of a common VAT threshold for B2C cross-border e-commerce sales is expected to affect Member States in several ways:

- **VAT revenue**: revenue is in overall terms expected to increase as an effect of the combination of the removal of the distance selling threshold and of the small value exemption, partially counter-balanced by the new common VAT threshold.
  Such additional revenues will benefit mostly the Member States of Consumption with respect to the Status Quo, as the volume of e-Commerce cross-border transactions to be taxed at the VAT rate of the Member State of Consumption will increase (though the size of such increase will likely depend on the level of the threshold – EUR 5 000 or EUR 10 000).
  The distribution of the VAT revenues from cross-border e-Commerce transactions between Member States of Consumption and Member States of Identification will depend on the level of the threshold, as well as on the rules to be applied for transactions below the thresholds. If domestic rules apply (under alternative 1), Member States of Identification will benefit from the VAT revenues from intra-EU cross-border sales. Under alternative 2, cross-border sales under the common EU VAT threshold are exempt from VAT, therefore resulting in a loss of revenue, which may be even bigger if the exemption is applied with the right of input VAT deduction (however, the technical details of how the exemption could work have not been defined yet).
  Under this Option, B2C cross-border e-Commerce imports from third countries will be taxed at the VAT rate of the Member State of Consumption from the first EUR.
  VAT revenues from TBE services are not expected to change significantly with respect to the Status Quo, as Option 3 is not expected to impact much the use of the MOSS systems for those businesses already registered to it. These businesses could have a right to opt out from MOSS, but considering the low level of threshold, it would be a practical choice only for the smallest businesses with no significant growth perspective (at least in short term). Therefore, such threshold is mostly likely to support new businesses such as start-ups, which will be able to test the potential of cross-border markets without incurring in costs for VAT-related obligations before having to register.

- **Volume of audits and Customs controls**: As an effect of the removal of existing thresholds on import and distance sales, counterbalanced by the introduction of the common VAT threshold, businesses will have VAT-related obligations (including registration, submission of returns, etc.) with all the Member States where they have B2C cross-border e-Commerce sales above the new cumulative threshold. This would still potentially lead to an increase in the number of businesses required to register for VAT.

  At present, it is estimated that about one million micro-businesses may be engaged in cross-border e-Commerce. Micro-businesses are estimated to obtain about 2% of their revenues from e-Commerce in general, and an even smaller fraction from cross-border e-Commerce. Therefore, the overwhelming majority of micro-businesses engaged in cross-border B2C e-Commerce will likely to be below the common EU VAT exemption threshold. Therefore the increase of the potential number of audits of EU businesses will be limited.

  As for Option 2, the removal of the small value consignment exemption would lead to a notable increase of the number of parcels to be processed at Customs (small value consignments are estimated to amount to about 70% of the total volume of parcels[48]), with need for additional resources.

Results: common VAT threshold of EUR 5 000

VAT revenues from intra-EU transactions are likely to increase with respect to the Status Quo, as an effect of the removal of distance selling threshold and of the small value exemptions., even if a large share of micro-businesses (about 90%) is likely to be below the threshold, and a notable share of micro-businesses with turnover from cross-border e-Commerce between the common VAT threshold (EUR 5 000) and the compliance cost per Member State (EUR 800) is also estimated to be non-compliant or cease cross-border trade With regard to the VAT revenues from imports, Option 3 does not introduce any change with respect to Option 2. Even in this case, the non-compliance rate is estimated higher than under the status quo, at 65% (same as under Option 2).

Table 21 – Impact of Option 3 on VAT revenues for Member States (threshold at EUR 5 000)

Intra-EU e-Commerce	
VAT revenue below the threshold (EUR billion) (MSI revenue)	0.360
VAT loss due to non-compliance (EUR billion)	5.877
VAT revenue (EUR billion)	3.164
Imports from third countries	
Total volume of parcels below EUR 150	187 288 192
VAT loss due to non-compliance (EUR billion)	0.605
VAT revenue (EUR billion)	0.326

Source: Deloitte analysis

48 See European Commission (2015), ibid.

Results: common VAT threshold of EUR 10 000

When the common VAT threshold is set at EUR 10 000, the impacts on the overall VAT revenues for Member States are minimal, even if a larger share of micro-businesses (estimated of about 97%) is likely to be below the threshold. With regard to the VAT revenues from imports, Option 3 does not introduce any change with respect to Option 2. Even in this case, the non-compliance rate is estimated higher than under the status quo, at 65% (same as under Option 2).

Table 22 – Impact of Option 3 on VAT revenues for Member States (threshold at EUR 10 00)

Intra-EU e-Commerce	
VAT revenue below the threshold (EUR billion) (MSI revenue)	0.380
VAT loss due to non-compliance (EUR billion)	5.851
VAT revenue (EUR billion)	3.150
Imports from third countries	
Total volume of parcels below EUR 150	187 288 192
VAT loss due to non-compliance (EUR billion)	0.605
VAT revenue (EUR billion)	0.326

Source: Deloitte analysis

Impacts on businesses

Expected impacts

Introducing a common VAT threshold of either EUR 5 000 or EUR 10 000 of EU cross-border sales below which businesses engaging in cross-border online trade are not required to register for VAT-related obligations in other Member States would partially reduce the effects of Option 2.

The introduction of the common VAT threshold is expected to affect the **administrative costs for EU businesses**.

As an effect of the removal of the distance selling threshold, businesses will have VAT-related obligations (including registration, submission of returns, etc.) with all the Member States where they have B2C cross-border e-Commerce sales, which are likely to increase their administrative costs. The common VAT threshold mitigates such adverse effects.

While large enterprises are likely to be registered for VAT purposes in many Member States already, small and medium-sized enterprises will be more affected by these obligations. As discussed previously, micro-businesses are expected to be the ones most likely to be affected by this measure, as they are the most likely to have cross-border sales below the distance selling threshold, that would then benefit mostly from the common VAT threshold.

At present, it is estimated that about one million micro-businesses may be engaged in cross-border e-Commerce. Micro-businesses are estimated to obtain about 2% of their revenues from e-Commerce in general, and an even smaller fraction from cross-border e-Commerce. Therefore, the overwhelming majority of micro-businesses engaged in cross-border B2C e-Commerce will likely to be below the common EU VAT exemption threshold. Depending on the value of the common VAT threshold, the percentage of micro-businesses below its value (and thus benefiting from the common VAT threshold) are estimated at about 90% of the total (with the threshold set at EUR 5 000) and of 97% of the total (with the threshold set at EUR 10 000) respectively.

For those businesses above the common VAT threshold, the costs deriving from VAT-related obligations are estimated similar to those estimated under Lot 1, and thus to the costs incurred by those businesses above the distance selling threshold under the Status Quo.

Businesses active in TBE services are not expected to be significantly affected with respect to the Status Quo, although Option 3 common VAT threshold does apply also to these services. These businesses could have a right to opt out from MOSS, but considering the low level of threshold, it would be a practical choice only for the smallest businesses with no significant growth perspective (at least in short term).

As in Option 2, the removal of the small consignment exemption (which is also part of Option 3) is likely to affect mostly small and medium-sized enterprises from third countries. While large enterprises are more likely to have warehouses/be registered for VAT purposes in EU Member States already, small and medium-sized enterprises are more likely to be affected by these obligations (although the small consignment exemption is not specifically benefitting small businesses).

Finally, Postal operators and couriers will have to pass through Customs a larger share of parcels, with possible implications on their processing costs and on timing of the delivery with respect to the status quo (same as under Option 2).

Results: common VAT exemption threshold of EUR 5 000

Our analysis estimates that with a common EU VAT exemption threshold of EUR 5 000 the **overall administrative costs** for businesses active on cross-border e-Commerce of goods will amount to about **EUR 4.554 billion**. This figure represents an increase of 9%% with respect to the Status Quo.

Costs however will likely differ largely between those businesses that benefit from the common VAT threshold, and those whose EU cross-border sales are above the common VAT exemption threshold.

When the common VAT threshold is set at EUR 5 000, businesses benefiting from it (in our estimates, 90% of micro-businesses active in B2C cross-border e-Commerce, or about 398 200 businesses) are not likely to encounter additional administrative costs for VAT-related obligations, as the cross-border sales will be subject to domestic rules (alternative 1) or exempt (alternative2).

With the common VAT threshold set at EUR 5 000, **administrative costs** for businesses with cross-border sales above the threshold are estimated to amount to about EUR 23 600 per company per year or about (on average) EUR 8 000 per company for each Member State they sell cross-border.

Such figure has been estimated considering that all micro-businesses above the common VAT threshold will comply with the VAT-related obligations and thus incur in the related costs. However, data on the distribution of micro-businesses by turnover suggests that almost 7% of micro-businesses that trade cross-border online may have sales to a particular Member State of between EUR 5 000 and EUR 8 000, meaning that they are liable to register for VAT but the costs of doing so exceed their sales in the market. On the assumption that about 50% of these businesses leave the market (or not comply), about 5% of micro-businesses, or 4% of total businesses, would cease to trade online cross-border, representing almost 1% of cross-border e-Commerce turnover.

Therefore such Option leads still to a worsening of the situation with respect to the Status Quo with regard to the administrative burden businesses engaged in cross-border e-Commerce have to sustain, the share of such businesses that will remain in cross-border online trading, as well as on the overall turnover deriving from cross-border e-Commerce.

The **number of businesses** engaged in cross-border e-Commerce is estimated to increase to about 557 908, mostly micro-businesses. Micro-enterprises below the common VAT threshold of EUR 5 000 are estimated to be about 398 200. Under the assumption that only half of the micro-businesses between EUR 5 000 and 8 000 will be compliant, companies above the common VAT threshold are estimated to be about 131 525 (of which 16 061 micro-enterprises above the common VAT threshold and compliant with the VAT-related provisions).

Businesses engaged in cross-border e-Commerce (including SMEs currently active in this area), are likely to incur in costs to modify their internal systems and processes to comply with Member State of consumption VAT rules (e.g. invoicing, chargeability, auditing).

In addition, businesses below the threshold would incur in costs related to monitoring the common VAT threshold.

The costs for businesses providing cross-border TBE services will not change with respect to the Status Quo.

As for Option 2, the removal of the small consignment exemption is likely to affect mostly small and medium-sized enterprises from third countries. While large enterprises are more likely to have warehouses/be registered for VAT purposes in EU Member States already, small and medium-sized enterprises are more likely to be affected by these obligations (although the small consignment exemption is not specifically benefitting small businesses).

Non-EU businesses will benefit from a clearer legislative framework legislative code applying throughout the EU with respect to the Status Quo.

Finally, as mentioned earlier, postal operators and couriers are likely to pass through Customs a larger share of parcels, with possible implications on processing costs and on timing of the delivery. Processing costs are likely to increase, and to become closer to those of parcels between EUR 10-22 and EUR 150, that a recent study estimated of EUR 8.96 per parcel[49].

The table below provides an overview of the volume of small consignment parcels, their corresponding values and processing costs for operators under the different e-Commerce growth scenarios.

Table 23 – Impact of Option 3 on small value consignments processing costs

	Volume	Value (EUR million)	Processing costs (operators) (EUR billion)
Medium growth	144 067 840.00	2 968	1.291

Source: Deloitte analysis

[49] European Commission (2015), Assessment of the application and impact of the VAT exemption for importation of small consignments, ibid.

Results: common VAT threshold of EUR 10 000

Our analysis estimates that with a common EU VAT exemption threshold of EUR 10 000 **overall administrative costs** for businesses active on cross-border e-Commerce with will amount to **EUR 4.451**. This figure represents an increase of 7% with respect to the Status Quo for goods.

Costs however will likely differ largely between those businesses that benefit from the common EU VAT threshold, and those whose EU cross-border sales are above the common EU VAT exemption threshold.

When the common EU VAT exemption threshold is set at EUR 10 000, businesses benefiting from it (in our estimates, 97% of micro-businesses active in B2C cross-border e-Commerce, or about 429 171 businesses) are not likely to encounter additional administrative costs for VAT-related obligations, as the cross-border sales will be subject to domestic rules.

With the common EU VAT exemption threshold set at EUR 10 000, administrative costs for businesses with cross-border sales above the threshold are estimated to amount to about EUR 23 600 per company per year or about (on average) 7 863 EUR per company for each Member State they sell cross-border.

Such figure has been estimated considering that all micro-businesses above the common EU VAT exemption threshold will comply with the VAT-related obligations and thus incur in the related costs, as their turnover from cross-border e-Commerce sales exceeds the compliance costs per Member State..

In this case, the registration threshold of EUR 10 000 exceeds the average administrative cost associated with registration (which has been estimated of about EUR 7 865). While there will be some variation in the administrative costs faced by firms and in the profitability of cross-border trade, there is less likely to be significant exit from the market (although some businesses may aim to reduce their sales in certain markets or increase sales in others).

The **number of businesses** engaged in cross-border e-Commerce is estimated to increase to about 557 908, mostly micro-businesses. Micro-enterprises below the common EU VAT exemption threshold of EUR 10 000 are estimated to be about 429 171. Companies above such threshold are estimated to be about 129 737 (of which 13 273 micro-enterprises).

As for the common EU VAT exemption threshold of EUR 5 000, businesses engaged in cross-border e-Commerce (including SMEs currently active in this area), are likely to incur in costs to modify their internal systems and processes to comply with MSC VAT rules (e.g. invoicing, chargeability, auditing), with respect to the Status Quo.

In addition, businesses below the threshold would incur in costs related to monitoring the common EU VAT exemption threshold.

Non-EU businesses will benefit from a clearer legislative framework legislative code applying throughout the EU with respect to the Status Quo.

Finally, as mentioned earlier, postal operators and couriers are likely to pass through Customs a larger share of parcels, with possible implications on processing costs and on timing of the delivery.

Processing costs are likely to increase, and to become closer to those of parcels between EUR 10-22 and EUR 150, that a recent study estimated of EUR 8.96 per parcel[50].

Table 23 in the previous sub-section provides an overview of the volume of small consignment parcels and, their corresponding values and processing costs for operators.

Impacts on the market for e-Commerce in the European Union

Expected impacts

Introducing EU-wide common VAT thresholds of either EUR 5 000 or EUR 10 000 at which businesses engaging in cross-border online trade are required to register could mitigate the negative impacts associated with Option 2.

- **Fixed administrative costs:** although the number of businesses required to register for VAT would increase relative to the status quo, compared to Option 2 the introduction of registration thresholds may reduce the overall administrative burden. As with Option 2, this would depend on whether microbusinesses with sales above the registration threshold choose to register or not (i.e. not comply or exit the market).
  As the SCM analysis shows, were all businesses with sales over the registration threshold of EUR 5 000 to register, the overall administrative burden associated with online trade in goods would increase by about 15% relative to Option 2, or by 63% relative to the status quo. However, since the registration threshold remains lower than the estimated administrative burden, some non-compliance or market exit would be expected in this case.
  In contrast, the registration threshold of EUR 10 000 exceeds the estimated cost associated with VAT compliance and therefore businesses will have less of an incentive not to comply. Moreover, some businesses that registered under Option 2 would now be exempt, reducing the overall administrative burden.
  To the extent that these administrative costs are passed on to consumers through changes in prices, a decrease in the administrative burden would be expected to stimulate online trade.

- **Variable administrative costs:** this effect would be the same as under Option 2, with the removal of the small consignments exemption on imports increasing the variable costs associated with non-EU cross-border e-Commerce. As in that case, this would be expected to reduce demand for non-EU exports, but EU businesses may benefit as their goods become relatively less expensive. Likewise, the effect on average VAT rates is the same as under Option 2.

- **Supply of cross-border e-Commerce:** the introduction of an EU-wide common VAT threshold would enable the smallest micro-businesses to continue to engage in cross-border online trade without incurring large administrative costs. Such firms therefore would no longer have an incentive to exit the market, mitigating any adverse impacts on the supply of e-Commerce.

[50] European Commission (2015), Assessment of the application and impact of the VAT exemption for importation of small consignments, ibid.

> However, there may still be businesses for which the costs of compliance exceed the value of trading cross-border. Of the 15% of micro-businesses that are estimated to be required to register if the threshold is set at EUR 5 000 (and which contribute about 0.6% of total cross-border e-Commerce revenues), a significant proportion may be better off leaving the market or being non-compliant than incurring administrative costs of almost EUR 8 000. Therefore some market exit or non-compliance is expected. Increasing the threshold to EUR 10 000 will mitigate this effect.

This reduction in the supply of cross-border e-Commerce would tend to increase prices in this market and reduce consumption, although the effect may be offset by increases in supply from other firms. The increase in domestic supply may also support growth in this market

Results: common VAT threshold of EUR 5 000

Figure 12 shows the resulting estimated impacts on the volume of e-Commerce in the EU, both in percentage terms and absolute terms (millions of transactions). As these figures show, Option 3 (with a EUR 5,000 threshold) is expected to have a negative impact on e-Commerce volumes relative to the status quo. However, by reducing the likelihood of smaller businesses being deterred from trading cross-border due to the administrative burden it substantially mitigates the negative impacts on cross-border e-Commerce associated with Option 2.

Table 24 - Impact of Option 3 (threshold of EUR 5 000) on EU e-Commerce volumes, 2020 (million transaction, %)

	Estimated impact
Total e-Commerce	-154
	-0.5%
Cross-border e-Commerce	-216
	-3.7%
EU Cross-border e-Commerce	-16
	-0.4%
Non-EU Cross-border e-Commerce	-200
	-9.3%

Source: Deloitte analysis

This negative impact on the volumes of online trade is associated with an increase in the prices faced by consumers buying online. In particular, the removal of the small consignments exemption leads to a significant increase in the prices of non-EU imports, which are also expected to see the greatest fall in demand.

Table 25 - Impact of Option 3 (threshold of EUR 5 000) on EU e-Commerce prices, 2020

	Estimated impact
Total e-Commerce	0.84%
Cross-border e-Commerce	2.39%
EU Cross-border e-Commerce	0.77%
Non-EU Cross-border e-Commerce	5.71%

Source: Deloitte analysis

The predicted impacts on different e-Commerce markets are discussed in more detail below:

- The removal of the small consignments exemption is expected to both increase the administrative costs associated with non-EU imports and increase the average VAT rate on these imports. As a result, the price of non-EU imports may increase by about 5.7%. The estimates suggest that this would lead to a fall in the volume of non-EU online imports of around 9.3% as consumers substitute towards domestic or EU suppliers, or to offline purchases.
- The application of the common VAT threshold at an EU-wide level of EUR 5 000 is predicted to have a negative effect on EU cross-border e-Commerce through two channels: it increases the number of businesses incurring administrative costs, increasing the overall burden, and may cause some micro-businesses to cease trading cross-border. As a result of the increase in the administrative burden, prices of EU cross-border goods may increase by 0.8%, with volumes decreasing by about 0.4%.
- The overall effect on cross-border e-Commerce is to decrease volumes by 3.7%, with the vast majority of this reduction coming from non-EU imports.
- The negative impacts on cross-border e-Commerce volumes are expected to be partially offset by increases in domestic online trade. This occurs because domestic online purchases become relatively less expensive than cross-border purchases (particularly from outside the EU) and because businesses deterred from selling cross-border may instead increase their supply to their domestic market. Nonetheless, the net effect on e-Commerce in the EU is estimated to be negative.

As a consequence of these changes in the volumes and prices of e-Commerce, the total value of the market is expected to increase slightly, as shown in the table. These figures show that the impact on the value of e-Commerce trade is generally less negative than the impact on e-Commerce volumes. However, this increase in the value of e-Commerce sales is largely due to an increase in the prices faced by consumers, so should not be interpreted as a mitigating factor.

Table 26 – Impact of Option 3 (EUR 5 000 threshold) on value of EU e-Commerce, 2020 (EUR billions)

	Estimated impact
Total e-Commerce	3.5
	0.3%
Cross-border e-Commerce	-1.7
	-0.9%
EU Cross-border e-Commerce	0.5
	0.3%
Non-EU Cross-border e-Commerce	-2.2
	-4.2%

Source: Deloitte analysis

Results: common VAT threshold of EUR 10 000

Table 27 shows the resulting impacts on the volume of e-Commerce in the EU, both in percentage terms and absolute terms (millions of transactions).

As above, this Option mitigates the negative impacts on cross-border e-Commerce seen under Option 2 and raising the threshold from EUR 5 000 to EUR 10 000 also has a positive impact on cross-border e-Commerce. However, relative to the status quo this Option is expected to have a negative impact on the EU e-Commerce market.

Table 27 – Impact of Option 3 (EUR 10000 threshold) on EU e-Commerce volume, 2020 (million transactions, %)

	Estimated impact
Total e-Commerce	-163
	-0.6%
Cross-border e-Commerce	-203
	-3.5%
EU Cross-border e-Commerce	-5.3
	-0.1%
Non-EU Cross-border e-Commerce	-198
	-9.2%

Source: Deloitte analysis

The change in transactions volumes is reinforced by a change in the prices of online goods and services as increased administrative costs are passed on to consumers. As above, it is the removal of the small consignments exemption that is estimated to have the greatest impact on the prices of non-EU online imports; this may also have an indirect impact on prices if it reduces competitive pressure on EU businesses (see Table 28).

Table 28 – Impact of Option 3 (EUR 10000 threshold) on EU e-Commerce prices, 2020

	Estimated impact
Total e-Commerce	0.90%
Cross-border e-Commerce	2.33%
EU Cross-border e-Commerce	0.68%
Non-EU Cross-border e-Commerce	5.71%

Source: Deloitte analysis

The impacts on different e-Commerce markets are discussed in more detail below:

- Changing the registration threshold does not affect non-EU suppliers, who still face an increase in administrative costs and in the VAT rate payable. This is expected to lead to a decrease in non-EU imports of 9.2%.
- The EU cross-border e-Commerce market is negatively affected by the policy change as more businesses are required to incur administrative costs. However, raising the threshold to EUR 10 000 mitigates this effect and reduces the risk of firms exiting the cross-border market. As a result, despite an increase in prices of about 0.7% volumes are only expected to fall by 0.1%.
- These negative impacts on cross-border trade are partially offset by an increase in domestic online sales as some businesses divert sales to their domestic market rather than selling

online. The domestic market also benefits from becoming relatively less expensive compared to the cross-border market. On balance, however, the overall effect on e-Commerce volumes is expected to be negative, while prices are estimated to rise.

As a consequence of the increases in the price level, the overall value of e-Commerce sales may increase under this Policy Option, despite the decrease in volumes. However, this would nonetheless represent a decrease in consumer surplus.

Table 29 – Impact of Option 3 (EUR 10000 threshold) on the value of EU e-Commerce, 2020 (EUR billions)

	Estimated impact
Total e-Commerce	3.9
	0.3%
Cross-border e-Commerce	-1.4
	-0.7%
EU Cross-border e-Commerce	0.7
	0.5%
Non-EU Cross-border e-Commerce	-2.1
	-4.1%

Source: Deloitte analysis

Along with these impacts on the e-Commerce market, the removal of the small consignment exemption and the elimination of registration thresholds are also expected to have wider economic impacts:

- Labour productivity across the retail sector is expected to decrease by about 0.02% as the increased compliance burden means that more workers are assigned to unproductive administrative tasks. However, this effect is lower than under Option 2, and the magnitude decreases with the increase in the registration threshold.
- Employment in the retail sector is expected to fall slightly overall: while the increased compliance burden means that more workers will be assigned to administrative tasks the overall fall in e-Commerce values may decrease hiring for other tasks.
- The removal of the small consignment exemption will increase the prices of online imports and reduce demand for these goods and services, suggesting a competitive advantage for EU businesses. However, it is expected to be domestic firms rather than businesses in other Member States that benefit most from this.

Impacts on compliance

Option 3 impact on compliance includes the impact of the Option 2. Therefore the Option is expected to increase the level of non-compliance, especially in relation to businesses currently trading below the distance sales threshold. As in Option 2, the Option would also increase non-compliance on low value import due to the increase in the volume of parcels subject to VAT.

Alternative 1 (application of domestic rules to cross-border sales) is likely to have a limited impact on compliance and fraud in terms of the amount of VAT involved. However, the change is aimed to support the smallest businesses (or larger businesses with limited cross border sales) to trade compliantly, when trading below the threshold. Therefore it is expected to significantly improve the compliance of the impacted businesses supplying TBE services (currently no threshold). There would be minimal impact on compliance for businesses trading in goods, as the existing distance sales thresholds are significantly higher than the new threshold. This alternative would introduce a compliance risk of under-declaration of cross-border sales in order to remain below the threshold.

4.4.4 Key findings

Option 3 removes the existing small consignment exemption and distance selling thresholds, but introduces a new type of cross-border common VAT threshold. The Option consists of two alternatives for the VAT treatment of cross-border supplies below threshold, namely application of domestic rules of the Member state of identification (alternative 1) or VAT exemption (alternative 2) . It impacts all stakeholders, particularly micro-businesses and e-Commerce start-ups.

Impacts on Member States

The table below provides an overview of the impacts on Member States assessed for this Option.

Table 30 – Overview of impacts on Member States for Option 3

Member States	VAT revenues	
EU cross-border e-Commerce	**Threshold of EUR 5 000 (EUR billion)**	**Threshold of EUR 10 000 (EUR billion)**
VAT revenues below the threshold (MSI)	0.360	0.380
VAT loss due to non-compliance	5.877	5.851
VAT revenue (MSC)	3.164	3.150
Imports from third countries		
Total volume of parcels below EUR 150	187 288 192	
VAT loss due to non-compliance (EUR billion)	0.605	
VAT revenue (EUR billion)	0.326	

Source: Deloitte analysis

For Member States, the VAT revenue corresponding to the cross-border transactions below the common EU VAT exemption threshold set at EUR 5 000 is estimated at about EUR 360 million. With the common VAT threshold at EUR 10 000, the VAT revenue below the threshold is about EUR 380 million. Transactions below the common VAT threshold will be taxed using home country rules, therefore the Member States of Identification will benefit from such revenues.

Impacts on businesses

The table below provides an overview of the main impacts on businesses assessed for this Option, for

Table 31 – Overview of administrative costs for Option 3

	Threshold at EUR 5 000		
Administrative burden	Goods	Services	Goods and services
Total (EUR billion)	3.117	1.437	4.554
per company (EU businesses) (EUR)	0 – (below the threshold) 23 590 (above the threshold	2 172 (MOSS registered) 23 601 (non registered for MOSS)	0 – (below the threshold) 23 590 (above the threshold 2 172 (MOSS registered) 23 601 (non registered for MOSS
per company per Member State (EUR)	0 – (below the threshold) 7 863 (above the threshold	434 (MOSS registered) 5 203 (non registered for MOSS)	0 – (below the threshold) 7 863 (above the threshold 434 (MOSS registered) 5 203 (non registered for MOSS
No of companies	426 383 (below the threshold/non compliant) 131 525 (above the threshold)	10 604 (MOSS registered) 33 970 (non registered for MOSS)	426 383 (below the threshold/non compliant) 131 525 (above the threshold 10 604 (MOSS registered) 33 970 (non registered for MOSS

	Threshold at EUR 10 000		
Administrative burden	Goods	Services	Goods and services
Total (EUR billion)	3.037	1.437	4.451
per company (EU businesses) (EUR)	0 – (below the threshold) 23 590 (above the threshold	2 172 (MOSS registered) 23 601 (non registered for MOSS)	0 – (below the threshold) 23 590 (above the threshold 2 172 (MOSS registered) 23 601 (non registered for MOSS
per company per Member State (EUR)	0 – (below the threshold) 7 863 (above the threshold)	434 (MOSS registered) 5 203 (non registered for MOSS)	0 – (below the threshold) 7 863 (above the threshold) 434 (MOSS registered) 5 203 (non registered for MOSS)
No of companies	429 171 (below the threshold) 129 737 (above the threshold)	10 604 (MOSS registered) 33 969 (non registered for MOSS)	429 171 (below the threshold) 129 737 (above the threshold) 10 604 (MOSS registered) 33 969 (non registered for MOSS)

Source: Deloitte analysis

If the threshold is set at **EUR 5 000**, it is estimated that administrative costs for business would increase by approximately 9% in comparison to the status quo. If the threshold is set at **EUR 10 000** the costs is expected to increase by 7%. In both cases, EU businesses will benefit from a clearer legislative framework legislative applying throughout the EU.

Also in both cases, postal operators and couriers are likely to experience higher processing costs because of a higher volume of parcels to pass through Customs. It is expected that with an increase in volume and value, processing costs for operators would amount to approximately EUR 1 291 billion.

In the case of Option 3, we estimated that 90% of micro-businesses (or 398 200 businesses) will be below the common VAT threshold (set at EUR 5 000). Similarly, businesses with a turnover from cross-border e-Commerce between EUR 5 000 and EUR 8 000 have little incentive to comply with VAT-related obligations, as the related costs exceed the turnover. Under the conservative assumption that half of those businesses will decide to comply, the total number of businesses engaged in cross-border e-Commerce under Option 3 with the threshold set at EUR 5 000 are estimated to be about 131 525. With the common VAT threshold of EUR 10 000, 97% of micro-businesses are estimated to be below such threshold; the remaining 3% is estimated to be compliant with VAT-related obligations, as the related costs are lower than the turnover from cross-border e-Commerce. Under this alternative, 129 737 businesses are estimated to be engaged in cross-border e-Commerce.

The first alternative (application of domestic rules) is relatively simple to implement, as cross-border supplies can be declared for VAT purposes together with domestic supplies, and businesses can deduct inputs VAT directly. On the other hand, under this alternative VAT is changed on supplies, which may influence pricing. However, this effect is reduced by the right for businesses to deduct input VAT.

The second alternative (exemption from VAT of cross-border supplies below the common VAT exemption threshold) is more complex to implement, as cross-border supplies need to be declared separately (when business is domestically registered for VAT). Conversely, the absence of VAT on outputs may lead to lower consumers' prices, even though this benefit is reduced by non-deductible VAT costs. This alternative can lead to potential (while limited) distortions of cross-border competition, more than the first alternative.

Impacts on the market for e-Commerce in the European Union

The table below provides an overview of the key economic impacts assessed for this Option.

Table 32 – Overview of economic impacts for Option 3

	Total e-Commerce	Cross-border e-Commerce	EU cross-border e-Commerce	Non-EU cross-border
EU e-Commerce volume				
Threshold of EUR 5 000				
Millions of transactions	-154	-216	-16	-200
%	-0.5%	-3.7%	-0.4%	-9.3%
Threshold of EUR 10 000				
Millions of transactions	-163	-203	-5.3	-198
%	-0.6%	-3.5%	-0.1%	-9.2%
EU e-Commerce prices				
Threshold of EUR 5 000				
%	0.84%	2.39%	0.77%	5.71%
Threshold of EUR 10 000				
%	0.9%	2.33%	0.68%	5.71%
e-Commerce value				
Threshold of EUR 5 000				
EUR billions	3.5	-1.7	0.5	-2.2
%	0.3%	-0.9%	0.3%	-4.2%
Threshold of EUR 10 000				
EUR billions	3.9	-1.4	0.7	-2.1
%	0.3%	-0.7%	0.5%	-4.1%

Source: Deloitte analysis

Regarding the impacts on competition and growth, this Options likely to result in a decrease in e-Commerce sales because of the burden to register for SME's exceeding the EUR 5 000 threshold. Increasing the threshold to EUR 10 000 would have less negative effects than the lower threshold but is still likely to adversely affect e-Commerce sales. Such adverse effects concern both e-Commerce in general and intra-EU e-Commerce, whose volumes are expected to decrease of 0.4% in the case of the EUR 5 000 threshold and of 0.1% with the EUR 10 000 threshold. Similarly, prices are expected to increase of 0.77% and 0.68% for intra-EU e-Commerce with the EUR 5 000 and EUR 10 000 threshold respectively.

At a broader economic level, there is likely to be a negative impact on cross-border e-Commerce because the average price of imports will increase leading to a fall in the volume of transactions and the removal of thresholds may lead to smaller firms exiting the market.

Impacts on compliance

Option 3 impact on compliance includes the impact of the Option 2. Therefore the Option is expected to increase the level of non-compliance, especially in relation to businesses currently trading below the distance sales threshold. As in Option 2, the Option would also increase non-compliance on low value import due to the increase in the volume of parcels subject to VAT.

The application of domestic rules for cross-border sales below the threshold is likely to have an overall limited impact on compliance and fraud. The change is aimed to support the smallest businesses (or larger businesses with limited cross border sales). It would introduce a compliance risk of under-declaration of cross-border sales in order to remain below the threshold.

4.5 Policy Option 4: Option 3 plus Single Electronic Mechanism applying to intra-EU supplies of goods and services and to the import of all goods under the Customs threshold of EUR 150[51]

Option 4 builds on Option 3 and therefore contains the removal of existing thresholds for distance sales and small consignment exemption and the introduction of a new cross-border exemption threshold. Option4 will introduce an additional simplification measure – a **single electronic registration and payment mechanism (SEM),** which would be applicable to:

- Importation of low value goods up to the existing Customs threshold of EUR150;
- Intra-EU B2C supplies of goods; and
- Intra-EU B2C services not currently covered by the MOSS (e.g. locally taxed services provided by non-resident supplier).

Under Option 4, both the distance selling threshold and the VAT exemption for the importation of small consignments are removed. This Option has a common VAT threshold for business (set at EUR 5 000 and 10 000). Supplies below the threshold can either be treated under domestic rules (alternative 1) or being exempt from VAT (alternative 2). Businesses have the Option to register for the single electronic registration and payment mechanism, to declare cross-border transactions, similar to the current functioning of the MOSS. The SEM applies also to imports of goods from third countries. The Option also introduces simplified procedures for imports not processed via the SEM. The Option also introduces a collection fee for the Member State of Identification set at 0, 10%, 20% or 30%. With regard to audit, the rules of the Member State of consumption apply, so that businesses are subject to (potentially) up to 28 sets of rules.

In this section, we only present the results of the analysis with the use of domestic rules for supplies below the common VAT threshold set at EUR 10 000. The sub-Option introducing a VAT exemption is analysed in section 5 (for both thresholds). Similarly, the analysis of the VAT revenues for Member States under the different revenue collection fees is presented in section 5.

We will describe the implication of Option 4 for intra-EU trade and for imports separately, in section 4.5.1 and section 4.5.2 respectively.

4.5.1 Intra-EU VAT simplifications

Structure and aim

Option 4 adds to the general framework elaborated by Option 2 and 3. In addition to the small consignment exemption, the removal of thresholds distance sales threshold and the introduction of a new cross-border exemption threshold for EU micro-enterprise, Option4 introduces a single electronic

[51] With three Options offered to business on import: supplier registration, intermediary registration or simplified Customs declaration.

registration and payment mechanism (SEM) applicable to intra-EU supplies of goods and non-TBE services (i.e. those services not currently covered by the MOSS, such as locally taxed services provided by non-resident supplier).

This simplification measure will be Optional (i.e. businesses do not have any obligation to register and use the SEM).

Under this Option, all intra-EU cross-border B2C sales of goods will be taxed in the MS of destination (at the VAT rate applicable in that MS – whether it is a standard or reduced VAT rate, or exemption) notwithstanding the value of supply or the extent of sales by the supplier in that MS (as in Option 2), with the exception of sales below the threshold for micro-enterprises i.e. cross-border e-Commerce sales below EUR 5 000 or 10 000 (as in Option 3) for those businesses who opt for this regime.

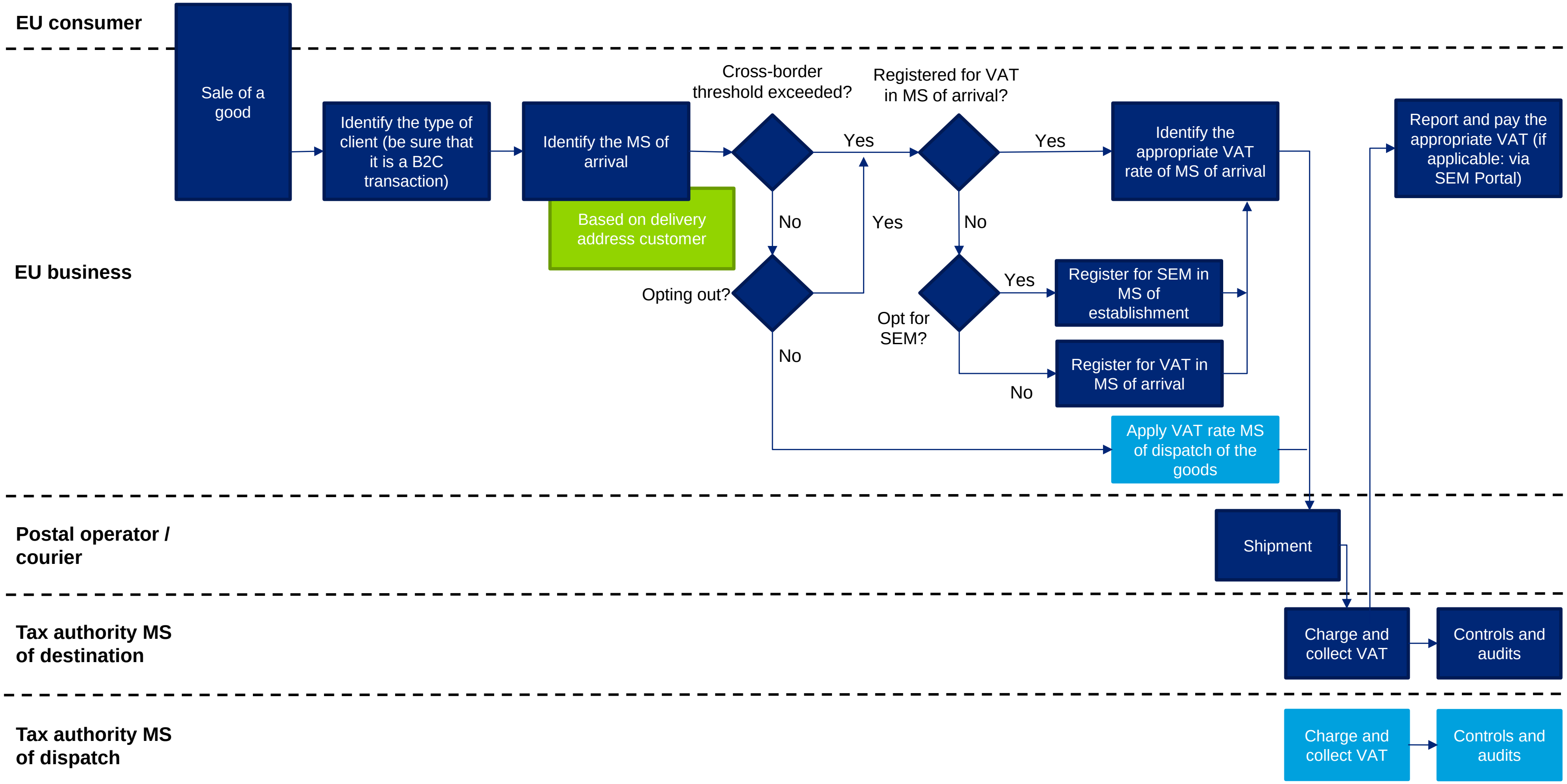
Under this Option, the SEM is structured as the existing MOSS. This Policy Option directly links with the following specific objectives:

- Minimising burdens attached to cross-border e-Commerce arising from different VAT regimes, as it supports the simplification of the legislative framework (with the removal of the distance sales threshold) with accompanying measures that make it easier for businesses to comply with VAT-related obligations;
- Providing a level playing field for EU businesses involved in cross-border e-Commerce, as the SEM will be implemented uniformly in all Member States;
- Facilitating the monitoring of compliance and the fight against fraud for Member States authorities, as the compliance with the legislative framework and obligations will be easier;
- Ensuring that VAT revenues accrue to the Member States of the consumer, as the principle of taxation at destination is applied, and the support measures introduced make it easier for Member States to monitor the correct application of the rules.

Process flow

The figure below provides an overview of the process flow related to this Policy Option.

Figure 9 – Process flow for Option 4, intra-EU VAT simplification



Source: Deloitte analysis

Roles and responsibilities of the stakeholders

Member States

All EU Member States will have to upgrade/adapt their current MOSS system so as to include the additional transactions to be included in the SEM, maintain and promote the use of the SEM (similar to what has been done for the MOSS), which includes the IT-related costs, but also (possibly) internal process re-engineering, promotion and dissemination campaigns, etc.

In addition, Member States of Consumption will have responsibility for controlling and auditing businesses for the share of their e-Commerce cross-border B2C sales to resident customers. Member States of Identification will be responsible for controlling and auditing businesses for the share of their B2C e-Commerce trade to domestic customers.

Member States of Identification will retain a share of the VAT collected through their SEM as compensation for collection costs (in section the effects of such collection fee being set at 10%, 20% and 30% of the VAT collected via the SEM is set out).

Businesses

This Option does not modify roles and responsibilities for non-EU businesses. However, it modifies the process for EU businesses engaged in cross-border e-Commerce should they opt to register and account for VAT through the SEM in respect of the VAT on their intra EU cross border B2C supplies of goods and services.

As mentioned before, the SEM will be structured as the existing MOSS, therefore the supplier opting for using the SEM will have to:

- Register for SEM in the MS where they are established (or in the selected MS if not established in the EU), (MS of identification, MSI);
- SEM can be applied only in respect of the supplies to MS where the supplier is not yet registered for VAT;
- Relevant supplies are declared quarterly via the SEM portal in the MSI;
- Single VAT payment is made, based on the quarterly return, to the MSI, which will distribute the payment to the MS of destination (MSC);
- Input VAT deductions are not included in SEM;
- Supplier needs to apply the rules of the MSC to the respective supplies (including invoicing, chargeability, evidence, auditing, penalties etc.).

There are no substantial differences in the roles and responsibilities depending on the size of the businesses (as the same regime applies with no distinctions) or whether businesses trade goods, services or a combination of the two.

However, given the burden of complying with VAT-related obligations for cross-border B2C e-Commerce under the current regimes (status quo – Option 1), we can expect that the removal of some obligations (such as VAT registration) will especially benefit small and medium-sized enterprises, which might not have the resources to deal with such obligations.

In addition, large companies (which are registered for VAT purposes in many Member States already) will be probably less likely to use the SEM, as the local registration regime presents important advantages (such as input VAT deductions). Of course, large businesses who are registered in some

Member States can still register for SEM regarding sales to those countries where they are not registered.

Postal Operators and Couriers

This Option does not introduce any change in the role and responsibilities of postal operators and couriers.

4.5.2 VAT on Import simplifications

Structure and aim

Option 4 adds to the general framework elaborated by Option 2 and 3 (i.e. removal of distance sales threshold and small consignment exemption and the introduction of a new cross-border exemption threshold for EU micro-enterprises), by introducing a single electronic registration and payment mechanism (SEM).

The SEM will also provide optional alternative Customs simplifications for B2C imports under the Customs threshold of EUR 150, under the following three alternatives:

- vendor registration and collection with reporting through the SEM (i);
- third party collection (postal operator/courier, marketplace) with reporting through the SEM (ii);
- simplified standard Customs procedure *without* reporting through the SEM when reporting an import at the standard VAT rate (iii).

The application of the new SEM system to import needs to take into account the existing Customs and VAT legislation, especially regarding the obligations in the MS of import and in the MS of SEM identification.

Regardless of the actual alternative applied, this part of Option 4 links directly with the following general objectives:

- Minimising the burdens attached to cross-border e-Commerce arising from different VAT regimes, as it supports the removal of the small consignment exemption with accompanying measures that make it easier for businesses to comply with VAT-related obligations;
- Providing a level playing field for EU businesses involved in cross-border e-Commerce, as it removes the potential distortion between the EU and non-EU traders, where today the EU traders need to apply VAT on intra-EU supplies, but non-EU traders can exempt the imports of low value supplies;
- Facilitating the fight against fraud for Member States' authorities and ensuring that VAT revenues accrue for the Member State of consumption, as it has the potential to reduce avoidance of VAT by undervaluation and incorrect labelling of the goods (used to benefit from the exemption), or split imports, which may have additional positive impact on Governments' revenue.

The potentially alternative modalities are further described below. The alternative Customs simplifications provide businesses with a choice between the procedures to be applied on the B2C import.

Note that this Option does not exclude any procedures that may be implemented by Customs authorities for safety and security reasons.

(i) First alternative - Supplier registration and collection

This method is similar to the e-service suppliers from third countries. It will apply (on a voluntary basis) to non-EU vendors or EU vendors importing directly to customers where the customer is the consignee of e-Commerce goods (with a value below EUR 150). All supplies above the threshold will follow the standard import procedure (including possibility to apply existing simplifications).

The vendor/supplier can use the SEM VAT registration (to a single web-portal in an EU MS of its choice - Member State of Identification, henceforth MSI) and simplified VAT compliance including declaring and paying VAT due for a given reporting period. The registered vendor will report and pay the VAT at the end of the reporting period on the total sales (not per transaction) to the tax authorities where registered (MSI).

The VAT will be paid at time of sale by the consumer/buyer to the vendor located outside the EU with the VAT rate applicable in the MS of consumption.

Redistribution of funds to all MS of importation will be made by MS of registration (MSI), which will withhold a share of the VAT revenue as collection fee (set at 0, 10%, 20% or 30% for the purpose of the assignment)

The SEM cannot be used for input VAT refunds, if any.

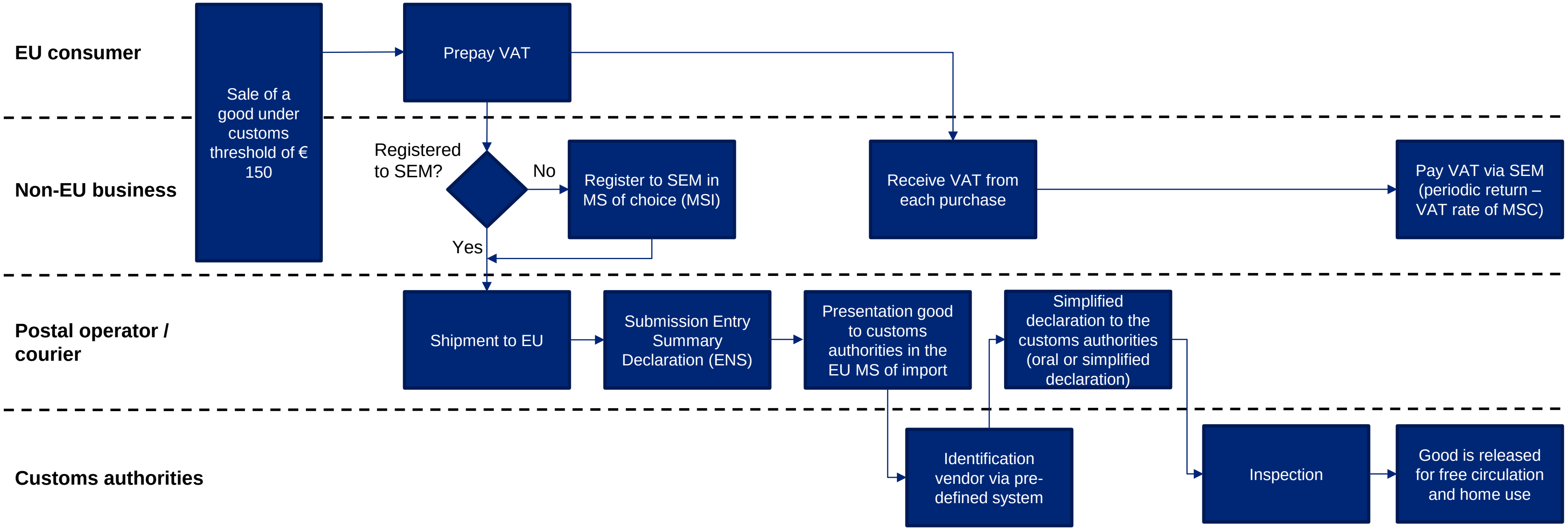
A simplified Customs procedure will be used for the import of goods:

- Identification of vendor via a pre-defined system (e.g. barcodes, VAT-prepaid stickers, Q-scan, account number, VAT registration number etc.)
- Allowing a fast track declaration in Customs (CN 22 or equivalent, no other declaration for VAT and Customs purposes, no payment at Customs).

Process flow

The figure below provides an overview of the process flow related to this Policy Option.

Figure 10 – Process flow for Option 4, VAT on import simplification, alternative (i)



Source: Deloitte analysis

(ii) Second alternative - Intermediary registration (postal operator/courier, marketplace)

This alternative introduces a specific role in the registration process to the SEM for third parties (such as postal operators, couriers and marketplaces).

Under this alternative, third parties register for VAT under the SEM in their MS of establishment (MSI) on behalf of vendors (on a voluntary basis). Third parties report and pay the VAT under the SEM at the end of the reporting period on the total sales, not per transaction.

VAT is charged by the vendor (at a rate of MSC). The vendor will then transfer the amount of the VAT for each purchase to the third party (similarly as transport costs are now dealt with) for payment of VAT to tax authority of MSI under the SEM.

Under this Option, simplified Customs procedures will apply, as described under the previous alternative (e.g. fast track declaration in Customs).

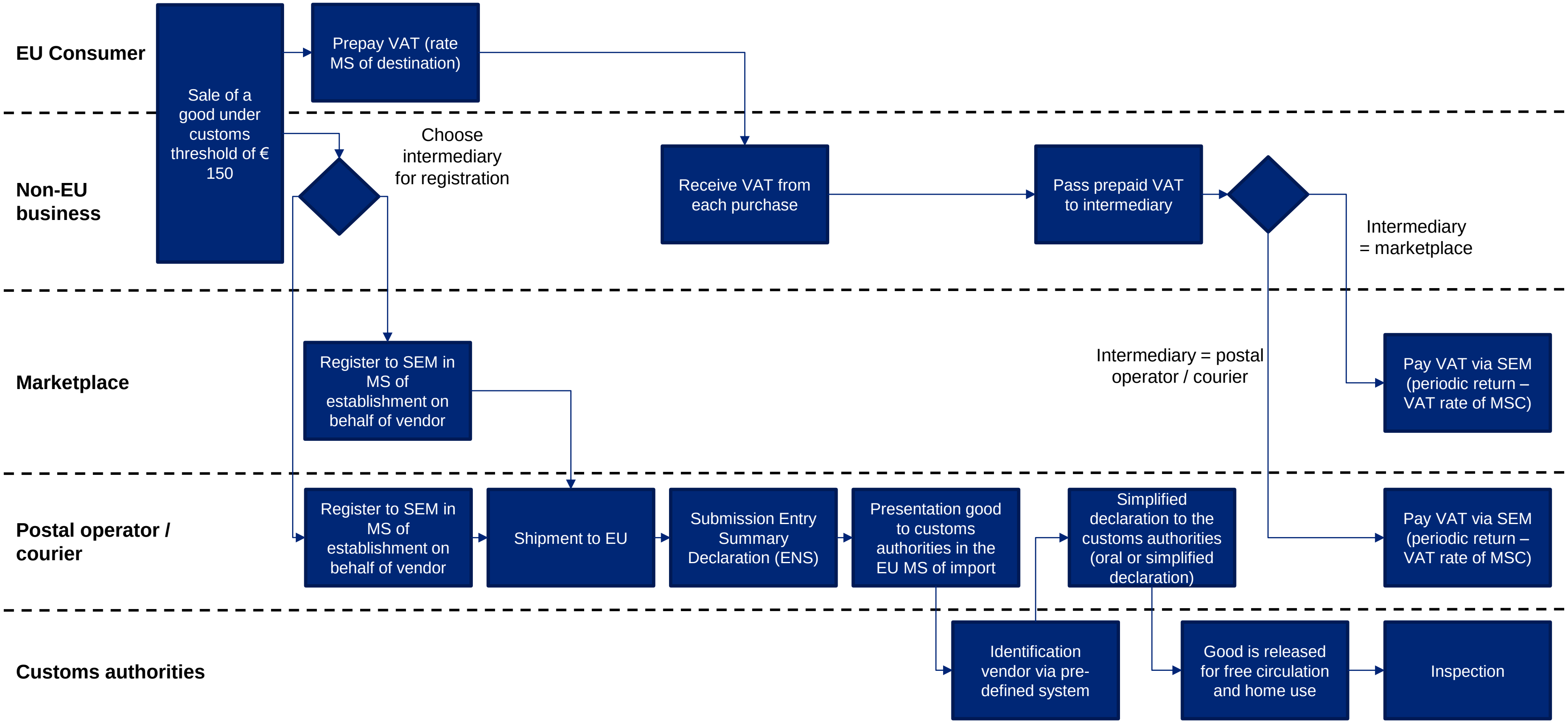
This alternative is intended to benefit mainly non-EU small businesses, but could be taken into consideration also for larger companies.

Consideration to be given on further details of the registration of a third party: single registration or multiple registrations on vendors' account, annexes to detail vendors, reporting per vendor, liability for payment etc.

Process flow

The figure below provides an overview of the process flow related to this Policy Option.

Figure 11 – Process flow for Option 4, VAT on import simplification, alternative (ii)



Source: Deloitte analysis

(iii) Third alternative – Simplified standard Customs procedures

The third alternative is a residual Option, i.e. it describes what will happen in case alternatives (i) or (ii) are nor used. In this case, goods will be imported using current Customs procedures for the consignments between 22 and EUR 150 and not reported through the SEM.

Apart from the methods to use oral declaration or declaration by any other act, two solutions are envisaged:

a) **Simplified Customs procedure** – VAT is paid on a general tariff code and standard VAT rate (of the MS of import), with the use of a very simple Customs declaration (no CN code, only value/description to be declared);

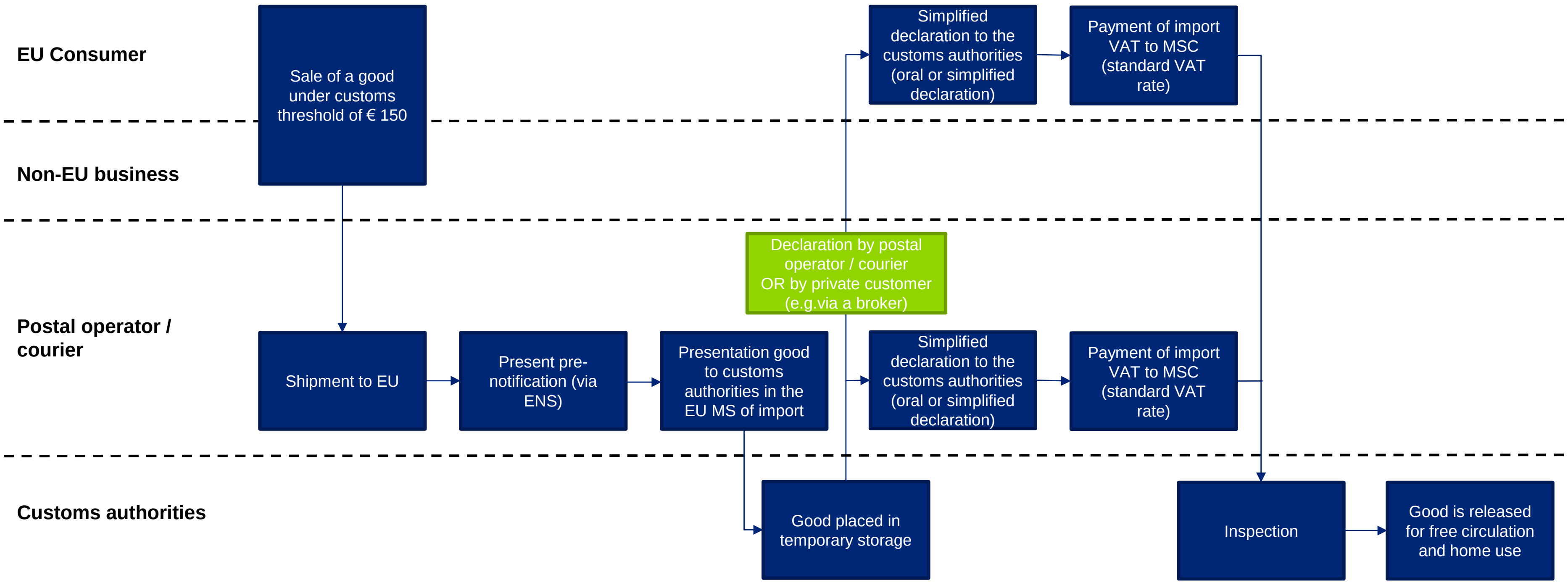
b) If the importer wants to apply a reduced rate, the **current system** would be applied, i.e. a Customs declaration to be filled in, with a proper identification of the goods).

All imports above Customs threshold of EUR 150 would continue to follow the existing Customs & VAT procedures.

Process flow

The figure below provides an overview of the process flow related to this Policy Option.

Figure 12 – Process flow for Option 4, VAT on import simplification, alternative (iii)



Source: Deloitte analysis

Roles and responsibilities of the stakeholders

Member States

All EU Member States will have to upgrade their current (non-Union) MOSS system so as to include the additional transactions to be included in the SEM, maintain and promote the use of the SEM (similar to what has been done for the MOSS), which includes the IT-related costs, but also (possibly) internal process re-engineering, promotion and dissemination campaigns, etc. In addition, the first two alternatives for imports (supplier registration and intermediary registration) might require some additional IT developments to be implemented.

The Option of using the SEM for imports (either by businesses directly of by third parties) will simplify the Customs procedures and compensate for the increase in the volume of parcels to be processed by Member States' Customs authorities (effect of the removal of the small consignment exemption).

The responsibility for the Customs controls (and for the collection of import VAT) rests on the Member State where the parcel is when first entered into the territory of the Customs Union, which might not be the Member State where the consumer resides. In such cases, the VAT rate to be applied will be that of the MSC, which will than benefit from an increase in VAT revenues.

The assumption is that many non-EU businesses will decide to opt for alternatives (i) or (ii). This should help Tax and Customs authorities to focus their resources on the higher risk cases and thus to identify frauds more easily.

Businesses

This Option does not modify roles and responsibilities for EU businesses (unless they are involved in B2C direct import)[52], as the small consignment exemption only concerns imports, and thus mostly non-EU businesses engaged in B2C e-Commerce.

This Option has notable implications for non-EU businesses.

Under the first alternative, non-EU businesses registering for the SEM will benefit from simplified (and quicker) Customs procedures, as well as from easier procedures for VAT returns and payments. Registration for the SEM will also imply higher transparency on their activities in EU MS, and thus potentially lowering the possibility of frauds and low compliance.

Many large non-EU businesses have one or (often) more warehouses in the EU, and are registered for VAT purposes in one or more EU Member States, therefore will not be largely affected by this Policy Option. In fact, as emerged from our interviews, the business models of those enterprises foresees the import of goods as B2B transactions, while the B2C transaction is intra-EU. Therefore, we expect that small and medium-sized non-EU businesses will be the most affected by this Policy Option (and potentially opting for alternative (i) or (ii)).

Application of SEM to import has an impact on businesses which trade goods (or both goods and services). Businesses providing only services are not impacted.

[52] In fact, the Option also applies to EU businesses. For example, at the moment many EU businesses establish branches in non-EU countries and send the goods to customers by import, so they can use current existing small consignment exemption and avoid VAT cost. In the moment the small consignment exemption is removed, there will be less reason to do that, but businesses may still use existing systems/networks

Postal Operators and Couriers

Postal operators and couriers will have to process at Customs a larger amount of parcels, with a potential increase in the time required for the Customs procedures and thus of the delivery time, compensated by the simplified procedures under alternative (i).

Third parties (including postal operators, couriers and marketplaces) will have a stronger role and more responsibilities under alternative (ii), as they will register with the SEM and report and pay VAT on behalf of non-EU businesses (becoming agents).

4.5.3 Analysis of the impacts of Policy Option4

Impacts on Member States

Expected impacts

Introducing a Single Electronic Mechanism (SEM) to the framework composed of the elimination of the distance selling threshold and of the small consignment exemption (mitigated by a common VAT threshold set at EUR 5 000 or EUR 10 000) is expected to provide simplification for those businesses engaged in cross-border e-Commerce.

The introduction of the SEM is expected to affect Member States in several ways:

- **VAT revenues**: they are expected to increase as an effect of the combination of the removal of the distance selling threshold and of the small value exemption, partially counter-balanced by the new EU-wide registration threshold.
  Such additional revenues will benefit mostly the Member States of Consumption with respect to the Status Quo, as the volume of e-Commerce cross-border transactions to be taxed at the VAT rate of the Member State of Consumption will increase (though the dimension of such increase will likely depend on the level of the threshold – EUR 5 000 or EUR 10 000).
  The distribution of the VAT revenues from cross-border e-Commerce transactions between Member States of Consumption and Member States of Identification will depend on the level of the threshold, as well as on the rules to be applied for transactions below the thresholds. If domestic rules apply, Member States of Identification will benefit from the VAT revenues from intra-EU cross-border sales below the threshold. Under alternative 2, cross-border sales under the common EU VAT exemption threshold are exempt from VAT, therefore resulting in a loss of revenue, which may be even bigger if the exemption is applied with the right of input VAT deduction[53].
  Under this Option, B2C cross-border e-Commerce imports from third countries will be taxed at the VAT rate of the Member State of Consumption from the first EUR.
  VAT revenues from TBE services are not expected to change with respect to the Status Quo, as Option 4 is not expected to modify the use of the MOSS systems for those businesses already registered to it. Such threshold is likely to support new businesses such as start-ups,

[53] See section 5.4.1 for more details

which will be able to test the potential of cross-border markets without incurring in costs for VAT-related obligations before having to register.

Furthermore, the set of rules introduced with the SEM will bring to Member States certainty about the timing of the submission of VAT returns by businesses, and related payment (better cash-flow management).

With regard to VAT revenues from imports, the amount of parcels that will be processed via the SEM (both under alternative 1 – direct business registration, and under alternative 2 – third party registration) is likely to impact to a large extent the amount of VAT collected by Member States. It is possible to derive assumptions on the likely adoption of the SEM from the current adoption of the MOSS. The analysis of the functioning of the 2015 place of supply rules and of the MOSS during the first two quarters of 2015 indicates that about 70% of the volume of non-EU trade of cross-border services is submitted via the MOSS[54]. In the sector of goods, characterised by higher return rates (up to 50% in some cases) the adoption of the SEM is likely to be lower. We have assumed that about 75% of imports will pass via the SEM.[55]

- **Costs for setting up and maintaining the SEM:** Member States will incur in costs for the update/adaptation of the MOSS system to the SEM and for the maintenance of the SEM (including IT costs, process re-engineering, training, etc.) as well as for the promotion and dissemination of the SEM.

  The SEM is an extension and an evolution of the MOSS in terms of requirements and functionalities. It is therefore likely to assume that Member States costs for updating the MOSS to the SEM will be lower than for setting up the MOSS. Costs for maintaining the SEM are expected to be similar as for the MOSS, as confirmed by expert assessment.
- **Volume of audits and Customs controls**: As an effect of the introduction of the common EU VAT exemption, businesses will have VAT-related obligations (including registration, submission of returns, etc.) with all the Member States where they have B2C cross-border e-Commerce sales above such cumulative threshold. This could potentially lead to a notable increase in the number of businesses required to register for VAT.

  As for Option 2 and Option 3, the removal of the small value consignment exemption would lead to a notable increase of the number of parcels to be processed at Customs (small value consignments are estimated to amount to about 60% of the total volume of parcels)[56], with need for additional resources.

  The introduction of the SEM is expected to introduce simplified procedures to counter-balance such adverse effects. The SEM is expected to provide a simpler channels for businesses engaged in cross-border e-Commerce to comply with VAT-related obligations, both for EU and non-EU businesses.

[54] See the Final Report for Lot 3
[55] See annex 4 for more details on the estimated take-up of the SEM under Option 4
[56] See European Commission (2015), ibid.

Results: common VAT threshold of EUR 10 000, domestic rules

With regard to **VAT revenues from intra-EU** cross-border e-Commerce transactions, they are estimated to amount to about **9.128 EUR billion**, following the removal of the distance selling threshold. Such revenues represent the VAT revenue (using a 20% EU average rage) of the additional revenue of intra-EU cross-border e-Commerce sales originated from the minority of micro-businesses above the common EU VAT exemption threshold complying with VAT-related obligations, and above the common EU VAT exemption threshold. In addition, VAT revenues from TBE services are estimated to remain stable around EUR 3 billion (the VAT exemption threshold is not expected to influence notably the VAT revenues of Member States, as SMEs supplying TBE services below such threshold represent a minimal part of cross-border sales[57]).

The VAT revenue corresponding to the cross-border transactions below the common EU VAT exemption threshold set at EUR 10 000 is estimated of about EUR 0.388 billion.

The table below provides an overview of the VAT revenues for Member States in the case of the common VAT threshold of EUR 10 000 and domestic rules for cross-border transactions below the threshold.

Table 33 – Impact of Option 4 on VAT revenues from intra-EU B2C cross-border e-Commerce

Member States	VAT revenues
VAT revenues below the threshold(EUR billion)	0.388
VAT loss due to non-compliance (EUR billion)	0.633
VAT revenue (EUR billion)	9.128

Source: Deloitte analysis

Such figure represents a notable change with respect to the Status Quo, with a notable decrease of the VAT foregone, which is expected to fall from EUR 2.2/3.8 billion (estimated), to about EUR 630 million. Such a decrease can be explained to a large extent with the expected improvement in businesses' compliance to VAT-related obligations. Non-compliance is expected to dramatically decrease for transactions processed via the SEM (representing about 60% of the total VAT revenues for Member States), but also for those transactions processes outside of the SEM (representing about 30% of the VAT revenues).

With regard to VAT revenues from imports, the amount of parcels that will be processed via the SEM (both direct business registration, third party registration) is likely to impact to a large extent the amount of VAT collected by Member States.

The table below provides an overview of the volume of parcels below the Customs threshold of EUR 150, their corresponding values and VAT revenues under the assumption that about 75% will be processed via the SEM. Similarly to cross-border e-Commerce, the increased VAT-compliance of online transactions via the SEM is expected to account for large part of the VAT revenues from imports (about 8% of total VAT revenues), while transactions processed outside of the SEM are likely impact VAT revenues only marginally (about 2% of the VAT revenues).

[57] See Lot 3 analysis for more details.

Table 34 – Impact of Option 4 on VAT revenues from imports from third countries

Imports		
Volume of consignment below EUR 150		187 288 192
VAT revenue via the SEM		
Volume of consignment processed via the SEM		140 840 720
VAT loss due to non-compliance (EUR billion)		0.035
VAT revenue (EUR billion)		0.665
Compliance	5% non-compliance	
VAT revenue outside of the SEM		
Volume of consignment processed outside the SEM		46 447 472
VAT loss due to non-compliance (EUR billion)		0.138
Corresponding VAT revenue (EUR billion)		0.092
Compliance	60% non-compliance	

Source: Deloitte analysis

Member States will incur in **IT and overhead costs** for the upgrading the MOSS to the SEM and for the maintenance of the SEM portals, similar to those incurred for the MOSS[58]. The analysis of the MOSS functioning carried out under Lot 3 provides some figures on the MOSS set-up and maintenance costs for Member States, that we report to provide the order of magnitude of the likely costs for the SEM.

The costs for setting-up the IT systems for the MOSS were provided by Member States as part of Lot 3 analysis. The average cost for setting-up the IT systems amount to about EUR 2.5 million, with extremely large variations across Member States, as the costs identified vary from EUR 2 544 to EUR 13 300 000. Such large variations can depend on several factors, including the size of the country. In addition, Member States had different approaches to the development of national MOSS portals. Some of them implemented portals with minimal functionalities, while others prepared their IT systems already to a possible enlargement of the MOSS applications (for instance to goods), allowing for a large processing capacity. In addition, in some Member States the implementation of the MOSS portal required (or provided the opportunity for) the adjustment of other IT systems. However, as the SEM is an evolution of the current MOSS system, costs for upgrading the MOSS to the SEM are expected to be lower than for setting up the MOSS.

Maintenance costs are expected to be lower than the development and setting-up costs. Maintenance costs for the current MOSS system are estimated to EUR 250 000 per year (on average), ranging from EUR 7 400 to EUR 1 366 103. Such large variations can be explained by several factors, including different size of Member States (and different budget availability) and the magnitude of the IT changes implemented. In addition, some Member States might have under- or over-estimated the maintenance IT costs, as they are only during the first year of the MOSS. Maintenance costs are likely to decrease over time. Maintenance costs for the SEM are expected to be similar to those of the MOSS.

[58] See the Final Report of Lot 3

As for the related overhead costs, they include organisational costs, business process re-engineering, training, etc. Literature on IT transformation[59] suggests to apply a 1:3 'rule-of-thumb' while quantifying the overhead costs for transformative IT project, i.e. for every EUR spent on IT, 3 EUR are spent on overhead. Literature on e-Government projects[60] suggests that such proportion could increase up to 1:5 in large e-Government projects. Therefore, the average overhead costs for the implementation of the national MOSS portals (expected to be somehow lower for the SEM) can be estimated as ranging from EUR 7.630 million to EUR 12.7 million on average, depending on which 'rule-of-thumb' is applied.

Impacts on businesses

Expected impacts

Introducing a Single Electronic Mechanism (SEM) to the framework composed of the elimination of the distance selling threshold and of the small consignment exemption (mitigated by a common VAT threshold set at EUR 10 000, or EUR 5 000) is expected to provide simplification for those businesses engaged in cross-border e-Commerce.

The introduction of the SEM is expected to affect businesses in several ways:

- **Administrative costs for EU businesses**: as an effect of the removal of the distance selling threshold, businesses will have VAT-related obligations (including registration, submission of returns, etc.) with all the Member States where they have B2C cross-border e-Commerce sales, which will be likely to increase their administrative costs. The common EU VAT exemption threshold mitigates such adverse effects. Similarly, the introduction of the SEM is expected to provide further simplification, counter-balancing at least partially the increase in VAT-related obligations.

  The functioning of the SEM is likely to be similar to that of the MOSS under the current 2015 place of supply rules for TBE services. It is possible to derive assumptions on the likely adoption of the SEM from the current adoption of the MOSS. The analysis of the impact of the SEM under Option 4 is bed on the assumption of immediate take-up[61]. It is our estimate that only a limited number of businesses above the common VAT threshold of EUR 10 000 will register for the SEM, i.e. about 18%, representing however more than 60% of the cross-border e-Commerce volume[62]. In fact, most of the micro-enterprises will be likely to be below the common VAT threshold (97% of micro-businesses are below the threshold in our estimate). The adoption rate is estimated to be lower among large businesses as they are more likely to be VAT-registered in a large number of Member States already, and therefore less likely to switch to the new system (although, this may depend on the business model of a large business, e.g. largely online-business would not be widely established and may still benefit). The estimates above take into account that in many cases businesses above the threshold will be in both categories (i.e. in and outside of the SEM). For instance, large

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[59] Rand Overhead, General and Administrative costs, available at: https://www.rand.org/content/dam/rand/pubs/monograph_reports/MR1325/MR1325.ch9.pdf

[60] Kettani D., Moulin B. (2015), e-Government for Good Governancen Developing Countries, International Development Research Centre

[61] See assumption 3 in annex 4.

[62] See assumption 15 in annex 4 for more details on the expected take-up of the SEM.

businesses are likely to have hubs in some other Member States (with related VAT registrations), while might decide to use the SEM for the remaining Member States.

- **Costs for registering and using the SEM:** businesses will be likely to incur in costs for adapting their systems and procedures to the new rules and to the requirements of the SEM, including (e.g. IT costs, process re-engineering, training, etc.).
  The SEM is likely to be similar to the MOSS in terms of requirements and functionalities. It is therefore likely to assume that businesses will face similar costs for using the SEM as they incur for the MOSS.
  Non-EU businesses and third parties (e.g. couriers, postal operators and marketplaces) registering directly for the SEM will also incur in the same costs.
  For those businesses above the common EU VAT exemption threshold, the costs deriving from VAT-related obligations are estimated similar to those estimated under Lot 1, and thus to the costs incurred by those businesses above the distance selling threshold under the Status Quo.
  Businesses active in TBE services are not expected to be affected with respect to the Status Quo, as Option 4 does not modify the framework for these services. As for Option 3, Option 4 is not expected to modify the use of the MOSS systems for those businesses already registered to it. Such threshold is likely to support new businesses such as start-ups, which will be able to test the potential of cross-border markets without incurring in costs for VAT-related obligations before having to register.
  As in Option 2 and in Option 3, the removal of the small consignment exemption (which is also part of Option 4) is likely to affect mostly small and medium-sized enterprises from third countries. While large enterprises are more likely to have warehouses/be registered for VAT purposes in EU Member States already, small and medium-sized enterprises are more likely to be affected by these obligations (although the small consignment exemption is not specifically benefitting small businesses). Non-EU small and medium-sized enterprises from third countries will be more likely to use third-party registrations.
  Finally, postal operators and couriers will have to pass through Customs a larger share of parcels, with possible implications on their processing costs and on timing of the delivery with respect to the Status Quo (same as under Option 2 and under Option 3). However, the introduction of the SEM is also expected to provide a preferential channel for B2C e-Commerce imports from third countries. Imports coming via the SEM will benefit from pre-paid VAT, which is likely to reduce the rate of return of goods refused by consumers because the final price (paid at the moment of the delivery) is higher than expected. Imports processed via the SEM shall also benefit from simpler and quicker Customs procedures, reducing thus the processing costs for postal operators and couriers. In addition, the reduction of the return rate of goods for VAT-related issues is likely to lower the processing costs for postal operators and couriers to process such returns, and the transport costs for businesses that cover them for their customers. Therefore, processing costs for postal operators and couriers are expected to lower with respect to the Status Quo.
  Furthermore, the effects of this Option could lead to a transfer of market shares from postal operators to couriers. Couriers are likely to have a competitive advantage on postal operators in becoming agents on behalf of the non-EU sellers, as they have a more direct control over all the steps of the shipping process, and are not bound by the universal postal service obligations.

Results common VAT threshold of EUR 10 000

Our analysis estimates that with a common EU VAT exemption threshold of EUR 10 000 the **overall administrative costs** for businesses active on cross-border e-Commerce of goods under Option 4 are estimated of about **EUR 2.418 billion**. This figure represents a decrease of 42% with respect to the Status Quo.

Costs however will likely differ largely between those businesses that benefit from the common EU VAT threshold, and those whose EU cross-border sales are above the common EU VAT exemption threshold.

When the common EU VAT exemption threshold is set at EUR 10 000, businesses benefiting from it (according to our estimates, 97% of micro-businesses active in B2C cross-border e-Commerce) are not likely to encounter additional administrative costs for VAT-related obligations, as the cross-border sales will be subject to domestic rules.

With the common EU VAT exemption threshold set at EUR 10 000, administrative costs for businesses with cross-border sales above the threshold and adopting the SEM are estimated to amount to about EUR 2 071 per company per year or about (on average) EUR 690 per company for each Member State they sell cross-border (up to two, on average).

Finally, administrative costs for businesses with cross-border sales above the threshold and outside of the SEM are estimated to amount to about EUR 28 000 (EUR 28 163) per company per year or about (on average) EUR 4 700 (EUR 4 694) per company for each Member State they sell cross-border (four VAT registrations, on average).

Such figure has been estimated considering that all micro-businesses above the common EU VAT exemption threshold will comply with the VAT-related obligations and thus incur in the related costs via the SEM.

With regard to the **number of businesses** engaged in cross-border e-Commerce, micro-enterprises below the common EU VAT exemption threshold of EUR 10 000 are estimated to be about 429 171. About 122 137 businesses are expected to be above common EU VAT exemption threshold and in the SEM (of which 44 244 micro-enterprises), while 27 383 are estimated to be above the threshold and outside of the SEM.

The table below provides an overview of the number of businesses above the common EU VAT exemption threshold and in/outside of the SEM, per size of businesses, and per volume of cross-border e-Commerce.

Table 35 – Estimated adoption rate of the SEM by EU businesses under Option 4, common EU VAT exemption threshold at EUR 10 000

	Businesses below the common VAT threshold 10 000)	Businesses above the common VAT threshold and in the SEM (EUR 10 000)	Businesses above the common VAT threshold and outside the SEM
Micro businesses	429 171	44 244	-
Small businesses		65 373	16 343
Medium businesses		17 216	7 378
Large businesses		5 492	3 662
Total number of		132 326	27 383

	Businesses below the common VAT threshold 10 000)	Businesses above the common VAT threshold and in the SEM (EUR 10 000)	Businesses above the common VAT threshold and outside the SEM
businesses			
(% of businesses)	*76.9%*	*18.2%*	*4.9%*
(% of cross-border e-Commerce volume)	*3.9%*	*62.3%*	*33.7%*

Source: Deloitte analysis

Overall, it is estimated that about 18% of businesses engaged in cross-border e-Commerce will register to the SEM, representing about 62% of the volume of cross-border e-Commerce.

Businesses engaged in cross-border e-Commerce (including SMEs currently active in this area), are likely to incur in costs to modify their internal systems and processes to comply with MSC VAT rules (e.g. invoicing, chargeability, auditing).

In addition, businesses below the threshold would incur in costs related to monitoring the common EU VAT exemption threshold.

The costs for businesses providing cross-border TBE services will not change with respect to the Status Quo.

Businesses will be likely to incur in costs for adapting their IT systems and procedures to the new rules and to the requirements of the SEM, including (e.g. IT costs, process re-engineering, training, etc.). As for Member States, the costs related to the adaptation of IT systems to the 2015 PoS rules and the MOSS provide an indication of the likely costs for businesses with the SEM. The analysis from Lot 3 shows that the average cost for **setting-up the IT systems** amount to about EUR 1.172 million, with very large variations across businesses, as the costs identified vary from EUR 8 000 to EUR 10 000 000. Businesses quantified the external costs related to accompanying **trainings** in EUR 3 000 – EUR 5 000 on average, without including the internal selection process for the training providers. As for the internal costs, they were also quantified in approximately 20 FTE personnel days, including both design and delivery[63].

Non-EU businesses will benefit from a clearer legislative framework legislative code applying throughout the EU with respect to the Status Quo.

Finally, as mentioned earlier, postal operators and couriers are likely to pass through Customs a larger share of parcels, with possible implications on processing costs and on timing of the delivery. The use of the SEM and of the related simplified and quicker Customs procedures is likely to reduce the processing costs for postal operators and couriers[64].

For parcels below the EUR 150 Customs threshold processed under the SEM, we assume a cost per parcel 30% lower than the one estimated in 2013, i.e. EUR 1.6, as under the SEM arrangements, those parcels will benefit from a fast-track at Customs as well as a simplified VAT compliance (moving from transactional basis to turnover basis), reducing thus the time and costs related to their processing.

[63] See Final report of Lot 3 for more details.
[64] See assumption 16 in annex 4 for more details.

For parcels below the EUR 150 Customs threshold processed outside the SEM we assume a cost per parcel of EUR 6.3 (i.e. a 30% reduction of the cost estimated in 2013), taking into account that under Option 4 such parcels will still need to be declared at Customs (even is via a simplified procedures) and VAT paid.

The table below provides an overview of the volume of parcels below the Customs value of EUR 150, their corresponding values and processing costs for couriers and postal operators.

Table 36 – Impact of Option 4 on processing costs for of parcels below EUR 150

	Volume	Value (EUR billion)	Processing costs (EUR million)
Inside SEM	140 840 720	3.499	230.697
Outside SEM	46 447 472	1.154	291.318
Total	187 288 192	4.653	**522.015**

Source: Deloitte analysis

The total estimated corresponds to a reduction of about 24% with respect to the costs calculated under Option 1 (status quo). Processing costs are estimated to amount to approximately EUR 522 million, corresponding to a reduction of about 24% with respect to the costs calculated under Option 1 (status quo)[65]. In addition, as described in the previous sub-section, the implementation of this Option (and especially of a simplification tool such as the SEM) is expected to lead to a notable decrease in non-compliance with VAT-related obligations, which in turn translates into a notable increase in the expected VAT revenues for Member States (about EUR 9 billion, with VAT foregone estimated to about EUR 634 million).

Set-up costs for postal operators and couriers

It is relevant also to consider that postal operators and couriers will need to develop/adapt information systems in order for them to make sure that they receive, in advance of Customs clearance, electronic information indicating whether VAT on consignments up to EUR 150 has been pre-declared or not through the SEM. Such a system is essential in order for postal operators and couriers to automatically distinguish parcels for which a declaration and payment is required and therefore to avail of the reduced processing costs which the SEM will offer. The final design of such advance information system is not yet decided: it could in practice be based on the SEM registration number that may either be included in the Customs Early Notification System (compulsory on all consignments, including postal ones, as of 2020) or implemented outside the Customs process by postal operators and couriers,.

Providing a robust estimate of such one-off costs is difficult as for some operators it may only be a matter of making adjustments to the existing systems which are very well developed due to the full integration of the process from the exporting country until the place of final destination. However, it should also be recognised that other operators, particularly postal operators, may need to build new systems – e.g. based on agreements with foreign stakeholders.

In considering the costs that postal operators and couriers will face in either developing new information systems or adapting existing systems it is important to recognise that the forthcoming

[65] Ibid.

2020 changes[66] will in any event put additional obligations on both postal operators and couriers in respect of the advanced information they will need to provide to EU Customs administrations. This presents an excellent opportunity to consider aligning the requirements for information in respect of VAT with the Customs information. Such a development should reduce development costs for couriers and postal operators. This would also bring benefits to Customs administrations as the necessity to ensure that VAT has been pre-declared can be integrated into the general clearance process rather than having a separate process only for VAT.

Indeed, the preparatory work for the new Union Customs Code (UCC) provided some estimates of the investments needed by the stakeholders concerned to implement the changes envisaged. Such estimates refer to the entire group of stakeholders concerned (Member States, the Commission and postal operators and couriers), as well as to much wider obligations than the ones considered by this study, However, the provisions examined under this study (and especially the implementation of a simplification tool like the SEM) should help economic operators (including postal operators and couriers) to achieve and even surpass such benefits, which were estimated to reach up to 50% reduction in transaction costs, reaching EUR 2.5 million per year once the new regime is fully implemented[67]Finally, one has also to remember that the ongoing security threats will unavoidably lead to more requirements for proper identification of all types of packages and letters sent either on the postal or courier environments. The envisaged EU VAT changes should aim to link as much as possible to such changes needed for security purposes.

Impacts on the market for e-Commerce in the European Union

Expected impacts

The SCM analysis shows that the extension of the SEM to goods as well as services is estimated to significantly reduce administrative costs for those firms opting into the system. This can in turn support growth in the EU e-Commerce market, through the following channels.

- **Fixed administrative costs:** the extension of the SEM is expected to reduce the administrative burden for those businesses that opt into the system. By reducing the administrative burden – especially for smaller businesses that are not registered outside their home country under the current system – this is expected to encourage compliance and lead to more businesses registering. The SEM can also reduce costs for firms that would otherwise incur the greater costs associated with the current system.
  To the extent that competition between firms means that these reductions in costs are passed on to consumers, the extension of the SEM has the potential to reduce e-Commerce prices and lead to an increase in demand.
- **Variable administrative costs:** the SEM would also be used for the importation of low value goods up to the current Customs threshold of EUR 150. This would be expected to reduce the

[66] The Union Customs Code (Regulation (EU) No 952/2013) provisions will start to apply as from 1 May 2016, once the UCC-related Commission acts (Delegated and Implementing Acts) are adopted and in force

[67] European Commission (2005) Annex to the Proposal for a regulation of the European Parliament and of the Council laying down the Community Customs Code and to the Proposal for a decision of the European Parliament and of the Council implementing a paperless environment for Customs and trade, SEC(2005) 1543, p. 28, available at:

variable costs associated with e-Commerce imports, which can in turn lead to lower prices and increased demand for non-EU imports.

- **Average VAT rates on imports:** While the SEM is expected to reduce the administrative costs for non-EU suppliers that register for the system, it will also enable better monitoring and is therefore expected to increase VAT compliance and hence the average VAT rate. This increase in the VAT paid is expected to offset the reduction in administrative costs.
- **Supply of cross-border e-Commerce:** as discussed, the reduction of the VAT registration threshold may lead some businesses to cease trading cross-border rather than incur additional administrative costs. The extent to which this occurs will depend on the magnitude of the administrative burden relative to businesses' profits from cross-border online trade. By reducing the administrative costs associated with cross-border VAT registration the introduction of the SEM can facilitate more businesses to register and reduce the likelihood of firms exiting the market.

  The analysis from the SCM indicates that the compliance cost is about EUR 690 per company per Member State. For businesses whose sales exceed the registration threshold of EUR 10 000 (or even of EUR 5 000) these costs are small relative to the revenues from cross-border e-Commerce; it is therefore assumed that exit from the cross-border e-Commerce market is negligible in this case. It is therefore assumed that the Policy Option does not lead to a direct impact on the supply of e-Commerce; however, the CGE model allows for the fact that the reduction in the administrative burden may induce businesses' to trade cross-border, while the reduction in prices will increase demand.

Results

The table below shows the resulting impacts on the volume of e-Commerce in the EU, both in percentage terms and absolute terms (millions of transactions). The introduction of the SEM (with a registration threshold of EUR 10 000) is expected to have a positive impact on EU cross-border e-Commerce volumes; however, the effect on non-EU imports is estimated to be negative due to the increase in compliance and VAT paid.

Table 37 – Impact of Option 4 (EUR 10000 threshold) on EU e-Commerce volume, 2020 (million transactions, %)

	Estimated impact
Total e-Commerce	-113.9
	-0.39%
Cross-border e-Commerce	-158.7
	-2.72%
EU Cross-border e-Commerce	40.5
	1.10%
Non-EU Cross-border e-Commerce	-199.2
	-0.1

Source: Deloitte analysis

The change in e-Commerce volumes is largely driven by the change in prices, which reflect the administrative burden.

Table 38 – Impact of Option 4 (EUR 10000 threshold) on EU e-Commerce prices, 2020

	Estimated impact
Total e-Commerce	0.73%

Cross-border e-Commerce	1.84%
EU Cross-border e-Commerce	-0.03%
Non-EU Cross-border e-Commerce	5.66%

Source: Deloitte analysis

The effects on different types of e-Commerce are described in more detail below:

- The extension of the SEM to the import of consignments under EUR 150 is estimated to decrease administrative costs compared to Option 3, but increase the VAT payable. These effects are expected to approximately cancel each other out, leading to an increase in prices of non-EU imports of about 5.7%
- The introduction of the SEM is expected to reduce the overall administrative burden facing EU businesses by between 9% and 30%; this can correspond to a reduction in overall labour costs of almost 0.3%. However, the eventual price of goods purchased online within the EU will also be affected by other factors, including competitive pressures from businesses outside the EU, which are reduced as VAT compliance on imports improves. As a result, prices of EU goods are only expected to decrease slightly. However, with the price of EU online purchases falling relative to non-EU imports there is still estimated to be substitution towards EU products over imports and volumes may increase by up to
- Due to the large decrease in non-EU sales volumes, the aggregate impact on e-Commerce volumes is expected to be negative, despite increases in domestic and within-EU sales. Moreover, the overall price level is estimated to increase relative to the status quo due to the reduction in competitive pressure from outside the EU.

As a consequence of these changes in the volumes and prices of e-Commerce, the total value of the market is generally expected to increase; however, much of this increase in overall values is driven by an increase in prices.

Table 39 – Impact of Option 4 (EUR 10 000 threshold) on the value of EU e-Commerce, 2010 (EUR billions, %)

	Estimated impacts
Total e-Commerce	3.77
	0.33%
Cross-border e-Commerce	-0.69
	-0.36%
EU Cross-border e-Commerce	1.48
	1.07%
Non-EU Cross-border e-Commerce	-2.17
	-0.04

Source: Deloitte analysis

Along with these impacts on the e-Commerce market, the reduction in the total administrative burden may have wider economic impacts.

- Under the status quo, about 0.5% of labour costs are associated with unproductive administrative tasks. By reducing these costs by as much as 30% the reduction in the administrative burden is estimated to increase labour productivity by up to 0.1% as workers are able to devote more time to productive tasks rather than administration and compliance.

- As the market grows and labour becomes more productive, employment in the retail sector is estimated to increase slightly.
- The reduction in the administrative burden largely benefits EU businesses, while non-EU firms are slightly worse-off relative to the status quo due to the removal of the small consignments exemption. This may increase the competitiveness of EU businesses.

Impacts on compliance

Intra EU simplification

The compliance impact of Option 4 includes the impact of Option 3. However, Option 4 is expected to further improve both voluntary compliance and compliance control on intra EU cross border trade in goods and non-TBE services. The voluntary compliance would improve due to significant simplification to the VAT system (when business trades above the distance sales thresholds). The SEM would facilitate the monitoring of compliance and the fight against fraud for Member States authorities due to increased exchange of information and closer administrative cooperation, similarly to the current MOSS system for TBE services.

Import VAT simplification

The compliance impact of Option 4 includes the impact of Option 3. However, Option 4 is expected to further improve both voluntary compliance and compliance control on the import of goods with value up to EUR 150. The voluntary compliance would improve due to the increased flexibility for the trader to choose between three Options for fulfilling their import VAT obligations. The Option would also support the fight against fraud for Member States' authorities, as it has the potential to reduce avoidance of VAT by undervaluation and incorrect labelling of the goods (used to benefit from the exemption), or split imports. The use of SEM on import has a potential to improve also compliance control, as the non-EU trader would become VAT registered in the EU, having therefore closer connection with the EU tax authorities.

Regarding TBE services, there would be minimal impact on compliance as the Option 4 is very similar to the current system.

4.5.4 Key findings

Policy Option 4 entails a removal of the current distance sales threshold, the small consignment exemption and the introduction of a new cross-border exemption threshold for EU micro enterprises of EUR 10 000 (the impacts on the threshold of EUR 5 000 are described in section 5.4). In addition, the Option introduces a Single Electronic Registration (SEM) for intra-EU supplies of goods and non-TBE services. The Option is expected to affect the roles and responsibilities of Member States, EU and non-EU businesses and couriers and postal operators.

Impacts on Member States

The table below provides an overview of the impacts on Member States assessed for this Option.

Table 40 – Overview of impacts on Member States for Option 4 (threshold of EUR 10 000)

Member States	VAT revenues
EU cross-border e-Commerce	**Threshold of EUR 10 000 (EUR billion)**
VAT revenues below the threshold(EUR billion) (MSI)	0.388
VAT loss due to non-compliance (EUR billion)	0.633
VAT revenue (EUR billion)	9.128
Imports from third countries	
Volume of consignment below EUR 150	187 288 192
VAT revenue via the SEM	
Volume of consignment processed via the SEM	140 840 720
VAT loss due to non-compliance (EUR billion)	0.035
VAT revenue (EUR billion)	0.665
Compliance	5% non-compliance
VAT revenue outside of the SEM	
Volume of consignment processed outside the SEM	46 447 472
VAT loss due to non-compliance (EUR billion)	0.138
Corresponding VAT revenue (EUR billion)	0.092
Compliance	60% non-compliance

Source: Deloitte analysis

For Member States, the VAT revenue corresponding to the intra-EU cross-border transactions below the common EU VAT exemption threshold set at EUR 10 000 (with domestic rules applying below such threshold) is estimated at about EUR **9.128 billion**. VAT revenues from TBE services are considered to remain stable at about EUR 3 billion. VAT revenues from imports are also expected to increase with respect to the Status Quo, as an effect of the use of the SEM for all parcels below the Customs thresholds of EUR 150 by non-EU traders (either via direct registration or via third party registration). The figures presented above represent a notable increase in VAT revenues with respect to the status quo (as well as with respect to Options 2 and 3), which is explained to a large extent to an increase in compliance with VAT-related obligations.

Based on data provided by Member States as part of Lot 3 analysis, the **average cost for setting-up the IT systems** can be estimated somewhat lower than those sustained to set-up the MOSS, as the SEM represents to a large extent an upgrade/adaptation of the MOSS. Costs for the set-up of the MOSS have been estimated to about **EUR 2.543 million** (costs for setting-up the MOSS, which are likely to be comparable to those necessary to set-up the SEM). **Maintenance costs** are expected to be lower than the development and setting-up costs, and have been quantified to about EUR 250 00 per year (on average), similar to those currently sustained for the MOSS.

As for the related **overhead costs**, they include organisational costs, business process re-engineering, training, etc. The average overhead costs for the implementation of the national MOSS portals (estimated to be somewhat lower for the SEM) can be estimated as ranging from EUR 7.630 million to EUR 12.7 million on average.

Impacts on businesses

The table below provides an overview of the main impacts on businesses assessed for this Option.

Table 41 –Overview of impacts on businesses of Option4 (threshold of EUR 10 000)

	Threshold at EUR 10 000		
Administrative burden	Goods	Services	Goods and services
Total (EUR billion)	0.981	1.437	2.418
per company (EU businesses) (EUR)	0 – (below the threshold) 2 071 (above the threshold and in SEM) 28 163 (above the threshold and outside SEM)	0 (below threshold) 2 172 (MOSS/SEM registered) 23 601 (non registered for MOSS/SEM)	0 – (below the threshold) 2 071 (above the threshold and in SEM) 28 163 (above the threshold and outside SEM) 2 172 (MOSS/SEM registered) 23 601 (non registered for MOSS)
per company per Member State (EUR)	0 – (below the threshold) 688 (above the threshold and in SEM) 4 694 (above the threshold and outside SEM)	0 (below threshold) 434 (MOSS/SEM registered) 5 203 (non registered for MOSS/SEM)	0 – (below the threshold) 688 (above the threshold and in SEM) 4 694 (above the threshold and outside SEM) 434 (MOSS/SEM registered) 5 203 (non registered for MOSS/SEM)
No of companies	429 171 (below the threshold) 101 354 (above the threshold and in SEM) 27 383 (above the threshold and outside SEM)	10 604 (MOSS/SEM registered) 33 969 (non registered for MOSS/SEM)	429 171 (below the threshold) 101 354 (above the threshold and in SEM) 27 383 (above the threshold and outside SEM) 10 604 (MOSS/SEM registered) 33 969 (non registered for MOSS/SEM)

Source: Deloitte analysis

If the threshold is set at **EUR 10 000** the overall administrative burden for businesses is expected to decrease by 42%. EU businesses will benefit from a clearer legislative framework applying throughout the EU. Overall, it is estimated that about 18% of businesses engaged in cross-border e-Commerce will register to the SEM, representing about 62% of the volume of cross-border e-Commerce.

Furthermore, postal operators and couriers are likely to experience an increase in the volume of parcels to be processed, more than compensated by a reduction in the processing costs, estimated of about 24% with respect to the Status Quo. In addition, third parties (including postal operators, couriers and large marketplaces) would have a stronger role and more responsibilities under alternative (ii), as they will register with the SEM and report and pay VAT on behalf of non-EU businesses (becoming agents).

Businesses will be likely to incur in costs for adapting their systems and procedures to the new rules and to the requirements of the SEM, including IT costs, process re-engineering, training, etc. The

SEM is likely to be similar to the MOSS in terms of requirements and functionalities. It is therefore likely to assume that businesses will face similar costs for using the SEM the SEM as they incur for the MOSS. Non-EU businesses and third parties (e.g. couriers, postal operators and marketplaces) registering directly for the SEM will also incur in the same costs.

With regard to the costs for postal operators and couriers to adapt their current systems to the requirements of the SEM, it has to be noted that they will incur in some costs to comply with the upcoming provisions of the Union Customs Code (Regulation (EU) No 952/2013). The UCC will in any event put additional obligations on both postal operators and couriers in respect of the advanced information they will need to provide to EU Customs administrations. This presents an excellent opportunity to consider aligning the requirements for information in respect of VAT with the Customs information. Such a development should reduce development costs for couriers and postal operators. This would also bring benefits to Customs administrations as the necessity to ensure that VAT has been pre-declared can be integrated into the general clearance process rather than having a separate process only for VAT.

Businesses interviewed as part of Lot 3 activities quantified the IT-related costs for adapting their IT systems to the 2015 place of supply rules and the MOSS amount to about EUR 1.172 million, with very large variations across businesses, as the costs identified vary from EUR 8 000 to EUR 10 000 000 (depending on the size of the business, on the amount of changes required, etc.). Businesses quantified the external costs related to accompanying **trainings** in EUR 3 000 – EUR 5 000 on average, without including the internal selection process for the training providers. As for the internal costs, they were also quantified in approximately 20 FTE personnel days, including both design and delivery.

Impacts on the market for e-Commerce in the European Union

The table below provides an overview of the key economic impacts assessed for this Option.

Table 42 – Overview of economic impacts for Option 4 (threshold of EUR 10 000)

	Total e-Commerce	Cross-border e-Commerce	EU cross-border e-Commerce	Non-EU cross-border
EU e-Commerce volume				
Threshold of EUR 10 000				
Millions of transactions	-113.9	-158.7	40.5	-199.2
%	-0.39	-2.72	1.10	-9.3
EU e-Commerce prices				
Threshold of EUR 10 000				
%	0.73	1.84	-0.03	5.66
e-Commerce value				
Threshold of EUR 10 000				
EUR billions	3.77	-0.69	1.48	-2.17
%	0.33	-0.36	1.07	-4.2

Source: Deloitte analysis

The introduction of the SEM (with a registration threshold of EUR 10 000) is expected to have a positive impact on EU cross-border e-Commerce volumes (increase of 1.1%, and 1.07% increase in value); however, the effect on non-EU imports is estimated to be negative due to the increase in compliance and VAT paid. The change in e-Commerce volumes is largely driven by the change in prices, which reflect the administrative burden.

Impacts on compliance

Intra EU simplification

Option 4 is expected to further improve both voluntary compliance and compliance control on intra EU cross border trade in goods and non-TBE services. The SEM would facilitate the monitoring of compliance and the fight against fraud for Member States due to increased exchange of information and closer administrative cooperation, similarly to the current MOSS system for TBE services.

Import VAT simplification

Option 4 is expected to further improve both voluntary compliance and compliance control on the import of goods with value up to EUR 150. The Option would also support the fight against by sustaining the reduction of undervaluation and incorrect labelling of the goods, or split imports. The use of SEM on import has a potential to improve also compliance control, as the non-EU trader would become VAT registered in the EU, having therefore closer connection with the EU tax authorities.

4.6 Policy Option 5: Option 4 plus amendments to the Single Electronic Mechanism (home country legislation and home country control, subject to applying rate/exemptions of the Member State of Consumption)

Under Option 5, both the distance selling threshold and the VAT exemption for the importation of small consignments are removed. This Option has a common VAT threshold for business (set at EUR 5 000 and 10 000). Supplies below the threshold can either be treated under domestic rules (alternative 1) or being exempt from VAT (alternative 2). Businesses have the Option to register for the single electronic registration and payment mechanism, to declare cross-border transactions, similar to the current functioning of the MOSS. The SEM applies also to imports of goods from third countries. The Optional so introduces simplified procedures for imports not processed via the SEM. The Option also introduces a collection fee for the Member State of Identification set at 0, 10%, 20% or 30%. With regard to audit, the rules of the Member State of Identification apply, so that businesses are subject to only one set of (domestic) rules.

4.6.1 Amendments to the SEM in Option 5

Structure and aim

Option 5 introduces an alternative to the way the SEM operates (as described under Option 4) by allowing the application of some home country (MS of identification/country of SEM registration) rules and legislation instead of the rules of the MS of consumption (as is currently the case in MOSS).

This Option applies to both EU suppliers (that can use the SEM for all their its intra-EU cross-border - B2C supplies, as in Option 4) and to non-EU suppliers/third parties, which can use SEM for B2C imports under Customs threshold of EUR 150, as in Option 4, including the three alternative Customs simplifications.

This Option directly links to the specific objectives of minimising burdens attached to cross-border e-Commerce arising from different VAT regimes and of facilitating the monitoring of compliance and the fight against fraud of Member States' authorities. It provides additional simplification to the suppliers and reduces their administrative burden by allowing the suppliers to apply the legislation they are familiar with instead of the burden from monitoring and applying up to 27 sets of legislation of the MSs of destination. Of course, those businesses registered in countries that already have simpler VAT-related obligations will benefit from the Option in comparison to businesses registered in MSs with heavier VAT-related obligations.

In addition, it can be expected that in order to attract businesses to register for their SEM, Member States will tend to offer favourable conditions to businesses. In the medium to long term, this could lead to a convergence and de facto harmonisation of VAT-related obligations across Member States.

Process flow

Same as in Option 4.

Roles and responsibilities of the stakeholders

Member States

All EU Member States will have to upgrade/adapt their current MOSS system so as to include the additional transactions to be included in the SEM, maintain and promote the use of the SEM (similar to what has been done for the MOSS), which includes the IT-related costs, but also (possibly) internal process re-engineering, promotion and dissemination campaigns, etc. In addition, the first two alternatives for imports (supplier registration and intermediary registration) might require some additional IT developments to be implemented (as under Option 4).

Member States of Identification will keep the responsibility for controlling and auditing businesses registered for all their e-Commerce trade (apart from the application of the VAT rate of the MSC).

Businesses

Both EU and non-EU supplier/third party can apply some rules of MSI (rather than MSC) regarding the supplies declared in SEM. The rules may include invoicing, chargeability, evidence, cash accounting, bad debt relief, audit and penalties.

The VAT rates and exemptions of the MSC continue to apply.

The ‘home country’ rules can be applied only on the supplies declared in SEM, all other supplies (e.g. B2B or B2C if supplier is established in the MSC) will continue to follow the current rules (mostly the rules of MSC).

Postal Operators and Couriers

This Option introduces small change in the role and responsibilities of postal operators and couriers with respect to Option 4 in cases where they use SEM on behalf of non-EU businesses (alternative (ii)).

4.6.2 Analysis of the impacts of Policy Option 5

As Option 5 is a variation of Option 4, the impacts of both Options are broadly the same in terms of quantifiable data available.

Impacts on Member States

Expected impacts

The expected impacts on Member States for introducing the SEM, the abolishment of the distance selling threshold and of the small consignment exemption and the introduction of a new threshold of either EUR 5 000 or EUR 10 000 is explained in detail in Option 4. In short, these changes are expected to:

- Increase VAT revenues, benefitting mostly the MSCs with respect to the Status Quo as the volume of e-Commerce cross-border transactions to be taxed at the VAT rate of the Member State of Consumption will increase.
- The distribution of the VAT revenues from cross-border e-Commerce transactions between MSCs and MSIs will depend on the level of the threshold, as well as on the rules to be applied for transactions below the thresholds (i.e. home country rules or VAT exemption, and level of the revenue collection fee for MSI).

- VAT revenues from TBE services are not expected to change with respect to the Status Quo, as the changes are not expected to modify the use of the MOSS systems for those businesses already registered to it.
- Under this Option, B2C cross-border e-Commerce imports from third countries will be taxed at the VAT rate of MSC from the first EUR.
- Member States will incur costs for the upgrade/adaptation of the MOSS to the SEM (including IT costs, process re-engineering, training, etc.) as well as for the promotion of the SEM (same as under Option 4).

Results: common VAT threshold of EUR 10 000, domestic rules

With regard to **VAT revenues from intra-EU** cross-border e-Commerce transactions, they are estimated to amount to about **9.183 EUR billion**, following the removal of the distance selling threshold. Such revenues represent the VAT revenue (using a 20% EU average rage) of the additional revenue of intra-EU cross-border e-Commerce sales originated from the minority of micro-businesses above the common EU VAT exemption threshold complying with VAT-related obligations, and above the common EU VAT exemption threshold. The VAT revenue corresponding to the cross-border transactions below the common EU VAT exemption threshold set at EUR 10 000 is estimated of about EUR 0.388 billion. VAT revenues from cross-border supply of TBE services is considered to remain stable around 3 EUR billion.

The table below provides an overview of the VAT revenues for Member States in the case of the common VAT threshold of EUR 10 000 and domestic rules for cross-border transactions below the threshold.

Table 43 – Impact of Option 4 on VAT revenues from intra-EU B2C cross-border e-Commerce

Member States	VAT revenues
VAT revenues below the threshold(EUR billion)	0.388
VAT loss due to non-compliance (EUR billion)	0.578
VAT revenue (EUR billion)	9.183

Source: Deloitte analysis

With regard to VAT revenues from imports, the share of parcels processed via the SEM and the related VAT revenue (as well as the VAT revenue from parcels processed outside of the SEM and VAT loss) is likely to be the same as under Option 4, as the provisions of Option 5 do not modify the framework for exports.

Such figure is similar to the result for Option 4, and represents a notable change with respect to the Status Quo, with a notable decrease of the VAT foregone, which is expected to fall from EUR 2.2/3.8 billion (estimated), to about EUR 578 million. Such a decrease can be explained to a large extent with the expected improvement in businesses' compliance to VAT-related obligations. Non-compliance is expected to dramatically decrease for transactions processed via the SEM (representing about 70% of the total VAT revenues for Member States), but also for those transactions processes outside of the SEM (representing about 20% of the VAT revenues).

With regard to VAT revenues from imports, the amount of parcels that will be processed via the SEM (both direct business registration, third party registration) is likely to impact to a large extent the amount of VAT collected by Member States. Similarly to cross-border e-Commerce, the increased VAT-compliance of online transactions via the SEM is expected to account for large part of the VAT revenues from imports (about 8.5% of total VAT revenues), while transactions processed outside of the SEM are likely impact VAT revenues only marginally (about 1.5% of the VAT revenues).

Member States will incur in **IT and overhead costs** for the upgrading the MOSS to the SEM and for the maintenance of the SEM portals, which are expected to be lower than those incurred for the MOSS set-up[68]. The analysis of the MOSS functioning carried out under Lot 3 provides some figures on the MOSS set-up and maintenance costs for Member States, that we report to provide the order of magnitude of the likely costs for the SEM. Maintenance costs for the SEM are expected to be similar to those of the MOSS.

As for the related overhead costs, they include organisational costs, business process re-engineering, training, etc. Literature on IT transformation[69] suggests to apply a 1:3 'rule-of-thumb' while quantifying the overhead costs for transformative IT project, i.e. for every EUR spent on IT, 3 EUR are spent on overhead. Literature on e-Government projects[70] suggests that such proportion could increase up to 1:5 in large e-Government projects. Therefore, the average overhead costs for the implementation of the national MOSS portals (and likely for the SEM) can be estimated as ranging from EUR 7.630 million to EUR 12.7 million on average, depending on which 'rule-of-thumb' is applied.

Impacts on businesses

Expected impacts

The expected impacts on businesses for introducing the SEM, the abolishment of the distance selling threshold and of the small consignment exemption and the introduction of a new threshold of either EUR 5 000 or EUR 10 000 is explained in detail in Option 4. In short, the impacts expected are the following:

- Increased administrative costs for EU businesses exceeding the threshold that choose to register in each Member State where they have B2C cross-border e-Commerce, rather than use the SEM;
- The application of a fully harmonised set of EU rules for cross-border transactions processed via the SEM. These rules are likely to impact the same costs as under Option 5, e.g. the rules for currency conversion, the rules on record-keeping, invoicing and for inputting corrections in VAT declarations. As the new rules for the SEM will modify and simplify the current MOSS, the corresponding costs for submission and payment of VAT returns will decrease (for instance, returns will become simpler)[71]. Such reduction is likely to be lower than under Option 5, however, due to the upward harmonisation of the common set of EU rules.
- This Option is likely to reduce the one-off costs businesses incur to adapt their IT systems (including websites and ERP systems), as they will be subject to domestic obligations only. Therefore, they only major changes they will have to incorporate will consist in the inclusion (and automatic application) of the correct VAT rate of the Member States of Consumption for

[68] See the Final Report of Lot 3
[69] Rand Overhead, General and Administrative costs, available at: https://www.rand.org/content/dam/rand/pubs/monograph_reports/MR1325/MR1325.ch9.pdf
[70] Kettani D., Moulin B. (2015), e-Government for Good Governancen Developing Countries, International Development Research Centre
[71] See assumption 21 under annex 4 for more details.

each transaction. Similarly, the maintenance costs and the costs incurred to monitor relevant changes in the legislation are likely to be lower than under Option 4;

- The application of 'home rules' for transactions processed via the SEM is likely to increase the take-up of the system by businesses with respect to Option4.
- The removal of the small value consignment exemption would lead to a notable increase of the number of parcels to be processed at Customs (same as under Option 4).
- The simplification in audit procedures is likely to have a major impact on businesses. Unfortunately, there are no data at this stage to assess the impact of such changes on the costs of audits for businesses.
- Businesses active in TBE services are not expected to be affected with respect to the Status Quo, as the Option does not modify the framework for these services.
- Postal operators and couriers will have to pass through Customs a larger share of parcels, with possible implications on their processing costs and on timing of the delivery with respect to the Status Quo (same as under Option4).

Results common VAT threshold of EUR 10 000, domestic rules

In addition to the changes proposed in Option 4, Option 5 allows businesses using the SEM to follow the VAT rules of the MSI while simply applying the rate of VAT in the MSC. This feature is expected to further lower the administrative costs for businesses using the MOSS with respect to the costs estimated under Option 4. Stakeholders (especially businesses) commented favourably this Option both via the online business survey and during the different workshops, considering it a notable improvement with respect to Option 4, which in turn was considered as a notable improvement with respect to the Status Quo.

Our analysis estimates that with a common EU VAT exemption threshold of EUR 10 000 the **overall administrative costs** for businesses active on cross-border e-Commerce of goods under Option 4 are estimated of about **EUR 1.871 billion**. This figure represents a decrease of 55% with respect to the Status Quo.

Costs however will likely differ largely between those businesses that benefit from the common EU VAT threshold, and those whose EU cross-border sales are above the common EU VAT exemption threshold.

When the common EU VAT exemption threshold is set at EUR 10 000, businesses benefiting from it (according to our estimates, 97% of micro-businesses active in B2C cross-border e-Commerce) are not likely to encounter additional administrative costs for VAT-related obligations, as the cross-border sales will be subject to domestic rules.

Administrative costs for businesses with cross-border sales above the threshold and adopting the SEM are estimated to amount to about EUR 1 212 per company per year or about (on average) EUR 404 per company for each Member State they sell cross-border (up to two, on average).

Finally, administrative costs for businesses with cross-border sales above the threshold and outside of the SEM are estimated to amount to about EUR 28 000 (EUR 28 163) per company per year or about (on average) EUR 4 700 (EUR 4 694) per company for each Member State they sell cross-border (four VAT registrations, on average).

With regard to the **number of businesses** engaged in cross-border e-Commerce, about 20% of businesses engaged in cross-border e-Commerce are expected to register to the SEM, representing about 74% of the volume of cross-border e-Commerce.

The table below provides an overview of the number of businesses above the common EU VAT exemption threshold and in/outside of the SEM, per size of businesses, and per volume of cross-border e-Commerce. Overall, it is estimated that about 20% of businesses will register to **SEM** under Option 5, representing about **74% of the volume** of cross-border e-Commerce.

Table 44 – Estimated adoption rate of the SEM by EU businesses under Option 5, common EU VAT exemption threshold at EUR 10 000

	Businesses below the common VAT threshold (EUR 5000 – 10 000)	**Businesses above the common VAT threshold and in the SEM (EUR 5000 – 10 000)**	**Businesses above the common VAT threshold and outside the SEM**
Micro businesses	429 171	13 273	
Small businesses		77 630	4 086
Medium businesses		20 905	3 689
Large businesses		6 408	2 746
Total number of businesses	429 171	118 218	10 521
(% of businesses)	*76.9%*	*20.1%*	*1.9%*
(% of cross-border e-Commerce volume)	*3.2%*	*73.9%*	*22.4%*

Source: Deloitte analysis

Businesses will be likely to incur in costs for adapting their IT systems and procedures to the new rules and to the requirements of the SEM, including (e.g. IT costs, process re-engineering, training, etc.). Such costs are likely to be lower than those estimated under Option 4, as the changes to be implemented are lower than those required under Option 4.

Finally, as mentioned earlier, postal operators and couriers are likely to pass through Customs a larger share of parcels, balanced by a reduction in processing costs due to the simplified procedures introduced with the SEM. Option 5 does not introduce further changes with respect to Option 4. Therefore, the reduction in processing costs for couriers and postal operators is estimated of about 24% with respect to the Status Quo.

In addition, as for Option 4, the implementation of this Option (and especially of a simplification tool such as the SEM) is expected to lead to a notable decrease in non-compliance with VAT-related obligations, which in turn translates into a notable increase in the expected VAT revenues for Member States (about EUR 9 billion, with VAT foregone estimated to about EUR 634 million). The same considerations on the possibility to aligning the requirements for information in respect of VAT with the Customs information provided under Option 4 apply here. Such provisions should reduce development costs for couriers and postal operators. This would also bring benefits to Customs administrations as the necessity to ensure that VAT has been pre-declared can be integrated into the general clearance process rather than having a separate process only for VAT.

Impacts on the market for e-Commerce in the European Union

Expected impacts

The expected impacts on the wider economy from the removal of the distance sales thresholds and the small consignment exemption and the introduction of the SEM are described in detail under Option 4. In short, these impacts can be summarised as follows:

- The domestic rule for SEM transactions is expected to further reduce the administrative burden for those businesses that opt into the system;
- The variable costs associated with e-Commerce imports is expected to be reduced;
- The reduction of the VAT registration threshold may lead some businesses to cease trading cross-border rather than incur additional administrative costs.
- The analysis from the SCM indicates that the compliance cost is about EUR 400. For businesses whose sales exceed the registration threshold of EUR 5 000 or EUR 10 000 these costs are small relative to the revenues from cross-border e-Commerce; it is therefore assumed that exit from the cross-border e-Commerce market is negligible in this case.

Results: common VAT threshold of EUR 10 000

The mechanisms through which Option 5 may affect the e-Commerce market in the EU are similar to those described for Option 4. However, the administrative burden is expected to be further reduced by the use of domestic rules for the SEM. These additional reductions in costs are reflected in lower prices and therefore an increase in demand for EU cross-border e-Commerce relative to Option 4.

The table below summarises the impacts on volumes, prices and the overall value of the market.

Table 45 – Impact of Option 5 (EUR 10000 threshold) on EU e-Commerce

<table>
<tr><th></th><th>Volumes (millions of transactions)</th><th>Prices</th><th>Value (EUR billions)</th></tr>
<tr><td rowspan="2">Total e-Commerce</td><td>-104.7</td><td rowspan="2">0.68%</td><td>3.57</td></tr>
<tr><td>-0.36%</td><td>0.32%</td></tr>
<tr><td rowspan="2">Cross-border e-Commerce</td><td>-153.0</td><td rowspan="2">1.75%</td><td>-0.63</td></tr>
<tr><td>-2.62%</td><td>-0.33%</td></tr>
<tr><td rowspan="2">EU Cross-border e-Commerce</td><td>47.4</td><td rowspan="2">-0.15%</td><td>1.57</td></tr>
<tr><td>1.29%</td><td>1.13%</td></tr>
<tr><td rowspan="2">Non-EU Cross-border e-Commerce</td><td>-200.4</td><td rowspan="2">5.66%</td><td>-2.20</td></tr>
<tr><td>-9.35%</td><td>-4.22%</td></tr>
</table>

Source: Deloitte analysis

Impacts on compliance

Compliance impact of Option 5 would be very similar to Option 4. However, Option 5 is expected to further increase voluntary compliance by providing additional simplification to the SEM in the form of application of home country legislation. Option 5 has also a potential to further improve compliance controls and reduce fraud, provided there is an effective administrative cooperation between the MSI and all the MSCs.

4.6.3 Key findings

Policy Option 5 entails a removal of the current distance sales threshold, the small consignment exemption and the introduction of a new cross-border exemption threshold for EU micro enterprises of EUR 10 000, with domestic rules applying to transactions above the threshold (the impacts on the threshold of EUR 5 000 and of transactions above the threshold being exempt from VAT are described in section 0). In addition, the Option introduces a Single Electronic Registration (SEM) for intra-EU supplies of goods and non-TBE services. The Option is expected to affect the roles and responsibilities of Member States, EU and non-EU businesses and couriers and postal operators. Cross-border transactions will be subject to home country rules (while still be taxed at the VAT rate of the MSC).

Impacts on Member States

The table below provides an overview of the impacts on Member States assessed for this Option.

Table 46 – Overview of impacts on Member States for Option 5 (threshold of EUR 10 000)

Member States	VAT revenues
EU cross-border e-Commerce	**Threshold of EUR 10 000 (EUR billion)**
VAT revenues below the threshold(EUR billion)	0.388
VAT loss due to non-compliance (EUR billion)	0.578
VAT revenue (EUR billion)	9.183
Imports from third countries	
Volume of consignment below EUR 150	187 288 192
VAT revenue via the SEM	
Volume of consignment processed via the SEM	140 840 720
VAT loss due to non-compliance (EUR billion)	0.035
VAT revenue (EUR billion)	0.665
Compliance	5% non-compliance
VAT revenue outside of the SEM	
Volume of consignment processed outside the SEM	46 447 472
VAT loss due to non-compliance (EUR billion)	0.138
Corresponding VAT revenue (EUR billion)	0.092
Compliance	60% non-compliance

Source: Deloitte analysis

For Member States, the VAT revenue corresponding to the intra-EU cross-border transactions below the common EU VAT exemption threshold set at EUR 10 000 threshold is estimated at about EUR **9.183 billion**. VAT revenues from TBE services are considered to remain stable at about EUR 3 billion. VAT revenues from imports are also expected to increase with respect to the Status Quo, as an effect of the use of the SEM for all parcels below the Customs thresholds of EUR 150 by non-EU traders (either via direct registration or via third party registration). The figures presented above represent a notable increase in VAT revenues with respect to the status quo (as well as with respect to Options 2 and 3), and similar to those estimated under Option 4. Such an improvement in VAT revenues for Member States is explained to a large extent to an increase in compliance with VAT-related obligations.

Overall, it is estimated that about 20% of businesses will register to **SEM** under Option 5, representing about **74% of the volume** of cross-border e-Commerce.

IT costs for the upgrade/adaptation of MOSS systems to the SEM requirements are expected to be to a certain extent lower than those incurred by Member States for setting up the MOSS. Set-up costs for the MOSS have been estimated to about **EUR 2.500 million** per Member State. **Maintenance costs** are expected to be similar to those currently sustained for the MOSS, which have been quantified to EUR 251 604 per year (on average) for the MOSS (same as under Option 4).

With regard to imports, Option 5 is not expected to have different impacts than Option 4.

Impacts on businesses

The table below provides an overview of the main impacts on businesses assessed for this Option.

Table 47 –Overview of impacts on businesses of Option 5 (threshold of EUR 10 000)

	Threshold at EUR 10 000		
Administrative burden	Goods	Services	Goods and services
Total (EUR billion)	0.439	1.437	1.871
per company (EU businesses) (EUR)	0 – (below the threshold) 1 212 (above the threshold and in SEM) 28 163 (above the threshold and outside SEM)	2 020 (MOSS/SEM registered) 23 601 (non registered for MOSS/SEM)	0 – (below the threshold) 1 212 (above the threshold and in SEM) 28 163 (above the threshold and outside SEM 2 020 (MOSS/SEM registered) 23 601 (non registered for MOSS
per company per Member State (EUR)	0 – (below the threshold) 404 (above the threshold and in SEM) 4 694 (above the threshold and outside SEM)	404 (MOSS/SEM registered) 5 203 (non registered for MOSS/SEM)	0 – (below the threshold) 404 (above the threshold and in SEM) 4 694 (above the threshold and outside SEM) 404 (MOSS/SEM registered) 5 203 (non registered for MOSS/SEM)
No of companies	429 171 (below the threshold) 118 216 (above the threshold and in SEM) 10 521 (above the threshold and outside SEM)	10 604 (MOSS registered) 33 969 (non registered for MOSS)	429 171 (below the threshold) 118 216 (above the threshold and in SEM) 10 521 (above the threshold and outside SEM) 10 604 (MOSS/SEM registered) 33 969 (non registered for MOSS/SEM)

Source: Deloitte analysis

If the threshold is set at **EUR 10 000** the overall administrative burden for businesses is expected to decrease by 55% with respect to the status quo (the reduction is estimated of 42% under Option 4). EU businesses will benefit from a clearer legislative framework applying throughout the EU.

The impacts of Option 5 for processing costs of postal operators and couriers are not likely to differ from those of Option 4, i.e. a 24% reduction with respect to the Status Quo. In addition, third parties (including postal operators, couriers and large marketplaces) would have a stronger role and more responsibilities under alternative (ii), as they will register with the SEM and report and pay VAT on behalf of non-EU businesses (becoming agents).

Businesses will be likely to incur in costs for adapting their systems and procedures to the new rules and to the requirements of the SEM, including IT costs, process re-engineering, training, etc., lower than those estimated under Option 4 (as well as those incurred under the current MOSS system).

In consideration of the upcoming implementation of the Union Customs Code, which imposes specific information requirement to Customs procedures, the possibility to align the requirements for information in respect of VAT with those for Customs could be considered (as for Option 4). Such provisions should reduce development costs for couriers and postal operators. This would also bring benefits to Customs administrations as the necessity to ensure that VAT has been pre-declared can be integrated into the general clearance process rather than having a separate process only for VAT.

Impacts on the market for e-Commerce in the European Union

The table below provides an overview of the key economic impacts assessed for this Option.

Table 48 – Overview of economic impacts for Option 5 (threshold of EUR 10 000)

	Total e-Commerce	Cross-border e-Commerce	EU cross-border e-Commerce	Non-EU cross-border
EU e-Commerce volume				
Threshold of EUR 10 000				
Millions of transactions	-104.7	-153.0	47.4	-200.4
%	-0.36%	-2.62%	1.29%	-9.35%
EU e-Commerce prices				
Threshold of EUR 10 000				
%	0.68%	1.75%	-0.15%	5.66%
e-Commerce value				
Threshold of EUR 10 000				
EUR billions	3.57	-0.63	1.57	-2.20
%	0.32%	-0.33%	1.13%	-4.22%

Source: Deloitte analysis

The introduction of the SEM (with a registration threshold of EUR 10 000) is expected to have a positive impact on EU cross-border e-Commerce volumes (increase of 1.29%, and 1.13% increase in value); however, the effect on non-EU imports is estimated to be negative due to the increase in compliance and VAT paid. The change in e-Commerce volumes is largely driven by the change in prices, which reflect the administrative burden.

Impacts on compliance

Compliance impact of Option 5 would be very similar to Option 4. However, Option 5 is expected to further increase voluntary compliance by providing additional simplification to the SEM in the form of application of home country legislation. Option 5 has also a potential to further improve compliance controls and reduce fraud, provided there is an effective administrative cooperation between the MSI and all the MSCs.

4.7 Policy Option 6 Option 4 plus fully harmonised EU rules for Single Electronic Mechanism, subject to applying the rates/exemption of the Member State of Consumption

Under Option 6, both the distance selling threshold and the VAT exemption for the importation of small consignments are removed. This Option has a common VAT threshold for business (set at EUR 5 000 and 10 000). Supplies below the threshold can either be treated under domestic rules (alternative 1) or being exempt from VAT (alternative 2). Businesses have the Option to register for the single electronic registration and payment mechanism, to declare cross-border transactions, similar to the current functioning of the MOSS. The SEM applies also to imports of goods from third countries. The option also introduces simplified procedures for imports not processed via the SEM. The option also introduces a collection fee for the Member State of Identification set at 0, 10%, 20% or 30%. With regard to audit, a two sets of rules apply, i.e. home country rules for domestic transactions, and fully harmonised EU rules for cross-border transactions under the SEM.

4.7.1 Harmonised EU Rules for SEM

Structure and aim

Option 6 provides another alternative to the way the SEM operates (as in Option 4) by introducing a common set of EU rules and legislation instead of the rules of the MS of destination (as in MOSS) or the 'home country' rules (as in the Option 5).

This Option applies to both EU suppliers (that can use the SEM for all their its intra-EU cross-border -B2C supplies, as in Option 4) and to non-EU suppliers/third parties, which can use SEM for B2C imports under Customs threshold of 150 EUR, as in Option 4, including the three alternative Customs simplifications.

While the exact provisions established under the harmonised EU rules are not entirely defined, an upward harmonisation of national rules can be assumed, i.e. that the set of harmonised rules will set the obligations at the highest level. For instance, the requirements of storage of invoicing is assumed to be set at 10 years, i.e. the highest requirement currently foreseen by Member States' legislation.

This Option directly links to the specific objectives of minimising burdens attached to cross-border e-Commerce arising from different VAT regimes and of facilitating the monitoring of compliance and the fight against fraud of Member States' authorities. It provides additional simplification to the suppliers.

With respect to Option 5, it does not create potentially distortive competition between the businesses registered for SEM in different MSs although it also reduces the motivation of a MS to offer simpler rules in order to attract businesses to register for SEM in their MS.

Process flow

Same as in Option 4.

Roles and responsibilities of the stakeholders

Member States

All EU Member States will have to upgrade/adapt their current MOSS system so as to include the additional transactions to be included in the SEM, maintain and promote the use of the SEM (similar to what has been done for the MOSS). This includes the IT-related costs, but also (possibly) internal process re-engineering, promotion and dissemination campaigns, etc. In addition, the first two alternatives for imports (supplier registration and intermediary registration) might require some additional IT developments to be implemented (as under Option 4 and Option 5).

Member States will be responsible for agreeing upon (together with the Commission) on a common set of rules, and to apply it uniformly across the European Union (apart from the application of the VAT rate of the MSC).

Businesses

Both EU and non-EU supplier/third party will apply the same set of EU rules. The rules may include invoicing, chargeability, evidence, cash accounting, bad debt relief, audit and penalties.

The VAT rates and exemptions of the MSC continue to apply.

The actual burden on businesses will depend to a large extent on the content of the set of EU rules and on the obligations they impose *('where will the bar be set?')*. As mentioned earlier, upward harmonisation of rules is assumed for the analysis.

Postal Operators and Couriers

This Option does not introduces major changes in the role and responsibilities of postal operators and couriers with respect to Option 4 in cases where they use SEM on behalf of non-EU businesses (alternative (ii)).

4.7.2 Analysis of the impacts of Policy Option 6

As Option 6 is a variation of Option 4, the impacts of both Options are broadly the same in terms of quantifiable data available.

Impacts on Member States

Expected impacts

The expected impacts on Member States for introducing the SEM, the eliminating the distance selling threshold and of the small consignment exemption and the introduction of a new threshold is explained in detail in Option4. In short, these changes are expected to:

- Increase VAT revenues, benefitting mostly the MSCs with respect to the Status Quo as the volume of e-Commerce cross-border transactions to be taxed at the VAT rate of the Member State of Consumption will increase;
- The distribution of the VAT revenues from cross-border e-Commerce transactions between MSCs and MSIs will depend on the level of the threshold, as well as on the rules to be applied for transactions below the thresholds (i.e. home country rules or VAT exemption, and level of the revenue collection fee for MSI);
- VAT revenues from TBE services are not expected to change with respect to the Status Quo, as the changes are not expected to modify the use of the MOSS/SEM systems for those businesses already registered to it;
- With regard to VAT revenues from imports, the amount of parcels that will be processed via the SEM (both under alternative 1 – direct business registration, and under alternative 2 – third party registration) is likely to impact to a large extent the amount of VAT collected by Member States (same as under Option 4);
- Under this Option, B2C cross-border e-Commerce imports from third countries will be taxed at the VAT rate of MSC from the first EUR;
- Member States will incur costs for the upgrade/adaptation of the MOSS to the SEM (including IT costs, process re-engineering, training, etc.) as well as for the promotion of the SEM (same as under Option 4);
- The removal of the small value consignment exemption would lead to a notable increase of the number of parcels to be processed at Customs (same as under Option 4).

In addition to these abovementioned impacts, as detailed under Option 4, the volume of audits and Customs controls is not expected to be highly impacted by this Option. Since the majority of audits are currently carried out by the MSI authorities, the volume would not increase, provided that MSI will have audit rights under the harmonised framework. However, as the framework for audit under the harmonised set of rules is not clear, it is not possible to have clear predictions.

The introduction of the SEM is expected to introduce simplified procedures to counter-balance such adverse effects. The SEM is expected to provide a simpler channels for businesses engaged in cross-border e-Commerce to comply with VAT-related obligations, both for EU and non-EU businesses.

Results: common VAT threshold of EUR 10 000, domestic rules

With regard to **VAT revenues from intra-EU** cross-border e-Commerce transactions, they are estimated to amount to about **9.179 EUR billion**, following the removal of the distance selling threshold. Such revenues represent the VAT revenue (using a 20% EU average rage) of the additional revenue of intra-EU cross-border e-Commerce sales originated from the minority of micro-businesses above the common EU VAT exemption threshold complying with VAT-related obligations, and above the common EU VAT exemption threshold. The VAT revenue corresponding to the cross-border transactions below the common EU VAT exemption threshold set at EUR 10 000 is estimated of about EUR 0.388 billion.

The table below provides an overview of the VAT revenues for Member States in the case of the common VAT threshold of EUR 10 000 and domestic rules for cross-border transactions below the threshold.

Table 49 – Impact of Option 4 on VAT revenues from intra-EU B2C cross-border e-Commerce

Member States	VAT revenues

VAT revenues below the threshold(EUR billion)	0.388
VAT loss due to non-compliance (EUR billion)	0.581
VAT revenue (EUR billion)	9.179

Source: Deloitte analysis

With regard to VAT revenues from imports, the share of parcels processed via the SEM and the related VAT revenue (as well as the VAT revenue from parcels processed outside of the SEM and VAT loss) is likely to be the same as under Option 4, as the provisions of Option 5 do not modify the framework for exports.

Such figure is similar to the result for Options 4 and 5, and represents a notable change with respect to the Status Quo, with a notable decrease of the VAT foregone, which is expected to fall from EUR 2.2/3.8 billion (estimated), to about EUR 581 million. Such a decrease can be explained to a large extent with the expected improvement in businesses' compliance to VAT-related obligations. Non-compliance is expected to dramatically decrease for transactions processed via the SEM (representing about 70% of the total VAT revenues for Member States), but also for those transactions processes outside of the SEM (representing about 21% of the VAT revenues).

With regard to VAT revenues from imports, the amount of parcels that will be processed via the SEM (both direct business registration, third party registration) is likely to impact to a large extent the amount of VAT collected by Member States. Similarly to cross-border e-Commerce, the increased VAT-compliance of online transactions via the SEM is expected to account for large part of the VAT revenues from imports (about 7.5% of total VAT revenues), while transactions processed outside of the SEM are likely impact VAT revenues only marginally (about 1.5% of the VAT revenues).

Member States will incur in **IT and overhead costs** for the upgrading the MOSS to the SEM and for the maintenance of the SEM portals, which are expected to be lower than those incurred for the MOSS set-up[72]. The analysis of the MOSS functioning carried out under Lot 3 provides some figures on the MOSS set-up and maintenance costs for Member States, that we report to provide the order of magnitude of the likely costs for the SEM. Maintenance costs for the SEM are expected to be similar to those of the MOSS.

As for the related overhead costs, they include organisational costs, business process re-engineering, training, etc. Literature on IT transformation[73] suggests to apply a 1:3 'rule-of-thumb' while quantifying the overhead costs for transformative IT project, i.e. for every EUR spent on IT, 3 EUR are spent on overhead. Literature on e-Government projects[74] suggests that such proportion could increase up to 1:5 in large e-Government projects. Therefore, the average overhead costs for the implementation of the national MOSS portals (and likely for the SEM) can be estimated as ranging from EUR 7.630 million to EUR 12.7 million on average, depending on which 'rule-of-thumb' is applied.

[72] See the Final Report of Lot 3

[73] Rand Overhead, General and Administrative costs, available at: https://www.rand.org/content/dam/rand/pubs/monograph_reports/MR1325/MR1325.ch9.pdf

[74] Kettani D., Moulin B. (2015), e-Government for Good Governancen Developing Countries, International Development Research Centre

Impacts on businesses

Expected impacts

The expected impacts on businesses for introducing the SEM, the eliminating the distance selling threshold and of the small consignment exemption and the introduction of a new threshold of either EUR 5 000 or EUR 10 000 is explained in detail in Option 4. In short, the impacts expected are the following:

- Increased administrative costs for EU businesses exceeding the threshold that choose to register in each Member State where they have B2C cross-border e-Commerce, rather than use the SEM;
- The SEM is therefore more likely to impact new and/or smaller businesses, and businesses entering new cross-border markets (where they are likely to be below the common EU VAT exemption threshold) as it will provide a relief to the additional administrative burden caused by the elimination of the distance selling thresholds;
- EU Businesses, non-EU businesses and third parties will be likely to incur in costs for adapting their systems and procedures to the new rules and to the requirements of the SEM, including (e.g. IT costs, process re-engineering, training, etc.);
- Businesses active in TBE services are not expected to be affected with respect to the Status Quo, as the Option does not modify the framework for these services;
- As with Options 2, 3 and 4, the removal of the small consignment exemption is likely to affect mostly small and medium-sized enterprises from third countries;
- Postal operators and couriers will have to pass through Customs a larger share of parcels, with possible implications on their processing costs and on timing of the delivery with respect to the Status Quo (same as under Options 2, 3 and 4 and under Option 3);
- Businesses will be subject to the set of harmonised rules only for cross-border transactions (while applying still the VAT rate of the Member State of Consumption). This should reduce the costs businesses incur to comply with VAT legislation on issues such as invoicing and (mostly) audit, as they are subject only to two set of rules, rather than up to (potentially) 28 (home country rules for domestic transactions and the rule of each Member States businesses have sales), but to a lesser extent as under Option 5.

  It has to be pointed out that the set of harmonised EU rules will apply to cross-border transactions only for businesses registered to the SEM, but not for those above the common VAT threshold but not registered to the SEM. These businesses will thus be subject to the same framework as the businesses above the distance selling threshold in the Status Quo.

Results: common VAT threshold of EUR 10 000, domestic rules

In addition to the changes proposed in Option 4, Option 6 allows businesses using the SEM to follow the VAT rules of the set of harmonised rules while applying the rate of VAT in the MSC. This feature is expected to further lower the administrative costs for businesses using the MOSS with respect to the costs estimated under Option 4 (and thus with respect to the Status Quo). However, this reduction of the administrative costs is likely to be than with the application of home country rules (Option 5), as businesses will have to comply with two set of rules instead of only one.

Our analysis estimates that with a common EU VAT exemption threshold of EUR 10 000 the **overall administrative costs** for businesses active on cross-border e-Commerce of goods under Option 4 are estimated of about **EUR 2.054 billion**. This figure represents a decrease of 51% with respect to the Status Quo.

Costs however will likely differ largely between those businesses that benefit from the common EU VAT threshold, and those whose EU cross-border sales are above the common EU VAT exemption threshold.

When the common EU VAT exemption threshold is set at EUR 10 000, businesses benefiting from it (according to our estimates, 97% of micro-businesses active in B2C cross-border e-Commerce) are not likely to encounter additional administrative costs for VAT-related obligations, as the cross-border sales will be subject to domestic rules.

Administrative costs for businesses with cross-border sales above the threshold and adopting the SEM are estimated to amount to about EUR 1 558 per company per year or about (on average) EUR 519 per company for each Member State they sell cross-border (up to two, on average).

Finally, administrative costs for businesses with cross-border sales above the threshold and outside of the SEM are estimated to amount to about EUR 28 000 (EUR 28 163) per company per year or about (on average) EUR 4 700 (EUR 4 694) per company for each Member State they sell cross-border (four VAT registrations, on average).

With regard to the **number of businesses** engaged in cross-border e-Commerce, about 20% of businesses engaged in cross-border e-Commerce are expected to register to the SEM, representing close to 74% of the volume of cross-border e-Commerce[75].

The table below provides an overview of the number of businesses above the common EU VAT exemption threshold and in/outside of the SEM, per size of businesses, and per volume of cross-border e-Commerce.

Table 50 – Estimated adoption rate of the SEM by EU businesses under Option 5, common EU VAT exemption threshold at EUR 10 000

	Businesses below the common VAT threshold (EUR 10 000)	**Businesses above the common VAT threshold and in the SEM (EUR 10 000)**	**Businesses above the common VAT threshold and outside the SEM**
Micro businesses	429 171	13 273	
Small businesses		73 544	8 172
Medium businesses		19 183	5 411
Large businesses		5 950	2 289
Total number of businesses	429 171	118 218	15 871
(% of businesses)	*76.9%*	*20.1%*	*1.9%*
(% of cross-border e-Commerce volume)	*3.2%*	*73.9%*	*23.2%*

[75] See assumption 22 in annex 4 for more details.

Source: Deloitte analysis

Businesses will be likely to incur in costs for adapting their IT systems and procedures to the new rules and to the requirements of the SEM, including (e.g. IT costs, process re-engineering, training, etc.). Such costs are likely to be lower than those estimated under Option 4 but higher than under Option 5, as the changes to be implemented are lower than those required under Option 4 (but more complex than under Option 5).

Finally, as mentioned earlier, postal operators and couriers are likely to pass through Customs a larger share of parcels, balanced by a reduction in processing costs due to the simplified procedures introduced with the SEM. Option 6 does not introduce further changes with respect to Option 4. Therefore, the reduction in processing costs for couriers and postal operators is estimated of about 24% with respect to the Status Quo.

In addition, as for Option 4, the implementation of this Option (and especially of a simplification tool such as the SEM) is expected to lead to a notable decrease in non-compliance with VAT-related obligations, which in turn translates into a notable increase in the expected VAT revenues for Member States (about EUR 9 billion, with VAT foregone estimated to about EUR 581 million). The same considerations on the possibility to aligning the requirements for information in respect of VAT with the Customs information provided under Options 4 and 5 apply here. Such provisions should reduce development costs for couriers and postal operators. This would also bring benefits to Customs administrations as the necessity to ensure that VAT has been pre-declared can be integrated into the general clearance process rather than having a separate process only for VAT.

Impacts on the market for e-Commerce in the European Union

Expected impacts

The expected impacts on the wider economy from the removal of the distance sales thresholds and the small consignment exemption and the introduction of the SEM are described in detail under Option 4. In short, these impacts can be summarised as follows:

- The domestic rule for SEM transactions is expected to further reduce the administrative burden for those businesses that opt into the system;
- The variable costs associated with e-Commerce imports is expected to be reduced;
- The reduction of the VAT registration threshold may lead some businesses to cease trading cross-border rather than incur additional administrative costs;
- The analysis from the SCM indicates that the compliance cost is about EUR 400. For businesses whose sales exceed the registration threshold of EUR 5 000 or EUR 10 000 these costs are small relative to the revenues from cross-border e-Commerce; it is therefore assumed that exit from the cross-border e-Commerce market is negligible in this case.

Results: common VAT threshold of EUR 10 000

The mechanisms through which Option 5 may affect the e-Commerce market in the EU are similar to those described for Option 4. However, the administrative burden is expected to be further reduced by the use of harmonised rules for the SEM. These additional reductions in costs are reflected in lower prices and therefore an increase in demand for EU cross-border e-Commerce relative to Option 4, but a slight increase relative to Option 6.

The table below summarises the impacts on volumes, prices and the overall value of the market.

Table 51 – Impact of Option 6 (EUR 10000 threshold) on EU e-Commerce

	Volumes (millions of transactions)	Prices	Value (EUR billions)
Total e-Commerce	-108.4	0.69%	3.60
	-0.37%		0.32%
Cross-border e-Commerce	-156.0	1.79%	-0.68
	-2.68%		-0.35%
EU Cross-border e-Commerce	44.1	-0.10%	1.52
	1.20%		1.10%
Non-EU Cross-border e-Commerce	-200.1	5.66%	-2.19
	-9.34%		-4.20%

Source: Deloitte analysis

Impacts on compliance

Compliance impact of Option 6 would be very similar to Option 5, although the additional voluntary compliance would come from the application of fully harmonised EU rules, rather than home country rules. As in Option 5, the Option has a potential to improve compliance control provided there is an effective administrative cooperation between the MSI and all the MSC. Option 6 may further facilitate the compliance control by providing a single set of harmonised rules for taxpayer compliance which could facilitate the administrative cooperation on controls and simplify the compliance control of non-resident taxpayer activities.

4.7.3 Key Findings

Option 6 takes on the same changes as Option 4 but allows for common EU VAT rules while applying the VAT rate of the MSC.

Option 6 is expected to further lower the administrative costs for businesses using the SEM with respect to the costs estimated under Option 4 and under the Status Quo, but to a lower extent than Option 5. This Option would likely increase voluntary VAT compliance with respect to Option 4 (and to the Status Quo) as further simplification is brought by the application of harmonised EU rules.

Impacts on Member States

The table below provides an overview of the impacts on Member States assessed for this Option.

Table 52 – Overview of impacts on Member States for Option 6 (threshold of EUR 10 000)

Member States	VAT revenues
EU cross-border e-Commerce	**Threshold of EUR 10 000 (EUR billion)**
VAT revenues below the threshold(EUR billion)	0.388
VAT loss due to non-compliance (EUR billion)	0.581
VAT revenue (EUR billion)	9.179
Imports from third countries	
Volume of consignment below EUR 150	187 288 192

Member States	VAT revenues
VAT revenue via the SEM	
Volume of consignment processed via the SEM	140 840 720
VAT loss due to non-compliance (EUR billion)	0.035
VAT revenue (EUR billion)	0.665
Compliance	5% non-compliance
VAT revenue outside of the SEM	
Volume of consignment processed outside the SEM	46 447 472
VAT loss due to non-compliance (EUR billion)	0.138
Corresponding VAT revenue (EUR billion)	0.092
Compliance	60% non-compliance

Source: Deloitte analysis

For Member States, the VAT revenue corresponding to the intra-EU cross-border transactions below the common EU VAT exemption threshold set at EUR 10 000 threshold is estimated at about EUR **9.179 billion**. VAT revenues from TBE services are considered to remain stable at about EUR 3 billion. VAT revenues from imports are also expected to increase with respect to the Status Quo, as an effect of the use of the SEM for all parcels below the Customs thresholds of EUR 150 by non-EU traders (either via direct registration or via third party registration). The figures presented above represent a notable increase in VAT revenues with respect to the status quo (as well as with respect to Options 2 and 3), and similar to those estimated under Options 4 and 5. Such an improvement in VAT revenues for Member States is explained to a large extent to an increase in compliance with VAT-related obligations.

Overall, it is estimated that about 20% of businesses will register to **SEM** under Option 5, representing about **74% of the volume** of cross-border e-Commerce.

IT costs for the upgrade/adaptation of MOSS systems to the SEM requirements are expected to be to a certain extent lower than those incurred by Member States for setting up the MOSS. Set-up costs for the MOSS have been estimated to about **EUR 2.500 million** per Member State. **Maintenance costs** are expected to be similar to those currently sustained for the MOSS, which have been quantified to EUR 251 604 per year (on average) for the MOSS (same as under Option 4).

With regard to imports, Option 6 is not expected to have different impacts than Option 4.

Impacts on businesses

The table below provides an overview of the main impacts on businesses assessed for this Option.

Table 53 –Overview of impacts on businesses of Option 6 (threshold of EUR 10 000)

	Threshold at EUR 10 000		
Administrative burden	Goods	Services	Goods and services
Total (EUR billion)	0.617	1.437	2.054
per company (EU businesses) (EUR)	0 – (below the threshold) 1 558 (above the	2 595 (MOSS/SEM registered) 23 601 (non registered	0 – (below the threshold) 1 558 (above the threshold and in SEM)

	Threshold at EUR 10 000		
Administrative burden	Goods	Services	Goods and services
	threshold and in SEM) 28 163 (above the threshold and outside SEM)	for MOSS/SEM)	28 163 (above the threshold and outside SEM 2 295 (MOSS/SEM registered) 23 601 (non registered for MOSS/SEM)
per company per Member State (EUR)	0 – (below the threshold) 519 (above the threshold and in SEM) 4 694 (above the threshold and outside SEM)	519 (MOSS/SEM registered) 5 203 (non registered for MOSS/SEM)	0 – (below the threshold) 519 (above the threshold and in SEM) 4 694 (above the threshold and outside SEM) 519 (MOSS/SEM registered) 5 203 (non registered for MOSS/SEM)
No of companies	429 171 (below the threshold) 111 951 (above the threshold and in SEM) 15 8711 (above the threshold and outside SEM)	10 604 (MOSS/SEM registered) 33 969 (non registered for MOSS/SEM)	429 171 (below the threshold) 111 951 (above the threshold and in SEM) 15 8711 (above the threshold and outside SEM) 10 604 (MOSS/SEM registered) 33 969 (non registered for MOSS/SEM)

Source: Deloitte analysis

If the threshold is set at **EUR 10 000** the overall administrative burden for businesses is expected to decrease by 51% with respect to the status quo (the reduction is estimated of 42% under Option 4). EU businesses will benefit from a clearer legislative framework applying throughout the EU.

Overall, it is estimated that under Option 6 about 20% of businesses engaged in cross-border e-Commerce will register to the SEM, representing close to 74% of the volume of cross-border e-Commerce.

The impacts of Option 6 for processing costs of postal operators and couriers are not likely to differ from those of Option 4 and Option 5, i.e. a 24% reduction with respect to the Status Quo. In addition, third parties (including postal operators, couriers and large marketplaces) would have a stronger role and more responsibilities under alternative (ii), as they will register with the SEM and report and pay VAT on behalf of non-EU businesses (becoming agents).

Businesses will be likely to incur in costs for adapting their systems and procedures to the new rules and to the requirements of the SEM, including IT costs, process re-engineering, training, etc., lower than those estimated under Option 4 (as well as those incurred under the current MOSS system).

In consideration of the upcoming implementation of the Union Customs Code, which imposes specific information requirement to Customs procedures, the possibility to align the requirements for information in respect of VAT with those for Customs could be considered (as for Option 4 and Option 5). Such provisions should reduce development costs for couriers and postal operators. This would also bring benefits to Customs administrations as the necessity to ensure that VAT has been pre-declared can be integrated into the general clearance process rather than having a separate process only for VAT.

Impacts on the market for e-Commerce in the European Union

The table below provides an overview of the key economic impacts assessed for this Option.

Table 54 – Overview of economic impacts for Option 6 (threshold of EUR 10 000)

	Total e-Commerce	Cross-border e-Commerce	EU cross-border e-Commerce	Non-EU cross-border
EU e-Commerce volume				
Threshold of EUR 10 000				
Millions of transactions	-108.4	-156.0	44.1	-200.1
%	-0.37%	-2.68%	1.20%	-9.34%
EU e-Commerce prices				
Threshold of EUR 10 000				
%	0.69%	1.79%	-0.10%	5.66%
e-Commerce value				
Threshold of EUR 10 000				
EUR billions	3.60	-0.68	1.52	-2.19
%	0.32%	-0.35%	1.10%	-4.20%

Source: Deloitte analysis

The introduction of the SEM (with a registration threshold of EUR 10 000) is expected to have a positive impact on EU cross-border e-Commerce volumes (increase of 1.2%, and 1.1% increase in value); however, the effect on non-EU imports is estimated to be negative due to the increase in compliance and VAT paid. The change in e-Commerce volumes is largely driven by the change in prices, which reflect the administrative burden.

Impacts on compliance

Compliance impact of Option 6 would be very similar to Option 5, although the additional voluntary compliance would come from the application of fully harmonised EU rules, rather than home country rules. As in Option 5, the Option has a potential to improve compliance control provided there is an effective administrative cooperation between the MSI and all the MSC. Option6 may further facilitate the compliance control by providing a single set of harmonised rules for taxpayer compliance which could facilitate the administrative cooperation on controls and simplify the compliance control of non-resident taxpayer activities.

5 Scenario analysis

This chapter includes additional scenario analysis and sensitivity testing of the results, covering additional growth scenarios of e-Commerce in Europe, a lower common VAT threshold and VAT revenue collection fees among Member States.

5.1 Introduction

The results presented in the previous chapter for options 4, 5 and 6 were based on a threshold of EUR 10 000, with transactions below the threshold treated as domestic. In addition, the results presented in section 4 were based on an assumed rate of growth of e-Commerce of 12%, across markets, based on forecasts as described in the Lot 1 report.

This section presents results for the impact assessment based on different assumptions with regard to the level of the threshold for options 4, 5 and 6 set at EUR 5 000, and with transactions below the threshold being exempted from VAT. A lower registration threshold increases the number of businesses required to register by about 30 000. Given that it is micro-businesses affected by the reduction in the threshold, it is assumed that all of those firms affected register for the SEM.

Furthermore, this section presents results for alternative growth scenarios.

- Low growth scenario: growth rate of 6%;
- High growth scenario: growth rate of 18%;
- DSM scenario: this scenario allows for the impact of the Digital Single Market on cross-border e-Commerce within the EU. It is assumed that domestic and non-EU markets grow at 12%, while within-EU cross-border e-Commerce grows at 18%.

For each option, we present the relevant (if any) implications of such changes on the VAT revenues of Member States, the administrative burden for businesses, on the market for e-Commerce in the European Union and on compliance.

5.2 Policy Option 2: Removal of the distance sales thresholds and the small consignment exemption (No simplification)

The scenario analysis for Option 2 includes different growth rates for e-Commerce in the EU, which have implications for the estimated VAT revenues of Member States as well as for the market for e-Commerce in the EU.

Under Option 2, both the distance selling threshold and the VAT exemption threshold for the importation of small consignments are removed. Therefore, e-Commerce B2C cross-border transactions are taxed for VAT purposes applying the destination principle from the first EUR, with no exceptions or simplification measures. As a consequence, businesses have to register for VAT purposes in all the Member States where they sell to. Cross-border transactions of TBE services are taxed in the Member States of consumption and subject to related simplification measures such as the MOSS.

5.2.1 Scenario analysis for VAT revenues for Member States

The following tables show the estimated impact of VAT revenues for Member States of different growth rates of the market for e-Commerce in Europe for both intra-EU trade and imports from third countries.

There are not noticeable differences, as the low estimated compliance rate due to the overall legislative framework prevents positive impacts to show.

Table 55 – Impact of Option 2 on VAT revenues for Member States (intra-EU trade)

	VAT loss due to non-compliance (65% non-compliance) (EUR billion)	VAT revenue (35% compliance) (EUR billion)
High growth	4.507	2.427
Medium growth	4.278	2.303
Low growth	4.048	2.180

Source: Deloitte analysis

Table 56 – Impact of Option 2 on VAT revenues for Member States (imports)

	Volume of parcels	Value (EUR billion)	VAT loss due to non-compliance (65% non-compliance rate) (EUR billion)	VAT revenue (35% compliance rate) (EUR billion)
High growth	207 892 280	5.165	0.362	0.671
Medium growth	187 288 192	4.653	0.326	0.605
Low growth	167 759 098	4.168	0.292	0.542

Source: Deloitte analysis

5.2.2 Scenario analysis for the market for e-Commerce in the EU

The following tables show the estimated impact on e-Commerce volumes, prices and overall spending. A higher rate of growth, especially in the domestic market, can partially mitigate some of the negative impacts of the policy Option on the cross-border e-Commerce market. The impact of the increase in the administrative burden is therefore expected to be smaller, in both absolute and percentage terms, in the higher growth scenarios.

However, under the DSM scenario the increase in the administrative burden affects a larger proportion of the e-Commerce market and risks a larger number of firms leaving the market.

Table 57 – Impact of Option 2 on EU e-Commerce volumes, 2020 (millions of transactions, %)

	Low	Medium	High	DSM
Total e-Commerce	-202.0	-110.8	-41.5	-147.7
	-0.7%	-0.4%	-0.1%	-0.5%
Cross-border e-Commerce	-280.4	-270.8	-259.4	-298.1
	-4.8%	-4.6%	-4.5%	-5.1%
EU Cross-border e-Commerce	-67.7	-59.1	-42.7	-66.5
	-1.8%	-1.6%	-1.2%	-1.6%
Non-EU Cross-border e-Commerce	-212.8	-211.7	-216.7	-231.6
	-9.9%	-9.9%	-10.1%	-9.9%

Source: Deloitte analysis

In terms of prices, the contraction in cross-border trade increases competition in the domestic market, which tends to reduce prices in this market. In contrast prices in the e-Commerce market rise due to the increased administrative burden, although faster growth reduces this effect. Overall, therefore the price rise is less pronounced in the high growth scenario. As above, however, in the DSM scenario the faster rate of growth of within-EU e-Commerce means that a larger proportion of the market is affect, leading to a greater impact on prices.

Table 58 – Impact of Option 2 on EU e-Commerce prices, 2020

	Low	Medium	High	DSM
Total e-Commerce	0.59%	0.48%	0.09%	0.55%
Cross-border e-Commerce	2.84%	2.59%	1.90%	2.34%
EU Cross-border e-Commerce	1.17%	1.08%	0.71%	1.11%
Non-EU Cross-border e-Commerce	5.71%	5.71%	5.71%	5.71%

Source: Deloitte analysis

The effect on value is more ambiguous, being a product of the volume and price effects. In this high growth scenario, the fact that prices do not increase means that the overall effect on spending is negative; in the low growth scenario volumes fall considerably, and so even though consumers may more per item, overall spending falls. In the intermediate and DSM scenarios, the increase in prices cancels out the decline in the number of transactions.

Table 59 – Impact of Option 2 on the value of e-Commerce, 2020 (EUR billions, %)

	Low	Medium	High	DSM
Total e-Commerce	-0.8	1.2	-0.7	1.0
	-0.1%	0.1%	-0.1%	0.1%
Cross-border e-Commerce	-2.7	-3.2	-3.6	-3.4
	-1.9%	-1.7%	-1.5%	-1.3%
EU Cross-border e-Commerce	-0.7	-0.8	-0.8	-1.1
	-0.7%	-0.5%	-0.5%	-0.6%
Non-EU Cross-border e-Commerce	-2.0	-2.5	-2.8	-2.2
	-4.8%	-4.7%	-5.0%	-4.7%

Source: Deloitte analysis

5.3 Policy Option 3: Option 2 but with the introduction of a common VAT threshold for EU sales of both goods and services (EUR 5000 or EUR 10 000[76]) – which would come in addition to the existing domestic thresholds (up to EUR 114 000)

The scenario analysis for Option 3 includes different growth rates for e-Commerce in the EU, which have implications for the estimated VAT revenues of Member States as well as for the market for e-Commerce in the EU. It also includes a more detailed analysis of the second alternative for the option, i.e. exempting from VAT the cross-border transactions below the common VAT threshold.

Under Option 3, both the distance selling threshold and the VAT exemption for the importation of small consignments are removed and the supplies of goods are generally taxed in the Member State of destination. To simplify the legislative framework for businesses, this Option introduces a common VAT threshold for the cross border supplies of goods and services of business (set at EUR 5 000 and 10 000). Supplies below the threshold can either be treated under domestic rules (alternative 1) or being exempt from VAT (alternative 2). Cross-border transactions of TBE services are taxed in the Member States of consumption and subject to related simplification measures such as the MOSS. This Option does not introduce any additional changes related to imports.

5.3.1 Scenario analysis for VAT revenues for Member States

The following tables show the estimated impact of VAT revenues for Member States of different growth rates of the market for e-Commerce in Europe under the first alternative (i.e. domestic rules applied to cross-border transactions).

[76] This threshold cannot be sector-specific but the main beneficiaries will be small e-Commerce start-ups

There are not noticeable differences across the different scenarios on growth rates.

Table 60 – Impact of Option 3 on VAT revenues for Member States (intra-EU trade)

	Threshold of EUR 5 000		Threshold of EUR 10 000	
	VAT loss due to non-compliance (EUR billion)	**VAT revenue (EUR billion)**	**VAT loss due to non-compliance (EUR billion)**	**VAT revenue (EUR billion)**
High growth	6.192	3.713	4.227	3.551
Medium growth	5.877	3.525	5.851	2.685
Low growth	5.562	3.336	3.798	2.045

Source: Deloitte analysis

The following table shows the VAT revenues under the alternative 2 (i.e. exemption from VAT of cross-border transactions below the common VAT threshold). Overall, the VAT collected is slightly lower than under alternative 1, as the VAT below threshold is not collected by the Member State of establishment. The differences in VAT revenue between the two scenarios are minimal.

Table 61 – Impact of Option 3 on VAT revenues for Member States (exemption from VAT)

	EUR 5 000 (EUR billion)			EUR 10 000 (EUR billion)		
	VAT below threshold (exemption)	**VAT loss due to non-compliance**	**VAT revenue (MSC)**	**VAT below threshold (exemption)**	**VAT loss due to non-compliance**	**VAT revenue (MSC)**
High growth	0.379	6.192	3.334	0.409	4.227	2.276
Medium growth	0.360	5.877	3.164	0.380	5.851	3.150
Low growth	0.341	5.562	2.995	0.367	3.798	2.045

Source: Deloitte analysis

There are no differences with respect to Option 2 on imports from third countries.

5.3.2 Scenario analysis for the market for e-Commerce in the European Union

The following tables show the estimated impact on e-Commerce volumes, prices and overall spending. As under Option 2, a higher rate of growth, especially in the domestic market, mitigates some of the negative impacts of the policy Option on the cross-border e-Commerce market. This is due to an increase in demand and in competitive pressure, which reduces the impact on prices. However, under the DSM scenario the increase in the administrative burden affects a larger proportion of the e-Commerce market and risks a larger number of firms leaving the market.

Table 62 – Impact of Option 3 on EU e-Commerce volumes, 2020 (millions of transactions, %)

	Low	Medium	High	DSM
Total e-Commerce	-204.0	-162.8	-98.7	-174.4
	-0.7%	-0.6%	-0.3%	-0.5%
Cross-border e-Commerce	-210.2	-203.5	-199.5	-223.8
	-3.6%	-3.5%	-3.4%	-3.8%
EU Cross-border e-Commerce	-7.3	-5.3	-2.4	-5.6

	Low	Medium	High	DSM
	-0.2%	-0.1%	-0.1%	-0.1%
Non-EU Cross-border e-Commerce	-202.9	-198.2	-197.0	-218.1
	-9.5%	-9.2%	-9.2%	-9.3%

Source: Deloitte analysis

Table 63 – Impact of Option 3 on EU e-Commerce prices, 2020

	Low	Medium	High	DSM
Total e-Commerce	0.9%	0.9%	0.8%	0.9%
Cross-border e-Commerce	2.5%	2.3%	1.9%	2.0%
EU Cross-border e-Commerce	0.7%	0.7%	0.6%	0.7%
Non-EU Cross-border e-Commerce	5.7%	5.7%	5.7%	5.7%

Source: Deloitte analysis

Table 64 – Impact of Option 3 on the value of e-Commerce, 2020 (EUR billions, %)

	Low	Medium	High	DSM
Total e-Commerce	1.0	3.9	7.6	3.8
	0.1%	0.3%	0.5%	0.3%
Cross-border e-Commerce	-1.4	-1.4	-1.1	-0.9
	-1.0%	-0.7%	-0.5%	-0.3%
EU Cross-border e-Commerce	0.4	0.7	1.1	1.1
	0.4%	0.5%	0.6%	0.5%
Non-EU Cross-border e-Commerce	-1.8	-2.1	-2.3	-1.9
	-4.3%	-4.1%	-4.0%	-4.1%

Source: Deloitte analysis

5.3.3 Compliance on application of VAT exemption for sales below the threshold

Alternative 2 impact on compliance and fraud is similar to Option 3a. The amount of VAT at risk is small. The Option would support the smallest businesses (or larger businesses with limited cross border sales) to trade compliantly, when trading below the threshold (as no obligation to register for cross-border sales or declare their supplies (other than declaring exempt supplies on their domestic VAT return, if registered). Therefore it is expected to significantly improve the compliance of the impacted businesses supplying TBE services (currently no threshold). There would be minimal impact on compliance for businesses trading in goods, as there is no significant difference between the current declarations of supplies under the threshold as part of domestic sales and applying the exemption. This alternative would introduce a compliance risk of under-declaration of cross-border sales in order to remain below the threshold.

5.4 Policy Option 4: Option 3 plus Single Electronic Mechanism applying to intra-EU supplies of goods and services and to the import of all goods under the Customs threshold of EUR 150[77]

The scenario analysis for Option 4 includes the threshold of EUR 5 000 for the common VAT thresholds, as well as a more detailed analysis of the second alternative for the option, i.e. exempting from VAT the cross-border transactions below the common VAT threshold. It also includes different growth rates for e-Commerce in the EU, which have implications for the estimated VAT revenues of Member States as well as for the market for e-Commerce in the EU.

Under Option 4, both the distance selling threshold and the VAT exemption for the importation of small consignments are removed. This Option has a common VAT threshold for business (set at EUR 5 000 and 10 000). Supplies below the threshold can either be treated under domestic rules (alternative 1) or being exempt from VAT (alternative 2). Businesses have the Option to register for the single electronic registration and payment mechanism, to declare cross-border transactions, similar to the current functioning of the MOSS. The SEM applies also to imports of goods from third countries. The Option also introduces simplified procedures for imports not processed via the SEM. The Option also introduces a collection fee for the Member State of Identification set at 0, 10%, 20% or 30%. With regard to audit, the rules of the Member State of consumption apply, so that businesses are subject to (potentially) up to 28 sets of rules.

5.4.1 Scenario analysis for VAT revenues for Member States

Common VAT threshold of EUR 5 000 (domestic rules)

With regard to VAT revenues from intra-EU cross-border e-Commerce transactions, they are estimated of about **EUR 9.127 billion**, following the removal of the distance selling threshold. Such additional revenues represent the VAT revenue (using a 20% EU average rage) of the additional revenue of intra-EU cross-border e-Commerce sales originated from the minority of micro-businesses above the common VAT threshold complying with VAT-related obligations. VAT revenues from TBE services are estimated to remain stable around EUR 3 billion.

The VAT revenue corresponding to the cross-border transactions below the common VAT threshold set at EUR 5 000 is estimated of about EUR 0.360 billion.

Table 65 - Impact of Option 4 on VAT revenues from intra-EU B2C cross-border e-Commerce

Member States	VAT revenues
VAT revenues below the threshold(EUR billion)	0.360
VAT loss due to non-compliance (EUR billion)	0.634
VAT revenue (EUR billion)	9.127

[77] With three Options offered to business on import: supplier registration, intermediary registration or simplified Customs declaration.

Source: Deloitte analysis

With regard to VAT revenues from imports, the amount of parcels that will be processed via the SEM (both direct business registration, third party registration) is likely to impact to a large extent the amount of VAT collected by Member States.

Domestic rules vs. exemption and collection fees

The following table shows the VAT revenues under the alternative 2 (i.e. exemption from VAT of cross-border transactions below the common VAT threshold). Overall, the VAT collected is slightly lower than under alternative 1, as the VAT below threshold is not collected by the Member State of establishment. The differences in VAT revenue between the two scenarios are minimal.

The distribution of the VAT revenues from cross-border e-Commerce transactions between Member States of Consumption and Member States of Identification will depend on the level of the threshold, as well as on the rules to be applied for transactions below the thresholds. If domestic rules apply, Member States of Identification will benefit from the VAT revenues from intra-EU cross-border sales below the threshold, regarding the businesses domestically registered for VAT. Under alternative 2, cross-border sales under the common EU VAT exemption threshold are exempt from VAT, therefore resulting in a loss of revenue, which may be even bigger if the exemption is applied with the right of input VAT deduction.

The transfer of revenues between Member States of Consumption and Member States of Identification will depend on the existence of the revenue collection fee for the Member States of Identification and of its level (for the purpose of this study, set at 0, 10%, 20% or 30%). In addition, the two alternatives analysed for VAT revenues corresponding to cross-border sales below the common VAT threshold (i.e. domestic rules and VAT exemption) impact the split of VAT revenues from intra-EU B2C cross-border e-Commerce.

The tables below provides an overview of the VAT revenues corresponding to the two alternatives (domestic rules and VAT exemption), under the four different hypothesis of revenue collection fee.

Table 66 - Impact of Option 4 on VAT revenues from intra-EU B2C cross-border e-Commerce (common VAT threshold of EUR 10 000)

	Domestic rules		**VAT exemption**	
	VAT revenue for MSIs	**VAT revenue for MSCs**	**VAT revenue for MSIs**	**VAT revenue for MSCs**
No collection fee for MSI (EUR billion)	0.388	5.781	0	5.781
Collection fee for MSI at 10% (EUR billion)	0.966	4.815	0.578	5.203
Collection fee for MSI at 20% (EUR billion)	1.544	4.237	1.156	4.625
Collection fee for MSI at 30% (EUR billion)	2.123	3.659	1.734	4.047

Source: Deloitte analysis

Table 67 – Impact of Option 4 on VAT revenues from intra-EU B2C cross-border e-Commerce (common VAT threshold of EUR 5 000)

	Domestic rules		VAT exemption	
	VAT revenue for MSIs	**VAT revenue for MSCs**	**VAT revenue for MSIs**	**VAT revenue for MSCs**
No collection fee for MSI (EUR billion)	0.360	5.808	0	5.808
Collection fee for MSI at 10% (EUR billion)	0.941	4.867	0.545	4.903
Collection fee for MSI at 20% (EUR billion)	1.522	4.286	1.089	4.718
Collection fee for MSI at 30% (EUR billion)	2.103	3.705	1.634	4.173

Source: Deloitte analysis

Under both alternatives (i.e. domestic rules and VAT exemption for cross-border transactions below the common VAT threshold) and with both levels of thresholds (i.e. EUR 5 0000 and EUR 10 000), the differences in VAT revenues for Member States are relatively small. Clearly, in case of the VAT exemption, the VAT revenue corresponding to the cross-border transactions below the common VAT exemption threshold is not collected by either the Member State of identification or the Member State of consumption.

The first alternative (application of domestic rules) is relatively simple to implement, as cross-border supplies can be either declared for VAT purposes together with domestic supplies, and businesses can deduct inputs VAT directly or the supplies can be exempt, if the business is domestically not registered for VAT. On the other hand, under this alternative VAT rate is changed on supplies, which may influence pricing. However, this effect is reduced by the right for businesses to deduct input VAT.

The second alternative (exemption from VAT of cross-border supplies below the common VAT threshold) is more complex to implement and apply, as in case of domestically VAT registered businesses, the cross-border supplies need to be declared separately, and businesses cannot deduct input VAT (assuming the exemption is applied without the right of deduction). Regarding input VAT deductions, businesses would also face additional administrative burden from the need to separate the deductible and non-deductible input VAT. Conversely, the absence of VAT on outputs may lead to lower consumers' prices, even though this benefit is reduced by non-deductible VAT costs. This alternative can lead to potential (while limited) distortions of cross-border competition, more than the first alternative.

Regarding businesses which are not domestically registered for VAT, the two alternatives would have the same impact, as they would be able to extend the existing domestic exemption also to the cross-border supplies below the common VAT threshold.

Different growth rates

The following tables show the estimated impact of VAT revenues for Member States of different growth rates of the market for e-Commerce in Europe under the both alternatives (i.e. domestic rules applied to cross-border transactions, and VAT exemption on cross-border transactions).

Under the alternative 2 (i.e. exemption from VAT of cross-border transactions below the common VAT threshold) the VAT collected is slightly lower than under alternative 1, as the VAT below threshold is not collected by the Member State of establishment. The differences in VAT revenue between the two scenarios are minimal, as shown by the tables below.

Table 68 – Impact of Option 4 on VAT revenues for Member States (threshold EUR 10 000), (EUR billion)

	Domestic rules			**VAT exemption**		
	VAT loss due to non-compliance	**VAT revenue for MSC**	**VAT revenue MSI**	**VAT loss due to non-compliance**	**VAT revenue for MSC**	**VAT revenue MSI**
High growth	0.667	9.208	0.409	0.667	9.208	0
Medium growth	0.633	8.740	0.388	0.633	8.740	0
Low growth	0.599	8.272	0.367	0.599	8.272	0

Source: Deloitte analysis

Table 69 – Impact of Option 4 on VAT revenues for Member States threshold EUR 5 000), (EUR billion)

	Domestic rules			**VAT exemption**		
	VAT loss due to non-compliance	**VAT revenue for MSC**	**VAT revenue for MSI**	**VAT loss due to non-compliance**	**VAT revenue for MSC**	**VAT revenue MSI**
High growth	0.668	9.236	0.379	0.668	9.236	0
Medium growth	0.634	8.767	0.360	0.634	8.767	0
Low growth	0.600	8.297	0.340	0.600	8.297	0

Source: Deloitte analysis

There are not noticeable differences across the different scenarios for the share of VAT revenues processed via the SEM, which are assumed to represent about 62% of the volume of cross-border e-Commerce transactions.

With regard to VAT revenues from imports, the amount of parcels that will be processed via the SEM (both under alternative 1 – direct business registration, and under alternative 2 – third party registration) is likely to impact to a large extent the amount of VAT collected by Member States.

The table below provides an overview of the volume of parcels below the Customs threshold of EUR 150, their corresponding values and VAT revenues under the different growth scenarios.

Table 70 – Impact of Option4 on VAT revenues for Member States (exemption from VAT)

	High growth	**Medium growth**	**Low growth**
Volume of consignment below EUR 150	207 892 282	187 288 192	167 759 098
VAT revenue via the SEM			
Volume of consignment processed via the SEM	156 334 996	140 840 720	126 154 842
VAT loss due to non-compliance (EUR billion)	0.039	0.035	0.031
VAT revenue (EUR billion)	0.738	0.665	0.595
Compliance	5% non-compliance		

	High growth	Medium growth	Low growth
VAT revenue outside of the SEM			
Volume of consignment processed outside the SEM	51 557 286	46 447 472	41 604 256
VAT loss due to non-compliance (EUR billion)	0.154	0.138	0.124
Corresponding VAT revenue (EUR billion)	0.102	0.092	0.083
Compliance	60% non-compliance		

Source: Deloitte analysis

5.4.2 Scenario analysis for impacts on businesses

Common VAT threshold of EUR 5 000

Our analysis estimates that with a common EU VAT exemption threshold of EUR 5 000 the **overall administrative costs** for businesses active on cross-border e-Commerce of goods are of about **EUR 2.481 billion**. This figure represents a decrease of 40% with respect to the status quo (while the threshold of EUR 10 000 leads to an estimated decrease in the administrative burden of 42%).

Costs however will likely differ largely between those businesses that benefit from the common EU VAT threshold, and those whose EU cross-border sales are above the common EU VAT exemption threshold.

When the common EU VAT exemption threshold is set at EUR 5 000, businesses benefiting from it (the (in our estimates, 90% of micro-businesses active in B2C cross-border e-Commerce, or about 398 200 businesses) are not likely to encounter additional administrative costs for VAT-related obligations, as the cross-border sales will be subject to domestic rules. Administrative costs for businesses with cross-border sales above the threshold and adopting the SEM are estimated to amount to about EUR 2 065 per company per year or about (on average) EUR 688 per company for each Member State they sell cross-border. The administrative burden for businesses with cross-border sales above the threshold and outside of the SEM are not expected to change with respect to those estimated for the threshold of EUR 10 000. Similarly, the costs for businesses supplying TBE services are not expected to change.

With regard to the **number of businesses** engaged in cross-border e-Commerce, micro-enterprises below the common EU VAT exemption threshold of EUR 5 000 are estimated to be about 398 200. About 101 355 businesses are expected to be above common EU VAT exemption threshold and in the SEM (of which 13 273 micro-enterprises), while 27 383 are estimated to be above the threshold and outside of the SEM. Overall, about 24% of businesses are estimated to the above the common VAT threshold and in the SEM, representing about 66% of the volume of cross-border e-Commerce.

The table below provides an overview of the number of businesses above the common EU VAT exemption threshold and in/outside of the SEM, per size of businesses, and per volume of cross-border e-Commerce.

Table 71 – Estimated adoption rate of the SEM by EU businesses, common EU VAT exemption threshold at EUR 5 000

	Businesses below the common VAT threshold (EUR 5000 – 10 000)	**Businesses above the common VAT threshold and in the SEM (EUR 5000 – 10 000)**	**Businesses above the common VAT threshold and outside the SEM**
Micro businesses	398 200	13 273	-
Small businesses		65 373	16 343
Medium businesses		17 216	7 378
Large businesses		5 492	3 662
Total number of businesses		101 355	27 383
(% of businesses)	*71.4%*	*23.7%*	*4.9%*
(% of cross-border e-Commerce volume)	*3.7%-*	*66.6%*	*33.7%*

Source: Deloitte analysis

The application of domestic rules to cross-border sales below the common VAT threshold is relatively simple to implement, as cross-border supplies can be declared for VAT purposes together with domestic supplies, and businesses can deduct inputs VAT directly. The exemption from VAT of cross-border supplies below the common VAT threshold is more complex to implement, as cross-border supplies need to be declared separately, and businesses cannot deduct input VAT. Conversely, the absence of VAT on outputs may lead to lower consumers' prices, even though this benefit is reduced by non-deductible VAT costs. However, such differences are not relevant for the estimation of the administrative burden for businesses.

The table below provides an overview of the estimated administrative burden for Option 4, with the common VAT threshold of EUR 5 000.

Table 72 –Overview of impacts on businesses of Option 4 (threshold of EUR 5 000)

Administrative burden	**Goods**	**Services**	**Goods and services**
Total (EUR billion)	1.044	1.437	2.481
per company (EU businesses) (EUR)	0 – (below the threshold) 2 065 (above the threshold and in SEM) 28 163 (above the threshold and outside SEM)	0 (below the threshold) 2 172 (MOSS/SEM registered) 23 601 (non registered for MOSS/SEM)	0 – (below the threshold) 2 071 (above the threshold and in SEM) 28 163 (above the threshold and outside SEM 2 172 (MOSS/SEM registered) 23 601 (non registered for MOSS/SEM)
per company per Member State (EUR)	0 – (below the threshold) 688 (above the threshold and in SEM) 4 694 (above the threshold and outside SEM)	434 (MOSS/SEM registered) 5 203 (non registered for MOSS/SEM)	0 – (below the threshold) 688 (above the threshold and in SEM) 4 694 (above the threshold and outside SEM) 434 (MOSS/SEM registered) 5 203 (non registered for MOSS/SEM)
No of companies	398 200 (below the	10 604 (MOSS/SEM	398 200 (below the threshold)

Administrative burden	Goods	Services	Goods and services
	threshold) 101 355 (above the threshold and in SEM) 27 383 (above the threshold and outside SEM)	registered) 33 970 (non registered for MOSS/SEM)	101 355 (above the threshold and in SEM) 27 383 (above the threshold and outside SEM) 10 604 (MOSS/SEM registered) 33 970 (non registered for MOSS/SEM)

Source: Deloitte analysis

Different growth scenarios for imports

Finally, as mentioned earlier, postal operators and couriers are likely to pass through Customs a larger share of parcels, with possible implications on processing costs and on timing of the delivery. The use of the SEM and of the related simplified and quicker Customs procedures is likely to reduce the processing costs for postal operators and couriers.

As a result, processing costs for postal operators and couriers are expected to lower with respect to the Status Quo, reaching a value of about EUR 1.6 per parcel for those parcels processed via the SEM and of EUR 6.3 for parcels processed outside of the SEM[78].

The table below provides an overview of the volume of parcels below the Customs value of EUR 150, their corresponding values and processing costs for operators under the different e-Commerce growth scenarios.

Table 73 – Impact of Option 4 on processing costs for of parcels below EUR 150

	Volume	Value (EUR billion)	Processing costs (EUR million)
Parcels processed via SEM			
High growth scenario	156 334 996	3.884	250.135
Medium growth scenario	140 840 720	3.499	225.345
Low growth scenario	126 154 842	3.134	201.848
Parcels processed outside of SEM			
High growth scenario	51 557 286	1.281	324.811
Medium growth scenario	46 447 472	1.154	292.619
Low growth scenario	41 604 256	1.034	262.107
Total			
High growth scenario	207 892 282	5.165	574.947
Medium growth scenario	187 288 192	4.653	517.964
Low growth scenario	167 759 098	4.168	463.955

Source: Deloitte analysis

[78] See assumption 16 in annex 4 for more details.

5.4.3 Scenario analysis for the market for e-Commerce in the European Union

Common VAT threshold of EUR 5 000

Option 4 includes the Option of setting the common VAT threshold at EUR 5 000. This has implications on the EU e-Commerce market in the European Union, as shown by the table below.

Table 74 – Impact of Option 4 (EUR 5000 threshold) on EU e-Commerce

	Volumes (millions of transactions)	Prices	Value (EUR billions)
Total e-Commerce	-114.5	0.73%	3.82
	-0.39%		0.34%
Cross-border e-Commerce	-158.6	1.84%	-0.67
	-2.72%		-0.35%
EU Cross-border e-Commerce	40.4	-0.02%	1.49
	1.10%		1.08%
Non-EU Cross-border e-Commerce	-199.0	5.66%	-2.16
	-9.29%		-0.04

Source: Deloitte analysis

Similar to the common VAT threshold of EUR 10 000, the threshold of EUR 5 000 is expected to have a positive impact on EU cross-border e-Commerce volumes; however, the effect on non-EU imports is estimated to be negative due to the increase in compliance and VAT paid.

The introduction of the SEM (with a registration threshold of EUR 5 000) is likely to have a positive impact on EU cross-border e-Commerce volumes (increase of 1.1%, and 1.07% increase in value), not notably different from that of the EUR 10 000 threshold.

Different growth scenarios and DSM effect

The following tables show the estimated impact on e-Commerce volumes, prices and overall spending. As in the previous options a faster rate of growth can mitigate the negative impacts on the market due to the decrease in non-EU imports. In this case, Option 4 is estimated to have a relatively more positive impact on EU cross-border e-Commerce than non-EU e-Commerce under the DSM scenario. Since the administrative burden on within-EU cross-border e-Commerce decreases under Option 4, the fact that EU cross-border e-Commerce grows faster in this scenario means that the reduction in costs affects more of the market and has a more positive impact.

Table 75 – Impact of Option 4 on EU e-Commerce volumes, 2020 (millions of transactions, %)

	Low	Medium	High	DSM
Total e-Commerce	-147.7	-113.9	-66.9	-109.4
	-0.5%	-0.4%	-0.2%	-0.3%
Cross-border e-Commerce	-165.6	-158.7	-155.1	-173.0
	-2.8%	-2.7%	-2.7%	-3.0%
EU Cross-border e-Commerce	39.7	40.5	40.9	44.5
	1.1%	1.1%	1.1%	1.1%
Non-EU Cross-border e-Commerce	-205.3	-199.2	-196.0	-217.5
	-9.6%	-9.3%	-9.1%	-9.5%

Source: Deloitte analysis

In terms of prices, the faster growth scenario is associated with greater downward pressure on prices thanks to more firms entering the market and more competition.

Table 76 – Impact of Option 4 on EU e-Commerce prices, 2020

	Low	Medium	High	DSM
Total e-Commerce	0.7%	0.7%	0.6%	0.7%
Cross-border e-Commerce	2.0%	1.8%	1.4%	1.5%
EU Cross-border e-Commerce	0.1%	-0.0%	-0.2%	-0.1%
Non-EU Cross-border e-Commerce	5.7%	5.7%	5.7%	5.7%

Source: Deloitte analysis

The effect on overall spending is also more positive with faster growth, in both absolute and percentage terms.

Table 77 – Impact of Option 4 on the value of e-Commerce, 2020 (EUR billions, %)

	Low	Medium	High	DSM
Total e-Commerce	0.8	3.8	7.9	4.2
	0.1%	0.3%	0.5%	0.3%
Cross-border e-Commerce	-0.9	-0.7	-0.1	0.3
	-0.7%	-0.4%	0.0%	0.1%
EU Cross-border e-Commerce	0.9	1.5	2.1	2.3
	0.9%	1.1%	1.1%	1.2%
Non-EU Cross-border e-Commerce	-1.8	-2.2	-2.2	-1.9
	-4.5%	-4.2%	-4.0%	-4.1%

Source: Deloitte analysis

5.5 Policy Option 5: Option 4 plus amendments to the Single Electronic Mechanism (home country legislation and home country control, subject to applying rate/exemptions of the Member State of Consumption)

The scenario analysis for Option 5 includes the threshold of EUR 5 000 for the common VAT thresholds, as well as a more detailed analysis of the second alternative for the option, i.e. exempting from VAT the cross-border transactions below the common VAT threshold. It also includes different growth rates for e-Commerce in the EU, which have implications for the estimated VAT revenues of Member States as well as for the market for e-Commerce in the EU.

Under Option 5, both the distance selling threshold and the VAT exemption for the importation of small consignments are removed. This Option has a common VAT threshold for business (set at EUR 5 000 and 10 000). Supplies below the threshold can either be treated under domestic rules (alternative 1) or being exempt from VAT (alternative 2). Businesses have the Option to register for the single electronic registration and payment mechanism, to declare cross-border transactions, similar to the current functioning of the MOSS. The SEM applies also to imports of goods from third countries. The Option also introduces simplified procedures for imports not processed via the SEM. The Option also introduces a collection fee for the Member State of Identification set at 0, 10%, 20% or 30%. With regard to audit, the rules of the Member State of Identification apply, so that businesses are subject to only one set of (domestic) rules.

5.5.1 Scenario analysis for VAT revenues for Member States

Common VAT threshold of EUR 5 000

With regard to VAT revenues from intra-EU cross-border e-Commerce transactions, they are estimated of about **EUR 9.182 billion**, following the removal of the distance selling threshold. Such additional revenues represent the VAT revenue (using a 20% EU average rage) of the additional revenue of intra-EU cross-border e-Commerce sales originated from the minority of micro-businesses above the common EU VAT exemption threshold complying with VAT-related obligations. VAT revenues from TBE services are estimated to be stable at about EUR 3 billion.

The VAT revenue corresponding to the cross-border transactions below the common EU VAT exemption threshold set at EUR 5 000 is estimated of about EUR 0.360 billion.

Table 78 – Impact of Option 5 on VAT revenues from intra-EU B2C cross-border e-Commerce

Member States	VAT revenues
VAT revenues below the threshold(EUR billion)	0.360
VAT loss due to non-compliance (EUR billion)	0.579
VAT revenue (EUR billion)	9.182

Source: Deloitte analysis

With regard to VAT revenues from imports, the amount of parcels that will be processed via the SEM (both direct business registration, third party registration) is likely to impact to a large extent the amount of VAT collected by Member States.

Option 5 does not introduce any major change on the framework for imports set under Option 4. Therefore the volume of parcels below the Customs threshold of EUR 150, their corresponding values and VAT revenues for Option 5 are the same presented under Option 4.

Domestic rules vs. exemption and collection fees

The following table shows the VAT revenues under the alternative 2 (i.e. exemption from VAT of cross-border transactions below the common VAT threshold). Overall, the VAT collected is slightly lower than under alternative 1, as the VAT below threshold is not collected by the Member State identification. The differences in VAT revenue between the two scenarios are minimal.

The distribution of the VAT revenues from cross-border e-Commerce transactions between Member States of Consumption and Member States of Identification will depend on the level of the threshold, as well as on the rules to be applied for transactions below the thresholds. If domestic rules apply, Member States of Identification will benefit from the VAT revenues from intra-EU cross-border sales below the threshold. Under alternative 2, cross-border sales under the common EU VAT exemption threshold are exempt from VAT, therefore resulting in a loss of revenue, which may be even bigger if the exemption is applied with the right of input VAT deduction.

The transfer of revenues between Member States of Consumption and Member States of Identification will depend on the existence of the revenue collection fee for the Member States of Identification and of its level (for the purpose of this study, set at 0, 10%, 20% or 30%). In addition, the two alternatives analysed for VAT revenues corresponding to cross-border sales below the common EU VAT exemption threshold (i.e. domestic rules and VAT exemption) impact the split of VAT revenues from intra-EU B2C cross-border e-Commerce.

The tables below provides an overview of the VAT revenues corresponding to the two alternatives (domestic rules and VAT exemption), under the four different hypothesis of revenue collection fee (i.e. transactions processed under the SEM).

Table 79 – Impact of Option 5 on VAT revenues from intra-EU B2C cross-border e-Commerce (common VAT threshold of EUR 10 000)

	Domestic rules		VAT exemption	
	VAT revenue for MSIs	**VAT revenue for MSCs**	**VAT revenue for MSIs**	**VAT revenue for MSCs**
No collection fee for MSI (EUR billion)	0.360	6.856	0	6.856
Collection fee for MSI at 10% (EUR billion)	1.046	5.810	0.686	6.170
Collection fee for MSI at 20% (EUR billion)	1.731	5.124	1.371	5.485
Collection fee for MSI at 30% (EUR billion)	2.417	4.439	2.057	4.799

Source: Deloitte analysis

Table 80 – Impact of Option 5 on VAT revenues from intra-EU B2C cross-border e-Commerce (VAT exemption threshold of EUR 5 000)

	Domestic rules		VAT exemption	
	VAT revenue for MSIs	**VAT revenue for MSCs**	**VAT revenue for MSIs**	**VAT revenue for MSCs**
No collection fee for MSI (EUR billion)	0.388	6.829	0	6.829
Collection fee for MSI at 10% (EUR billion)	1.071	5.758	0.683	6.146
Collection fee for MSI at 20% (EUR billion)	1.754	5.075	1.366	5.463
Collection fee for MSI at 30% (EUR billion)	2.437	4.392	2.049	4.780

Source: Deloitte analysis

Under both alternatives (i.e. domestic rules and VAT exemption for cross-border transactions below the common VAT threshold) and with both levels of thresholds (i.e. EUR 5 0000 and EUR 10 000), the differences in VAT revenues for Member States are relatively small. Clearly, in case of the VAT exemption, the VAT revenue corresponding to the cross-border transactions below the common VAT threshold is not collected by either the MSI or the MSC.

The application of domestic rules is relatively simple to implement, as cross-border supplies can be declared for VAT purposes together with domestic supplies, and businesses can deduct inputs VAT directly. Exemption from VAT cross-border supplies below the common VAT threshold is likely to be more complex to implement, as cross-border supplies need to be declared separately, and businesses cannot deduct input VAT. In addition, the absence of VAT on outputs may lead to lower consumers' price, and thus of (potential) distortions of cross-border competition.

Different growth rates

The following tables show the estimated impact of VAT revenues for Member States of different growth rates of the market for e-Commerce in Europe under the both alternatives (i.e. domestic rules applied to cross-border transactions, and VAT exemption on cross-border transactions).

Under the alternative 2 (i.e. exemption from VAT of cross-border transactions below the common VAT threshold) the VAT collected is slightly lower than under alternative 1, as the VAT below threshold is not collected by the Member State of establishment. The differences in VAT revenue between the two scenarios are minimal, as shown by the tables below.

Table 81 – Impact of Option 5 on VAT revenues for Member States (threshold EUR 10 000), (EUR billion)

	Domestic rules			VAT exemption		
	VAT loss due to non-compliance	**VAT revenue for MSC**	**VAT revenue for MSI**	**VAT loss due to non-compliance**	**VAT revenue for MSC**	**VAT revenue MSI**
High growth	0.610	9.295	0.379	0.610	9.674	0
Medium growth	0.579	8.822	0.360	0.579	9.182	0
Low growth	0.548	8.349	0.341	0.548	8.690	0

Source: Deloitte analysis

Table 82 – Impact of Option 5 on VAT revenues for Member States threshold EUR 5 000), (EUR billion)

	Domestic rules			VAT exemption		
	VAT loss due to non-compliance	**VAT revenue for MSC**	**VAT revenue MSI**	**VAT loss due to non-compliance**	**VAT revenue for MSC**	**VAT revenue MSI**
High growth	0.609	9.266	0.409	0.609	9.675	0
Medium growth	0.578	8.795	0.388	70.578	9.184	0
Low growth	0.547	8.324	0.367	0.54	8.692	0

Source: Deloitte analysis

There are not noticeable differences across the different scenarios for the share of VAT revenues processed via the SEM, which are assumed to represent about 62% of the volume of cross-border e-Commerce transactions.

With regard to imports, Option 5 does not introduce provisions influencing Member States' VAT revenues from imports. Therefore the scenario analysis for Option 5 is the same presented under Option 4.

5.5.2 Scenario analysis for impacts on businesses

Common VAT threshold of EUR 5 000

Our analysis estimates that under Option 5 with a common EU VAT exemption threshold of EUR 5 000 the **overall administrative costs** for businesses active on cross-border e-Commerce of goods are of about **EUR 1.908 billion**. This figure represents a decrease of 55% with respect to the status quo (while the threshold of EUR 10 000 leads to an estimated decrease in the administrative burden of 54%).

Costs however will likely differ largely between those businesses that benefit from the common EU VAT threshold, and those whose EU cross-border sales are above the common EU VAT exemption threshold.

When the common EU VAT exemption threshold is set at EUR 5 000, businesses benefiting from it (the (in our estimates, 90% of micro-businesses active in B2C cross-border e-Commerce, or about 398 200 businesses) are not likely to encounter additional administrative costs for VAT-related obligations, as the cross-border sales will be subject to domestic rules. Administrative costs for businesses with cross-border sales above the threshold and adopting the SEM are estimated to amount to about EUR 1 207 per company per year or about (on average) EUR 402 per company for each Member State they sell cross-border. The administrative burden for businesses with cross-border sales above the threshold and outside of the SEM are not expected to change with respect to those estimated for the threshold of EUR 10 000. Similarly, the costs for businesses supplying TBE services are not expected to change significantly (the new provisions under Option 5 apply also to TBE services, but their impact on administrative burden is expected to be limited).

With regard to the **number of businesses** engaged in cross-border e-Commerce, micro-enterprises below the common EU VAT exemption threshold of EUR 5 000 are estimated to be about 398 200. About 149 189businesses are expected to be above common EU VAT exemption threshold and in the

SEM (of which 13 273 micro-enterprises), while 10 521 are estimated to be above the threshold and outside of the SEM. Overall, about 27% of businesses are estimated to the above the common VAT threshold and in the SEM, representing about 74% of the volume of cross-border e-Commerce.

The table below provides an overview of the number of businesses above the common EU VAT exemption threshold and in/outside of the SEM, per size of businesses, and per volume of cross-border e-Commerce.

Table 83 – Estimated adoption rate of the SEM by EU businesses, common EU VAT exemption threshold at EUR 5 000

	Businesses below the common VAT threshold (EUR 5000 – 10 000)	Businesses above the common VAT threshold and in the SEM (EUR 5000 – 10 000)	Businesses above the common VAT threshold and outside the SEM
Micro businesses	398 200	13 273	-
Small businesses		77 630	4 086
Medium businesses		20 906	3 698
Large businesses		6 408	2 746
Total number of businesses	398 200	149 189	10 521
(% of businesses)	*71.4%*	*26.7%*	*1.9%*
(% of cross-border e-Commerce volume)	*2.9%*	*73,9%*	*22.4%*

Source: Deloitte analysis

The application of domestic rules to cross-border sales below the common VAT threshold is relatively simple to implement, as cross-border supplies can be declared for VAT purposes together with domestic supplies, and businesses can deduct inputs VAT directly. The exemption from VAT of cross-border supplies below the common VAT threshold is more complex to implement, as cross-border supplies need to be declared separately, and businesses cannot deduct input VAT. Conversely, the absence of VAT on outputs may lead to lower consumers' prices, even though this benefit is reduced by non-deductible VAT costs. However, such differences are not relevant for the estimation of the administrative burden for businesses (same as under Option 4).

The table below provides an overview of the estimated administrative burden for Option 4, with the common VAT threshold of EUR 5 000.

Table 84 –Overview of impacts on businesses of Option 5 (threshold of EUR 5 000)

Administrative burden	Goods	Services	Goods and services
Total (EUR billion)	0.476	1.391	1.908
per company (EU businesses) (EUR)	0 – (below the threshold) 1 207 (above the threshold and in SEM) 28 163 (above the threshold and outside SEM)	0 – (below the threshold) 2 020 (MOSS/SEM registered) 23 601 (non registered for MOSS/SEM)	0 – (below the threshold) 1 207 (above the threshold and in SEM) 28 163 (above the threshold and outside SEM 2 020 (MOSS/SEM

Administrative burden	Goods	Services	Goods and services
			registered) 23 601 (non registered for MOSS
per company per Member State (EUR)	0 – (below the threshold) 402 (above the threshold and in SEM) 4 694 (above the threshold and outside SEM)	402 (MOSS/SEM registered) 5 203 (non registered for MOSS/SEM)	0 – (below the threshold) 402 (above the threshold and in SEM) 4 694 (above the threshold and outside SEM) 402 (MOSS/SEM registered) 5 203 (non registered for MOSS/SEM)
No of companies	398 200 (below the threshold) 101 355 (above the threshold and in SEM) 27 383 (above the threshold and outside SEM)	10 604 (MOSS/SEM registered) 33 970 (non registered for MOSS/SEM)	398 200 (below the threshold) 101 355 (above the threshold and in SEM) 27 383 (above the threshold and outside SEM) 10 604 (MOSS/SEM registered) 33 970 (non registered for MOSS/SEM)

Source: Deloitte analysis

Different growth scenarios for imports

Finally, as mentioned earlier, postal operators and couriers are likely to pass through Customs a larger share of parcels, with possible implications on processing costs and on timing of the delivery. The use of the SEM and of the related simplified and quicker Customs procedures is likely to reduce the processing costs for postal operators and couriers.

The results are the same presented for Option 4, as Option 5 does not introduce provisions likely to impact further the processing costs of postal operators and couriers for imports.

5.5.3 Scenario analysis for the market for e-Commerce in the European Union

Common VAT threshold of EUR 5 000

The impacts on the EU e-Commerce market of the common VAT threshold of EUR 5 000 under Option5 are shown in the table below.

Table 85 – Impact of Option 5 (EUR 5000 threshold) on EU e-Commerce

	Volumes (millions of transactions)	Prices	Value (EUR billions)
Total e-Commerce	-105.0	0.68%	3.6
	-0.36%		0.32%
Cross-border e-Commerce	-152.9	1.76%	-0.6
	-2.62%		-0.33%
EU Cross-border e-Commerce	47.4	-0.15%	1.6
	1.28%		1.13%
Non-EU Cross-border e-Commerce	-200.3	5.66%	-2.2
	-9.35%		-4.21%

Source: Deloitte analysis

In terms of economic impact, the Option with the threshold of **EUR 5 000** is likely to result in an increase of intra-EU e-Commerce (of 1.28% in volume and of 1.13% in value). This is counter-balanced by a reduction of non-EU cross-border e-Commerce. While the volume shall increase at an EU level, prices may decrease resulting in a decrease in overall e-Commerce spending.

Different growth scenarios and DSM effect

The following tables show the estimated impact on e-Commerce volumes, prices and overall spending. As in the previous options a faster rate of growth can mitigate the negative impacts on the market, thanks to an increase in demand, more firms entering the market and greater competition. As with Option 4, the DSM scenario has a relatively more positive impact on EU-commerce, whereas a more negative impact on non-EU imports.

Table 86 – Impact of Option 5 on EU e-Commerce volumes, 2020 (millions of transactions, %)

	Low	Medium	High	DSM
Total e-Commerce	-137.8	-104.7	-59.6	-97.7
	-0.47%	-0.36%	-0.20%	-0.30%
Cross-border e-Commerce	-160.0	-153.0	-149.3	-166.6
	-2.74%	-2.62%	-2.56%	-2.86%
EU Cross-border e-Commerce	46.8	47.4	47.5	52.1
	1.27%	1.29%	1.29%	1.29%
Non-EU Cross-border e-Commerce	-206.7	-200.4	-196.8	-218.7
	-9.65%	-9.35%	-9.18%	-9.41%

Source: Deloitte analysis

Table 87 – Impact of Option 5 on EU e-Commerce prices, 2020

	Low	Medium	High	DSM
Total e-Commerce	0.7%	0.7%	0.6%	0.6%
Cross-border e-Commerce	1.9%	1.8%	1.3%	1.4%
EU Cross-border e-Commerce	-0.1%	-0.2%	-0.3%	-0.2%
Non-EU Cross-border e-Commerce	5.7%	5.7%	5.7%	5.7%

Source: Deloitte analysis

Table 88 – Impact of Option 5 on the value of e-Commerce, 2020 (EUR billions, %)

	Low	Medium	High	DSM
Total e-Commerce	0.6	3.6	7.8	4.0
	0.07%	0.32%	0.52%	0.33%
Cross-border e-Commerce	-0.9	-0.6	0.0	0.4
	-0.65%	-0.33%	0.00%	0.17%
EU Cross-border e-Commerce	1.0	1.6	2.3	2.4
	0.95%	1.13%	1.23%	1.16%
Non-EU Cross-border e-Commerce	-1.9	-2.2	-2.3	-2.0
	-4.53%	-4.22%	-4.04%	-4.17%

Source: Deloitte analysis

5.6 Policy Option 6: Option 4 plus fully harmonised EU rules for Single Electronic Mechanism, subject to applying the rates/exemption of the Member State of Consumption

The scenario analysis for Option 6 includes the threshold of EUR 5 000 for the common VAT thresholds, as well as a more detailed analysis of the second alternative for the option, i.e. exempting from VAT the cross-border transactions below the common VAT threshold. It also includes different growth rates for e-Commerce in the EU, which have implications for the estimated VAT revenues of Member States as well as for the market for e-Commerce in the EU.

Under Option 6, both the distance selling threshold and the VAT exemption for the importation of small consignments are removed. This Option has a common VAT threshold for business (set at EUR 5 000 and 10 000). Supplies below the threshold can either be treated under domestic rules (alternative 1) or being exempt from VAT (alternative 2). Businesses have the option to register for the single electronic registration and payment mechanism, to declare cross-border transactions, similar to the current functioning of the MOSS. The SEM applies also to imports of goods from third countries. The Option also introduces simplified procedures for imports not processed via the SEM. The Option also introduces a collection fee for the Member State of Identification set at 0, 10%, 20% or 30%. With regard to audit, a two sets of rules apply, i.e. home country rules for domestic transactions, and fully harmonised EU rules for cross-border transactions under the SEM.

5.6.1 Scenario analysis for VAT revenues for Member States

Common VAT threshold of EUR 5 000

With regard to VAT revenues from intra-EU cross-border e-Commerce transactions, they are estimated of about **EUR 9.178 billion**, following the removal of the distance selling threshold. Such additional revenues represent the VAT revenue (using a 20% EU average rage) of the additional revenue of intra-EU cross-border e-Commerce sales originated from the minority of micro-businesses above the common EU VAT exemption threshold complying with VAT-related obligations.

The VAT revenue corresponding to the cross-border transactions below the common EU VAT exemption threshold set at EUR 5 000 is estimated of about EUR 0.360 billion.

Table 89 – Impact of Option 6 on VAT revenues from intra-EU B2C cross-border e-Commerce

Member States	VAT revenues
VAT revenues below the threshold(EUR billion)	0.360
VAT loss due to non-compliance (EUR billion)	0.583
VAT revenue (EUR billion)	9.178

Source: Deloitte analysis

With regard to VAT revenues from imports, the amount of parcels that will be processed via the SEM (both direct business registration, third party registration) is likely to impact to a large extent the amount of VAT collected by Member States.

Option6 does not introduce any major change on the framework for imports set under Option 4. Therefore the volume of parcels below the Customs threshold of EUR 150, their corresponding values and VAT revenues for Option 5 are the same presented under Option 4.

Domestic rules vs. exemption and collection fees

The following table shows the VAT revenues under the alternative 2 (i.e. exemption from VAT of cross-border transactions below the common VAT threshold). Overall, the VAT collected is slightly lower than under alternative 1, as the VAT below threshold is not collected by the Member State of establishment. The differences in VAT revenue between the two scenarios are minimal.

The distribution of the VAT revenues from cross-border e-Commerce transactions between Member States of Consumption and Member States of Identification will depend on the level of the threshold, as well as on the rules to be applied for transactions below the thresholds. If domestic rules apply, Member States of Identification will benefit from the VAT revenues from intra-EU cross-border sales below the threshold. Under alternative 2, cross-border sales under the common EU VAT exemption threshold are exempt from VAT, therefore resulting in a loss of revenue, which may be even bigger if the exemption is applied with the right of input VAT deduction.

The transfer of revenues between Member States of Consumption and Member States of Identification will depend on the existence of the revenue collection fee for the Member States of Identification and of its level (for the purpose of this study, set at 0, 10%, 20% or 30%). In addition, the two alternatives analysed for VAT revenues corresponding to cross-border sales below the common EU VAT exemption threshold (i.e. domestic rules and VAT exemption) impact the split of VAT revenues from intra-EU B2C cross-border e-Commerce.

The tables below provides an overview of the VAT revenues corresponding to the two alternatives (domestic rules and VAT exemption), under the four different hypothesis of revenue collection fee.

Table 90 – Impact of Option 6 on VAT revenues from intra-EU B2C cross-border e-Commerce (common VAT threshold of EUR 10 000)

	Domestic rules		**VAT exemption**	
	VAT revenue for MSIs	**VAT revenue for MSCs**	**VAT revenue for MSIs**	**VAT revenue for MSCs**
No collection fee for MSI (EUR billion)	0.388	6.758	0	6.758
Collection fee for MSI at 10% (EUR billion)	1.064	5.694	0.676	6.082
Collection fee for MSI at 20% (EUR billion)	1.740	5.018	1.352	5.406
Collection fee for MSI at 30% (EUR billion)	2.416	4.342	2.027	4.730

Source: Deloitte analysis

Table 91 – Impact of Option 6 on VAT revenues from intra-EU B2C cross-border e-Commerce (common VAT threshold of EUR 5 000)

	Domestic rules		VAT exemption	
	VAT revenue for MSIs	**VAT revenue for MSCs**	**VAT revenue for MSIs**	**VAT revenue for MSCs**
No collection fee for MSI (EUR billion)	0.360	6.784	0	6.784
Collection fee for MSI at 10% (EUR billion)	1.039	5.746	0.678	6.106
Collection fee for MSI at 20% (EUR billion)	1.717	5.067	1.357	5.427
Collection fee for MSI at 30% (EUR billion)	2.395	4.389	2.035	4.749

Source: Deloitte analysis

Under both alternatives (i.e. domestic rules and VAT exemption for cross-border transactions below the common VAT threshold) and with both levels of thresholds (i.e. EUR 5 0000 and EUR 10 000), the differences in VAT revenues for Member States are relatively small. Clearly, in case of the VAT exemption, the VAT revenue corresponding to the cross-border transactions below the common VAT threshold is not collected by either the MSI or the MSC.

The application of domestic rules is relatively simple to implement, as cross-border supplies can be declared for VAT purposes together with domestic supplies, and businesses can deduct inputs VAT directly. Exemption from VAT cross-border supplies below the common VAT threshold is likely to be more complex to implement, as cross-border supplies need to be declared separately, and businesses cannot deduct input VAT. In addition, the absence of VAT on outputs may lead to lower consumers' price, and thus of (potential) distortions of cross-border competition (same as under Options 4 and 5).

Different growth rates

The following tables show the estimated impact of VAT revenues for Member States of different growth rates of the market for e-Commerce in Europe under the both alternatives (i.e. domestic rules applied to cross-border transactions, and VAT exemption on cross-border transactions).

Under the alternative 2 (i.e. exemption from VAT of cross-border transactions below the common VAT threshold) the VAT collected is slightly lower than under alternative 1, as the VAT below threshold is not collected by the Member State of establishment. The differences in VAT revenue between the two scenarios are minimal, as shown by the tables below.

Table 92 – Impact of Option 6 on VAT revenues for Member States (threshold EUR 10 000), (EUR billion)

	Domestic rules			VAT exemption		
	VAT loss due to non-compliance	**VAT revenue for MSC**	**VAT revenue MSI**	**VAT loss due to non-compliance**	**VAT revenue for MSC**	**VAT revenue MSI**
High growth	0.613	9.263	0.409	0.613	9.262	0
Medium growth	0.582	8.792	0.388	0.582	8.792	0
Low growth	0.550	8.321	0.367	0.550	8 321	0

Source: Deloitte analysis

Table 93 – Impact of Option 6 on VAT revenues for Member States threshold EUR 5 000), (EUR billion)

	Domestic rules			VAT exemption		
	VAT loss due to non-compliance	VAT revenue for MSC	VAT revenue for MSI	VAT loss due to non-compliance	VAT revenue for MSC	VAT revenue MSI
High growth	0.614	9.291	0.379	0.614	9.291	0
Medium growth	0.583	8.818	0.360	0.583	8.818	0
Low growth	0.552	8.346	0.341	0.552	8 346	0

Source: Deloitte analysis

There are not noticeable differences across the different scenarios for the share of VAT revenues processed via the SEM, which are assumed to represent about 62% of the volume of cross-border e-Commerce transactions.

With regard to imports, Option 6 does not introduce additional provisions influencing Member States' VAT revenues from imports. Therefore the scenario analysis for Option 5 is the same presented under Option 4.

5.6.2 Scenario analysis for impacts on businesses

Common VAT threshold of EUR 5 000

Our analysis estimates that under Option 6 with a common EU VAT exemption threshold of EUR 5 000 the **overall administrative costs** for businesses active on cross-border e-Commerce of goods are of about **EUR 2.100 billion**. This figure represents a decrease of 50% with respect to the status quo (while the threshold of EUR 10 000 leads to an estimated decrease in the administrative burden of 51%).

Costs however will likely differ largely between those businesses that benefit from the common EU VAT threshold, and those whose EU cross-border sales are above the common EU VAT exemption threshold.

When the common EU VAT exemption threshold is set at EUR 5 000, businesses benefiting from it (the (in our estimates, 90% of micro-businesses active in B2C cross-border e-Commerce, or about 398 200 businesses) are not likely to encounter additional administrative costs for VAT-related obligations, as the cross-border sales will be subject to domestic rules. Administrative costs for businesses with cross-border sales above the threshold and adopting the SEM are estimated to amount to about EUR 1 533 per company per year or about (on average) EUR 518 per company for each Member State they sell cross-border. The administrative burden for businesses with cross-border sales above the threshold and outside of the SEM are not expected to change with respect to those estimated for the threshold of EUR 10 000. Similarly, the costs for businesses supplying TBE services are not expected to change significantly (the new provisions under Option 6 apply also to TBE services, but their impact on administrative burden is expected to be limited).

With regard to the **number of businesses** engaged in cross-border e-Commerce, micro-enterprises below the common EU VAT exemption threshold of EUR 5 000 are estimated to be about 398 200. About 149 189 businesses are expected to be above common EU VAT exemption threshold and in the

SEM (of which 13 273 micro-enterprises), while 15 871 are estimated to be above the threshold and outside of the SEM. Overall, about 25.5% of businesses are estimated to the above the common VAT threshold and in the SEM, representing about 73% of the volume of cross-border e-Commerce.

The table below provides an overview of the number of businesses above the common EU VAT exemption threshold and in/outside of the SEM, per size of businesses, and per volume of cross-border e-Commerce.

Table 94 - Estimated adoption rate of the SEM by EU businesses, common EU VAT exemption threshold at EUR 5 000

	Businesses below the common VAT threshold (EUR 5000 – 10 000)	**Businesses above the common VAT threshold and in the SEM (EUR 5000 – 10 000)**	**Businesses above the common VAT threshold and outside the SEM**
Micro businesses	398 200 -	44 244-	
Small businesses		73 544	8 172
Medium businesses		19 183	5 411
Large businesses		5 950	2 289
Total number of businesses	398 200	149 189	15 871
(% of businesses)	*71.4%*	*25.6%*	*1.9%*
(% of cross-border e-Commerce volume)	*2.9%*	*73.2%*	*23.2%*

Source: Deloitte analysis

The application of domestic rules to cross-border sales below the common VAT threshold is relatively simple to implement, as cross-border supplies can be declared for VAT purposes together with domestic supplies, and businesses can deduct inputs VAT directly. The exemption from VAT of cross-border supplies below the common VAT threshold is more complex to implement, as cross-border supplies need to be declared separately, and businesses cannot deduct input VAT. Conversely, the absence of VAT on outputs may lead to lower consumers' prices, even though this benefit is reduced by non-deductible VAT costs. However, such differences are not relevant for the estimation of the administrative burden for businesses (same as under Option 4).

The table below provides an overview of the estimated administrative burden for Option4, with the common VAT threshold of EUR 5 000.

Table 95 –Overview of impacts on businesses of Option 6 (threshold of EUR 5 000)

Administrative burden	**Goods**	**Services**	**Goods and services**
Total (EUR billion)	0.669	1.431	2.100
per company (EU businesses) (EUR)	0 – (below the threshold) 1 533 (above the threshold and in SEM) 28 163 (above the threshold and outside SEM)	0 – (below the threshold) 2 590 (MOSS/SEM registered) 23 601 (non registered for MOSS/SEM)	0 – (below the threshold) 1 533 (above the threshold and in SEM) 28 163 (above the threshold and outside SEM 2 590 (MOSS/SEM registered)

Administrative burden	Goods	Services	Goods and services
			23 601 (non registered for MOSS/SEM)
per company per Member State (EUR)	0 – (below the threshold) 518 (above the threshold and in SEM) 4 694 (above the threshold and outside SEM)	518 (MOSS/SEM registered) 5 203 (non registered for MOSS/SEM)	0 – (below the threshold) 518 (above the threshold and in SEM) 4 694 (above the threshold and outside SEM) 518 (MOSS/SEM registered) 5 203 (non registered for MOSS/SEM)
No of companies	398 200 (below the threshold) 149 189 (above the threshold and in SEM) 27 383 (above the threshold and outside SEM)	10 604 (MOSS/SEM registered) 33 969 (non registered for MOSS/SEM)	398 200 (below the threshold) 149 189 (above the threshold and in SEM) 27 383 (above the threshold and outside SEM) 10 604 (MOSS/SEM registered) 33 969 (non registered for MOSS/SEM)

Source: Deloitte analysis

Different growth scenarios for imports

Finally, as mentioned earlier, postal operators and couriers are likely to pass through Customs a larger share of parcels, with possible implications on processing costs and on timing of the delivery. The use of the SEM and of the related simplified and quicker Customs procedures is likely to reduce the processing costs for postal operators and couriers.

The results are the same presented for Option 4, as Option 6 does not introduce provisions likely to impact further the processing costs of postal operators and couriers for imports.

5.6.3 Scenario analysis for the market for e-Commerce in the European Union

Common VAT threshold of EUR 5 000

The impacts on the EU e-Commerce market are shown in the table below.

Table 96 - Impact of Option 6 (EUR 5000 threshold) on EU e-Commerce

	Volumes (millions of transactions)	Prices	Value (EUR billions)
Total e-Commerce	-108.9	0.70%	3.6
	-0.37%		0.32%
Cross-border e-Commerce	-155.9	1.79%	-0.7
	-2.68%		-0.35%
EU Cross-border e-Commerce	44.0	-0.09%	1.5
	1.19%		1.10%
Non-EU Cross-border e-Commerce	-199.9	5.66%	-2.2
	-9.33%		-4.20%

Source: Deloitte analysis

Similar to the common VAT threshold of EUR 10 000, the threshold of EUR 5 000 is expected to have a positive impact on EU cross-border e-Commerce volumes; however, the effect on non-EU imports is estimated to be negative due to the increase in compliance and VAT paid.

The introduction of the SEM (with a registration threshold of EUR 5 000) is likely to have a positive impact on EU cross-border e-Commerce volumes (increase of 1.19%, and 1.1% increase in value, not notably different from that of the EUR 10 000 threshold.

Different growth scenarios and DSM effect

The following tables show the estimated impact on e-Commerce volumes, prices and overall spending. As in the previous options a faster rate of growth can mitigate the negative impacts on the market due to the decrease in non-EU imports. Similarly to options 4 and 5, Option 6 is estimated to have a relatively more positive impact on EU cross-border e-Commerce than non-EU e-Commerce under the DSM scenario.

Table 97 – Impact of Option 6 on EU e-Commerce volumes, 2020 (millions of transactions, %)

	Low	Medium	High	DSM
Total e-Commerce	-142.0	-108.4	-62.2	-102.6
	-0.48%	-0.37%	-0.21%	-0.32%
Cross-border e-Commerce	-163.0	-156.0	-152.3	-170.0
	-2.80%	-2.68%	-2.61%	-2.92%
EU Cross-border e-Commerce	43.4	44.1	44.3	48.5
	1.18%	1.20%	1.20%	1.20%
Non-EU Cross-border e-Commerce	-206.3	-200.1	-196.7	-218.5
	-9.63%	-9.34%	-9.18%	-9.30%

Source: Deloitte analysis

Table 98 – Impact of Option 6 on EU e-Commerce prices, 2020

	Low	Medium	High	DSM
Total e-Commerce	0.7%	0.7%	0.6%	0.6%
Cross-border e-Commerce	1.9%	1.8%	1.3%	1.5%
EU Cross-border e-Commerce	0.0%	-0.1%	-0.3%	-0.2%
Non-EU Cross-border e-Commerce	5.7%	5.7%	5.7%	5.7%

Source: Deloitte analysis

Table 99 – Impact of Option 6 on the value of e-Commerce, 2020 (EUR billions, %)

	Low	Medium	High	DSM
Total e-Commerce	0.6	3.6	7.8	4.0
	0.08%	0.32%	0.52%	0.33%
Cross-border e-Commerce	-0.9	-0.7	-0.1	0.4
	-0.66%	-0.35%	-0.03%	0.14%
EU Cross-border e-Commerce	0.9	1.5	2.2	2.3
	0.92%	1.10%	1.19%	1.12%

	Low	Medium	High	DSM
Non-EU Cross-border e-Commerce	-1.9	-2.2	-2.3	-2.0
	-4.51%	-4.20%	-4.03%	-4.16%

Source: Deloitte analysis

5.7 Additional analysis

5.7.1 Common VAT threshold of EUR 100 000

An additional part of the sensitivity analysis focuses on identifying the key impacts of introducing a common VAT threshold of EUR 100 000 (all the other conditions remaining the same as in Option 4). It is assumed that domestic rules apply to transactions below the common VAT threshold. The key impacts considered include:

- The number of businesses impacted by such threshold;
- The share of e-Commerce impacted by such threshold;
- The corresponding VAT revenue for Member States.

While some Member States already have a distance selling threshold of EUR 100 000, the common VAT threshold as designed under this study would apply to the combination of all cross-border sales, affecting thus a relatively large number of businesses. This is likely to include most small enterprises, of which there are estimated to be over 80 000 currently trading cross-border (as well as micro-businesses, which are already impacted by much lower common VAT thresholds). Small businesses are estimated to contribute about 12.6% of current e-Commerce revenues. Based on our estimates, approximately 45% of these transactions would fall within the application of the common VAT threshold of EUR 100 000, about 5.7% of total cross-border spending would therefore fall under the common VAT threshold. The contribution of micro-businesses to cross-border e-Commerce also needs to be added, as they are already impacted by the common VAT thresholds of EUR 5 000 and EUR 10 000[79]. Micro-businesses represent the vast majority of businesses in cross-border e-Commerce (about 442 444 estimated), and account for 4.1% of cross-border e-Commerce value. Therefore, a common VAT threshold of EUR 100 000 would impact about 9.5% of the total value of cross-border e-Commerce.

In order to estimate the impact of such threshold on VAT revenues for Member States, two different estimation methods were used to estimate the average turnover per business in the EUR 10 000 – EUR 100 000 turnover bracket. In one case, the distribution of businesses by turnover for TBE services was used as a basis, corrected in consideration of the higher value of average transactions for goods. In this case, we carried out one estimate for businesses in the EUR 10 000 – EUR 30 000 turnover bracket and another estimate for businesses in the EUR 30 000 – EUR 100 000 turnover bracket. In the other case, a linear projection of the average turnover per business was carried out, based on the data already estimated for businesses below the EUR 10 000 threshold. In this case, only one estimated was done for all businesses in the EUR 10 000-EUR 100 000 turnover bracket. In both cases, the data available for businesses below the EUR 10 000 threshold were added and standard VAT rate of 20% was used.

[79] See sections 5.4.2 and 4.5.3 respectively,

The table below provides an overview of the results of the two methods.

Table 100 – Overview of the impacts of the EUR 100 000 common VAT threshold

	Projection based on TBE services data	Linear projections
No. of businesses	509 000	509 000
Total Turnover	EUR 5.940 billion	EUR 4.548 billion
VAT revenue	EUR 1.188 billion	EUR 0.909 billion

Source: Deloitte analysis

In addition to leading to a significant reduction in the VAT revenues collected on cross-border transactions, this would also reduce the overall administrative burden, thereby creating growth in the market that could partially offset some of these losses in revenues. In addition, such a threshold is not likely to guarantee a level playing field for EU businesses, as many of the issues deriving from the current distance selling thresholds systems would not be addressed. Overall, a common VAT threshold of EUR 100 000 is estimated to impact both micro- and small businesses engaged in cross-border e-Commerce, i.e. about 509 000 businesses, which represent about 10% of the value of cross-border e-Commerce. Such a threshold is also likely to have major impacts on VAT revenues for Member States, as about EUR 1 billion of VAT revenues (ranging from EUR 0.909 billion to EUR 1.118 billion) are estimated to correspond to the e-Commerce trade impact by the threshold.

5.7.2 Regional impacts

The impact of removing the distance selling threshold and of implementing the destination principle (as defined under all options) will vary by country, depending on a number of factors:

- Contribution to cross-border e-Commerce, by origin: countries that account for a larger share of cross-border online trade relative to population are expected to see a greater impact from the policy options since a larger proportion of businesses will be affected;
- Proportion of businesses affected by the change in registration thresholds: smaller businesses, (i.e. businesses that currently fall below the registration thresholds), that will be most affected by the reduction in the registration thresholds. Therefore countries in which SMEs make up a greater contribution to e-Commerce would be expected to be disproportionately impacted.

Among EU Member States, the following countries account for the largest shares of e-Commerce flows, by country of origin:

Table 101 – Share of e-Commerce flows by country of origin

Country	Share of cross-border e-Commerce flows, by origin
Germany	12.7%
United Kingdom	11.8%
Luxembourg	10.8%
Spain	8.8%
Ireland	8.4%

Source: Deloitte analysis

Among these countries, Luxembourg, Spain and Ireland are notable for the fact that their contribution to EU-wide cross-border e-Commerce flows exceeds their contribution to EU-wide retail sector GDP. Therefore, in these markets cross-border e-Commerce accounts for a larger than average share of the retail sector and therefore the change in policy would be expected to have a greater impact in these countries. In contrast, for Germany and the UK the role of cross-border e-Commerce is somewhat smaller than one would expect given the size of the economy and so the impacts of the policy change are likely to be smaller than average (the same is also true of France). More generally, the size of the domestic market may insulate larger European countries from the potentially adverse impacts on cross-border trade.

The second factor to consider is the proportion of businesses engaged in cross-border e-Commerce that will be affected by the policy change. That is, in countries where a large fraction of businesses engaged in cross-border trade are currently below the threshold, the reduction in the threshold would be expected to have a greater impact. The table shows those countries in which micro-businesses make up the highest proportion of businesses trading cross-border.

Table 102 – Share of micro-businesses selling cross-border by country

Country	Share of businesses selling cross-border that are microbusinesses
Slovenia	88.6%
Poland	88.5%
Slovakia	88.2%
Portugal	87.8%
Sweden	85.7%

Source: Deloitte analysis

These countries may therefore experience a greater than average impact. Meanwhile, in countries such as the UK and Germany the impact of the policy change may be further mitigated by the fact that micro-businesses contribute a smaller share of online trade in these markets, with larger firms being more dominant.

The other regional impact to consider is the impact on revenues across different markets. Whereas the impact on businesses will generally depend on e-Commerce flows *by origin*, the relative impact on revenues will largely depend on the *destination.* As above, there are two factors that may be considered.

- Contribution to e-Commerce flows, by destination: countries that account for a disproportionately large share of inward e-Commerce flows are estimated to see a greater revenue impact as a result of a greater share of transactions falling within the scope of VAT;
- Change in VAT registration thresholds: countries that experience a greater reduction in the VAT registration threshold will also see a greater increase in VAT revenues, since the change in policy will make a larger impact in these markets.

Table 103 – Share of e-Commerce flows by country of destination

Country	Share of e-Commerce flows by country destination
United Kingdom	26.19%
Spain	15.12%
France	13.83%

Germany	13.05%
Italy	7.65%

Source: Deloitte analysis

Countries such as the UK and Spain would be expected to capture an above average share of additional VAT revenues, given that spending on cross-border e-Commerce in these markets is higher relative to the size of the economy. The impact in the UK is likely to be particularly pronounced since the current threshold for VAT registration for international businesses is approximately EUR 100 000 so the reduction in the thresholds may significantly increase the share of spending that is subject to VAT. Germany, France, Luxembourg and the Netherlands also have registration thresholds of EUR 100 000 and may therefore see a greater than average impact on tax revenues.

6 Conclusion

This section reports and summarises the key findings from the analysis of the Policy Options for the future of VAT in cross-border e-Commerce transactions.

This report forms part of a broad study providing an in-depth economic analysis of VAT aspects of e-Commerce. The study considers the widening of the Mini One Stop Shop (MOSS) to other areas of B2C e-Commerce, the elimination of the VAT exemption for the importation of small consignments, and the elimination of current registration thresholds for intra-EU B2C supplies of goods. The objective is to reduce the administrative burden on trade and remove distortion of competition, to support the full achievement of the Digital Single Market.

The overall study consists of three Lots. This document comprises of the final report for Lot 2. It focuses on the **analysis of costs, benefits, opportunities and risks in respect of the Options for the modernisation of the VAT aspects of cross-border e-Commerce**. Here we focus on:

- Presenting the relevant problems related to the VAT aspects of e-Commerce and their drivers;
- Summarising the impacts of the Policy Options under consideration;
- Connecting the Policy Options under consideration to the policy objectives and other relevant dimensions of the analysis.

6.1 Relevant problems related to the VAT aspects of e-Commerce

The **external factors** include the interplay between VAT rules and other legislation at EU or Member State level (especially EU Customs legislation), as well as the VAT and Customs rules of third countries, and consumers' attitude.

Problems for intra-EU trade include **high compliance burden** for businesses, difficulty for tax authorities in **monitoring the distance selling threshold** for lack of available information, and **distortion of competition between EU businesses** (where businesses established in a country with a low VAT rate can apply the VAT rate of that country up until the threshold set in the EU Member State of destination, while businesses established in a Member State with a high VAT rate cannot benefit from the same advantage). With regard to imports, five main problems have been identified, i.e. high **compliance burden on businesses,** difficulty for tax authorities in **monitoring compliance** as the value of consignments is not always easy to determine, **significant amounts of VAT foregone** at EU level, **distortion of competition between EU businesses and non-EU businesses** as the VAT small consignment exemptions apply to import from third countries but not to intra-EU or domestic sales and **low consumers' awareness** of taxes and duties due for online purchases.

6.2 Key findings from the analysis of the Policy Options

The following table provides an overview of the main features of the Policy Options assessed.

Table 104 – Key features of the policy options

<table>
<tr><th></th><th>Option1 (Status Quo)</th><th>Option2</th><th>Option3</th><th>Option4</th><th>Option5</th><th>Option6</th></tr>
<tr><td>B2C e-Commerce cross-border transactions of goods (intra-EU)</td><td>Optional application of distance selling threshold (EUR 35 000 or EUR 100 000)</td><td></td><td>Common VAT threshold (EUR 5 000/EUR 10 000)</td><td colspan="3" rowspan="2">Common VAT threshold (EUR 5 000/EUR 10 000)
Possibility to register for the SEM</td></tr>
<tr><td>B2C e-Commerce cross-border transactions of TBE services</td><td colspan="2">Application of place of supply rules as from January 1^{st} 2015
Possibility to register for the MOSS</td><td>Common VAT threshold (EUR 5 000/EUR 10 000)</td></tr>
<tr><td>Imports of small value consignments</td><td>No VAT applied
Couriers and postal operators responsible for clearance at Customs</td><td colspan="2">Application of VAT rate of the Member State of destination
Couriers and postal operators responsible for clearance at Customs</td><td colspan="3" rowspan="2">Application of VAT rate of the Member State of destination
Possibility to pre-pay VAT and process imports via SEM
Simplified procedures for non-SEM transactions with standardised VAT rate</td></tr>
<tr><td>Imports of goods between EUR 10-22 and EUR 150</td><td colspan="3">VAT applied (rate of the Member State of destination)
Couriers and postal operators responsible for clearance at Customs</td></tr>
<tr><td>VAT rate applied</td><td>Application of destination principle (unless applying the distance selling threshold)</td><td>Application of VAT rate of Member State of destination/ consumption</td><td colspan="4">Application of VAT rate of Member State of destination/ consumption (unless below the common VAT threshold)</td></tr>
<tr><td>VAT revenues in Member States</td><td>Retention fee for Member State of Identification for transactions declared via the MOSS (TBE services[80])</td><td></td><td></td><td colspan="3">Retained revenue of 0%, 10%, 20% or 30% for Member State of Identification for transactions declared via the SEM</td></tr>
<tr><td>Audit and other administrative rules (invoicing, chargeability, bad debt relief)</td><td>Application of rules of the Member State of Consumption (unless applying the distance selling threshold)</td><td>Application of rules of the Member State of Consumption</td><td colspan="2">Application of rules of the Member State of Consumption (unless below the common VAT threshold).</td><td>Application of home country rules (1 set of rules)</td><td>Application of a fully harmonised EU rules for cross-border transactions (2 sets of rules)</td></tr>
</table>

Source: Deloitte analysis

[80] Under the current legislative framework, the retention fee for the Member State of Identification is fixed at 30% for 2015 and 2016, at 15% for 2017 and 2018 and is 0% from 2019.

6.2.1 Policy Option 1: Status Quo

Impacts on businesses and Member States

Our analysis has suggested that the overall costs that businesses face when engaging in cross-border B2C e-Commerce amount to almost **EUR 4.166 billion**, or about **EUR 24 000 per company per year**[81]**,** or about (on average) **EUR 8 000** for each Member State in which a company is VAT-registered.

When considering only the costs for businesses providing cross-border TBE services, the costs that businesses face when engaging in cross-border B2C e-Commerce amounts to about **EUR 1.414 billion**. Costs however differ largely between those businesses that use simplification measures accompanying the 2015 PoS rules (e.g. the MOSS), and those that do not use them. For the first group of businesses ('in the MOSS'), costs amount to about EUR 2 172 per company per year or about (on average) EUR 430 per company for each Member State in which a company sells TBE services. For the second group of businesses ('outside the MOSS'), costs amount to about EUR 41 626 per company per year or about (on average) EUR 5 203 per company for each Member State in which a company sells TBE services[82].

The administrative burden estimated for businesses engaged in cross-border B2C e-Commerce and for businesses supplying TBE services (EUR 8 000 per company per Member States vs. EUR 5 203 per company per Member State) depends on the different composition of the samples used for the analysis. The sample of TBE businesses included a larger share of small enterprises, which are estimated to sustain administrative costs per company per Member State to almost EUR 5 000).

Initial data coming from the MOSS system for the first two quarters of 2015 show that the overall amount of VAT revenues during 2015 will be about EUR 3 billion.

The amount of imported parcels below the EUR 10-22 threshold was estimated at EUR 114.85 million in 2013[83], corresponding to EUR 144.07 million in 2015, under the medium growth scenario[84]. Similarly, under the medium growth scenario, the corresponding amount of VAT foregone is estimated at EUR 652.91 million in 2015.

Impacts on competition and growth in the European Union

Our analysis has suggested that the current administrative burden associated with cross-border e-Commerce constitutes a barrier to the growth of e-Commerce in the EU. Cross-border e-Commerce is especially likely to be adversely affected.

The analysis of the Status Quo points out the adverse effects of VAT foregone from the small consignment exemption and a high-level of non-compliance in cross-border sales on competition.

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[81] This is calculated by dividing by the number of companies engaged in cross-border e-Commerce; see section 3.2. of Lot 1 Final Report.
[82] See the Final Report for Lot 3.
[83] European Commission (2015), Assessment of the application and impact of the VAT exemption for importation of small consignments, prepared by EY, accessed at http://ec.europa.eu/taxation_Customs/resources/documents/common/publications/studies/lvcr-study.pdf on June 12th 2015.
[84] This was estimated applying to the 2013 data the Cumulated Annual Growth Rate (CAGR) estimated under the low growth (6% CAGR), medium growth (12% CAGR) and high growth (18%) scenarios elaborated under Lot 1.

The adverse effects of the small consignment exemption leads to **an uneven playing field between EU and non-EU businesses**. Such exemption only applies to imports from third countries, so that non-EU businesses have a competitive advantage due to lower consumer prices. Moreover, the current rules may also lead to a distortion of competition among non-EU businesses, as the Customs thresholds of EUR 10 or EUR 22 do not equally apply in all Member States. Thus the import conditions are not equal across Member States, as confirmed by available studies[85].

The lack of information on the application of the distance sales threshold leads to difficulty for tax authorities in Member States to monitor the threshold, as well as to distortion of competition **among EU businesses**. Businesses established in a country with a low VAT rate can apply the VAT rate of that country up until the threshold set in the Member State of destination, while businesses established in a Member State with high VAT rate cannot benefit from the same advantage.

The analysis suggests the following:

- The current administrative burden may limit the size of the EU e-Commerce market by between 0.3% and 0.7%; under the medium growth scenario. This represents between EUR 3.1 billion and EUR 5.2 billion of foregone online trade annually;
- The current regime affects cross-border trade in particular, constraining the size of the market by 1.2% - 2.6%; under the medium growth scenario. This represents foregone cross-border online trade of between EUR 2.5 billion and EUR 4.2 billion annually.

The administrative burden may be associated with a mark-up of about 1.0% on overall online prices. Cross-border e-Commerce prices faced by consumers may be about 4.5% higher than they would otherwise be.

Compliance

As a result of the assessment of compliance on B2C cross-border supplies of goods, the following conclusions were drawn:

- Non-compliance is considered by tax authorities as a significant issue on both intra-EU distance sales and on B2C import of goods with a value of up to EUR 150, proven by active EU level discussions and increasing attempts to collect more information on B2C cross-border sales and improve controls;
- Tax authorities find it challenging to measure the level of compliance, given the administrative costs involved;
- Testing the compliance by mock purchases further confirmed the lack of VAT information provided by suppliers on cross-border B2C supplies, which makes it difficult to check the level of compliance.

Tax authorities have identified many types of non-compliance (including avoidance schemes), such as:

- Under-valuation and mis-labelling on imports; and

[85] European Commission (2015), 'Assessment of the application and impact of the VAT exemption for importation of small consignments', ibid.

- Ignoring distance sales thresholds, use of 'split supplies', 'parcel motel' and rate shopping on distance sales.

The main compliance measures applied by tax authorities to B2C cross-border supplies are the general measures used also for other supplies:

- Preventive measures;
- General auditing and control procedures;
- Sampling and risk profiling.

More recently, tax authorities have started to use technological tools, such as web trawling and data analytics, and the collection of additional information from other businesses (e.g. account holders, financial institutions or postal operators).

Tax authorities admit that the use of compliance measures is not sufficiently effective and there is room for improvement, mainly by:

- Better use of administrative cooperation between EU Member States and with non-EU countries; and
- Further development and use of technological tools.

The estimated VAT loss due to non-compliance on B2C cross-border sales, based on B2C total cross-border online expenditure (as estimated in the study), general VAT gap and data provided by two Member States, ranges from EUR 2.6 billion to EUR 3.8 billion, whilst the actual respective EU VAT loss is likely to be closer to the upper end of the estimated range. Moreover, based on some relevant information from some Member States[86] on systematic non-compliance on import, the EUR 3.8 billion estimate on overall VAT foregone due to non-compliance can be considered as very conservative[87].

6.2.2 Policy Option 2: Removal of the distance sales thresholds and the small consignment exemption (No simplification)

Option 2 removes both the distance selling thresholds of EUR 35 000 and EUR 100 000 and the VAT exemption for the importation of small consignments under the threshold of EUR 10-22. This Option adversely affects Member States of Identification and Member States of Consumption, as well as EU and non-EU businesses.

Impacts on Member States

The table below summarises the key impacts on Member States' VAT revenues.

Table 105 – Overview of Member States' VAT revenues for Option 2

Member States	VAT revenues (EUR billion)
VAT revenues (EU cross-border trade)	2.303

[86] See recent information from UK (HMRC (2015), ibid) and France (Sénat Commission des finances (2015), ibid.)
[87] A more detailed analysis is provided under Lot 1

VAT revenues (imports from third countries)	0.325

Source: Deloitte analysis

VAT revenues for Member States are expected to increase as an effect of the removal of the small value consignment exemption, with a redistribution of the (relatively small amount of) VAT deriving from the removal of the distance selling threshold. The increase is estimated to be about 18% with respect to the (estimated) VAT loss from the small value consignment exemption in 2013.

The estimated impact on Member States' VAT revenues of different growth rates for both intra-EU trade and imports from third countries is quite small. The range of VAT revenues from intra-EU e-Commerce ranges from EUR 2.180 billion to EUR 2.427 billion (low growth scenario and high growth scenario respectively), while VAT revenues from imports are estimated to range from EUR 671 million to EUR 542 million under the same scenarios.

Impacts on businesses

The table below summarises the key impacts on the administrative burden on businesses.

Table 106 – Overview of administrative costs for Option 2

	Businesses		
Administrative burden	Goods	Services	Goods and services
Total (EUR billion)	3.247	1.437	4.684
per company (EU businesses) (EUR)	23 599	2 172 (MOSS registered) 41 626 (non registered for MOSS)	2 172 (MOSS-registered) 23 599 (goods) 41 626 (non registered for MOSS
per company per Member State (EUR)	7 863	434 (MOSS registered) 5 203 (non registered for MOSS)	434 (MOSS-registered) 7 866 (goods) 7 865 (non registered for MOSS)
No of companies	137 586	10 604 (MOSS registered) 33 969 (non registered for MOSS)	137 586

Source: Deloitte analysis

In comparison with the Status Quo, this Option presents a 12% increase of the administrative burden about 12% as a result of the removal of the threshold. Only a small minority of micro-enterprises (estimated at about 5%) will be likely to comply with the new obligations, while the remaining of micro-enterprises will be likely to cease trading cross-border or will fail to register for VAT (i.e. being non-compliant).

VAT revenues for Member States are expected to increase as an effect of the removal of the small value consignment exemption, with a redistribution of the (relatively small amount of) VAT deriving from the removal of the distance selling threshold.

Impacts on the market for e-Commerce in the European Union

The table below provides an overview of the key economic impacts assessed for this Option.

Table 107 – Overview of economic impacts for Option 2

	Total e-Commerce	Cross-border e-Commerce	EU cross-border e-Commerce	Non-EU cross-border
EU e-Commerce volume				
Millions of transactions	-111	-271	-59	-212
%	-0.4%	-4.6%	-1.6%	**-9.9%**
EU e-Commerce prices				
%	0.5%	2.6%	1.1%	5.7%
e-Commerce value				
EUR billions	3.5	-1.7	0.5	-0.3
%	0.3%	-0.9%	0.3%	-4.2%

Source: Deloitte analysis

At a broader economic level, there is likely to be a negative impact on cross-border e-Commerce because the average price of imports will increase, leading to a fall in the volume of transactions. The removal of thresholds may lead to smaller firms exiting the market.

A **higher rate of e-Commerce growth (high growth scenario[88])**, especially in the domestic market, can partially mitigate some of the negative impacts of Option 2 on the cross-border e-Commerce market.

In terms of **volumes** of e-Commerce, the impact of the increase in the administrative burden is therefore expected to be smaller under the high growth scenario, both in absolute and in relative terms (-41.5 million transactions vs. -110.8 million transactions, and -0.1% vs. -0.4% respectively).

With regard to e-Commerce **prices**, the contraction in cross-border trade increases competition in the domestic market, which tends to reduce prices in this market. In contrast, prices in the e-Commerce market rise due to the increased administrative burden, although such effects are lower under the high growth scenario.

Under the **DSM scenario**[89], the negative effects on e-Commerce volumes and prices are stronger. The increase in the administrative burden affects a larger proportion of the e-Commerce market and risks a larger number of firms leaving the market. Thus the estimated reduction of overall e-Commerce **volumes** is of 147.7 million transactions (-0.5%) with respect to the Status Quo, and of 66.5 million transactions (-1.6%) for EU cross-border e-Commerce. With regard to **prices**, in the DSM scenario the faster growth rate of intra-EU e-Commerce means that a larger proportion of the market is affected, leading to a grated impact on prices (estimated to an increase of 0.55% overall, and of 1.11% for EU cross-border e-Commerce).

[88] CAGR of 18%, see Assumption 4 in Annex 4.

[89] This scenario allows for the impact of the Digital Single Market strategy on cross-border e-Commerce within the EU. It is assumed that domestic and non-EU markets grow at 12%, while intra-EU cross-border e-Commerce grows at 18%

The effect on **value** is more ambiguous, as it is a product of volume and price effects. Under the high growth scenario, the fact that prices do not increase means that the overall effect on spending is negative. On the contrary, it is positive in the medium growth and DSM scenarios, as the increase in prices cancels out the decline in the number of transactions.

Impacts on compliance

With regard to **compliance**, the **removal of distance sales threshold** simplifies the VAT system and is expected to facilitate the compliance control by tax authorities, reducing the VAT fraud on distance sales. However, the increase in the administrative burden is still likely to increase the level of non-compliance among the businesses currently benefitting from the threshold, who may decide to take a risk and continue declaring the sales as part of domestic supplies. The risk of non-compliance may be even bigger among the group of traders currently not registered for domestic VAT.

The removal of **small consignment exemption** simplifies the VAT system and should enable slightly more efficient compliance controls (e.g. by reviewed risk assessment). However, as the volume of parcels subject to VAT increases, there is higher motivation for non-EU suppliers to undervalue and mislabel the parcels to reduce their VAT cost. Evidence on the high level of non-compliance where small consignment exemption cannot be applied can be found from a recent French Senate report[90] (France does not apply small consignment exemption to mail orders). Therefore the level of non-compliance is expected to increase in this Option and in calculations, 65% of VAT foregone due to non-compliance is used (compared to 50% in Option 1)

6.2.3 Policy Option 3: Option 2 but with the introduction of a common VAT threshold for EU sales of both goods and services (EUR 5000 or EUR 10 000)

Option 3 removes the existing small consignment exemption and distance selling thresholds, but introduces a new type of cross-border exemption threshold. The Option consists of two alternatives, namely a complete VAT exemption when the threshold is not breached or VAT in the MSI when the threshold is not breached. It impacts all stakeholders, particularly micro-businesses and e-Commerce start-ups.

Impacts on Member States

The table below provides an overview of the impacts on Member States assessed for this Option.

Table 108 – Overview of impacts on Member States for Option 3

Member States	VAT revenues	
EU cross-border e-Commerce	**Threshold of EUR 5 000 (EUR billion)**	**Threshold of EUR 10 000 (EUR billion)**
VAT revenues below the threshold	0.360	0.380

[90] Sénat Commission des finances (2015), Le E-Commerce: proposition pur une TVA payée à la source. http://www.senat.fr/fileadmin/Fichiers/Images/redaction_multimedia/2015/2015-Documents_pdf/20150917_e_commerce.pdf , consulted on 18 December 2015

Member States	VAT revenues	
VAT loss due to non-compliance	5.877	5.851
VAT revenue	3.164	3.150
Imports from third countries		
Total volume of parcels below EUR 150	187 288 192	
VAT loss due to non-compliance (EUR billion)	0.605	
VAT revenue (EUR billion)	0.326	

Source: Deloitte analysis

For Member States, the VAT revenues corresponding to the cross-border transactions below the common EU VAT exemption threshold set at EUR 5 000 are estimated at about EUR 360 million. With the common VAT threshold at EUR 10 000, the VAT revenues below the threshold are about EUR 380 million.

Overall, the VAT collected is slightly lower than under alternative 2 (VAT exemption of transactions below threshold), as the VAT below the threshold is not collected by the Member State identification. The differences in VAT revenues between the two scenarios are small.

Similar to Option 2, the estimated impact on Member States' VAT revenues of different growth rates for both intra-EU trade and imports from third countries is quite small. The range of VAT revenues from intra-EU e-Commerce (domestic rules) under the EUR 5 000 threshold goes from EUR 3.336 billion to EUR 3.713 billion (i.e. from low growth scenario to high growth scenario). Under the EUR 10 000 threshold, the same revenues range from EUR 2.045 billion to EUR 3.551 billion (i.e. from low growth scenario to high growth scenario). In the case of alternative 2 under this Option (VAT exemption for transactions below the threshold), VAT revenues are estimated to range from EUR 2.995 billion to EUR 3.331 billion with a EUR 5 000 threshold (low growth and high growth scenario respectively), and from EUR 2.045 billion to EUR 2.276 billion with a EUR 10 000 threshold (under the same scenarios). Option 3 does not introduce changes with regard to imports, therefore VAT revenues from imports are estimated to range from EUR 671 million to EUR 542 million under the same scenarios.

Impacts on businesses

The table below provides an overview of the main impacts on businesses assessed for Option 3.

Table 109 – Overview of administrative costs for Option 3

	Threshold at EUR 5 000		
Administrative burden	Goods	Services	Goods and services
Total (EUR billion)	3.117	1.437 8	4.554
per company (EU businesses) (EUR)	0 – (below the threshold) 23 590 (above the threshold	2 172 (MOSS registered) 23 601 (non registered for MOSS)	0 – (below the threshold) 23 590 (above the threshold 2 172 (MOSS registered) 23 601 (non registered for MOSS
per company per Member State (EUR)	0 – (below the threshold)	434 (MOSS registered) 5 203 (non registered for	0 – (below the threshold) 7 863 (above the

	Threshold at EUR 5 000		
Administrative burden	Goods	Services	Goods and services
	7 863 (above the threshold	MOSS)	threshold 434 (MOSS registered) 5 203 (non registered for MOSS
No of companies	426 383 (below the threshold/non compliant) 131 525 (above the threshold)	10 604 (MOSS registered) 33 970 (non registered for MOSS)	426 383 (below the threshold/non compliant) 131 525 (above the threshold) 10 604 (MOSS registered) 33 970 (non registered for MOSS)
	Threshold at EUR 10 000		
Administrative burden	Goods	Services	Goods and services
Total (EUR billion)	3.037	1.437	4.451
per company (EU businesses) (EUR)	0 – (below the threshold) 23 590 (above the threshold	2 172 (MOSS registered) 23 601 (non registered for MOSS)	0 – (below the threshold) 23 590 (above the threshold 2 172 (MOSS registered) 23 601 (non registered for MOSS
per company per Member State (EUR)	0 – (below the threshold) 7 863 (above the threshold)	434 (MOSS registered) 5 203 (non registered for MOSS)	0 – (below the threshold) 7 863 (above the threshold) 434 (MOSS registered) 5 203 (non registered for MOSS)
No of companies	429 171 (below the threshold) 129 737 (above the threshold)	10 604 (MOSS registered) 33 969 (non registered for MOSS)	429 171 (below the threshold) 129 737 (above the threshold) 10 604 (MOSS registered) 33 969 (non registered for MOSS)

Source: Deloitte analysis

If the threshold is set at **EUR 5 000**, it is estimated that administrative costs for business would increase by approximately 9% in comparison to the Status Quo. If the threshold is set at **EUR 10 000,** the costs are expected to increase by 7%. In both cases, EU businesses will benefit from a clearer legislative framework applying throughout the EU.

Also in both cases, postal operators and couriers are likely to experience higher processing costs because of a higher volume of parcels to pass through Customs (from the removal of the small consignment exemption). It is expected that with an increase in volume and value, processing costs for operators would amount to approximately EUR 1 291 billion, i.e. a 55% increase with respect to the Status Quo.

In the case of Option 3, we estimated that 90% of micro-businesses (or 398 200 businesses) will be below the common VAT threshold (set at EUR 5 000). It is expected that businesses with a turnover from cross-border e-Commerce between EUR 5 000 and EUR 8 000 will have little incentive to comply with VAT-related obligations, as the related costs exceed the turnover. Under the conservative assumption that half of those businesses will decide to comply, the total number of businesses engaged in cross-border e-Commerce under Option 3 with the threshold set at EUR 5 000 are estimated to be about 131 525. With the common VAT threshold at EUR 10 000, 97% of micro-businesses are estimated to be below such threshold. The remaining 3% is estimated to be compliant with VAT-related obligations, as the related costs are lower than the turnover from cross-border e-Commerce. Under this alternative, 129 737 businesses are estimated to be engaged in cross-border e-Commerce.

The first alternative (application of domestic rules) is relatively simple to implement, as cross-border supplies can be declared for VAT purposes together with domestic supplies, and businesses can deduct inputs VAT directly. On the other hand, under this alternative VAT is changed on supplies, which may influence pricing. However, this effect is reduced by the right for businesses to deduct input VAT.

The second alternative (exemption from VAT of cross-border supplies below the common VAT threshold) is more complex to implement, as cross-border supplies need to be declared separately, and businesses cannot deduct input VAT. Conversely, the absence of VAT on outputs may lead to lower consumers' prices, even though this benefit is reduced by non-deductible VAT costs. This alternative can lead to potential (while limited) distortions of cross-border competition, more than the first alternative.

Impacts on the market for e-Commerce in the European Union

The table below provides an overview of the key economic impacts assessed for this Option.

Table 110 – Overview of economic impacts for Option 3

	Total e-Commerce	Cross-border e-Commerce	EU cross-border e-Commerce	Non-EU cross-border
EU e-Commerce volume				
Threshold of EUR 5 000				
Millions of transactions	-154	-216	-16	-200
%	-0.5%	-3.7%	-0.4%	-9.3%
Threshold of EUR 10 000				
Millions of transactions	-163	-203	-5.3	-198
%	-0.6%	-3.5%	-0.1%	-9.2%
EU e-Commerce prices				
Threshold of EUR 5 000				
%	0.84%	2.39%	0.77%	5.71%
Threshold of EUR 10 000				
%	0.9%	2.33%	0.68%	5.71%
e-Commerce value				
Threshold of EUR 5 000				
EUR billions	3.5	-1.7	0.5	-2.2
%	0.3%	-0.9%	0.3%	-4.2%
Threshold of EUR 10 000				

	Total e-Commerce	Cross-border e-Commerce	EU cross-border e-Commerce	Non-EU cross-border
EUR billions	3.9	-1.4	0.7	-2.1
%	0.3%	-0.7%	0.5%	-4.1%

Source: Deloitte analysis

Regarding the impacts on competition and growth, this Option (similar to Option 2) is likely to result in a decrease in e-Commerce sales because of the burden to register for SME's exceeding the EUR 5 000 threshold. Increasing the threshold to EUR 10 000 would have less negative effects than the lower threshold but is still likely to adversely affect e-Commerce sales.

At a broader economic level, there is likely to be a negative impact on cross-border e-Commerce because the average price of imports will increase leading to a fall in the volume of transactions and the removal of thresholds may lead to smaller firms exiting the market.

A **higher rate of e-Commerce growth (high growth scenario[91])**, especially in the domestic market, can partially mitigate some of the negative impacts of this Option.

In terms of **volumes** of e-Commerce, the impact of the increase in the administrative burden is therefore expected to be smaller under the high growth scenario, both in absolute and in relative terms (-98.7 million transactions vs. -162.8 million transactions, and -0.3% vs. -0.6% respectively).

With regard to e-Commerce **prices**, the contraction in cross-border trade increases competition in the domestic market, which tends to reduce prices in this market. In contrast, prices in the e-Commerce market rise due to the increased administrative burden, although such effects are lower under the high growth scenario.

Under the **DSM scenario**[92], the negative effects on e-Commerce volumes and prices are stronger. The increase in administrative burden affects a larger proportion of the e-Commerce market and risks a larger number of firms leaving the market. The estimated reduction of overall e-Commerce **volumes** is of 174.4 million transactions (-0.5%) with respect to the Status Quo, and of 5.6 million transactions (-0.1%) for EU cross-border e-Commerce. With regard to **prices**, in the DSM scenario the faster growth rate of intra-EU e-Commerce means that a larger proportion of the market is affected, leading to a greater impact on prices (estimated to increase of 0.9% overall, and of 0.7% for EU cross-border e-Commerce).

The effect on **value** is more ambiguous, as it is a product of volume and price effects. Under the different scenarios, the value of e-Commerce is expected to increase overall, with the increase in intra-EU cross-border e-Commerce outbalancing the decrease in e-Commerce with third countries.

Impacts on compliance

The impact of Option 3 on compliance includes the same impacts under Option 2. Therefore Option 3 is expected to increase the level of non-compliance, especially in relation to businesses currently trading below the distance sales threshold. As in Option 2, this Option would also increase non-compliance on low value import due to the increase in the volume of parcels subject to VAT.

[91] CAGR of 18%, see Assumption 4 in Annex 4.
[92] This scenario allows for the impact of the Digital Single Market strategy on cross-border e-Commerce within the EU. It is assumed that domestic and non-EU markets grow at 12%, while intra-EU cross-border e-Commerce grows at 18%

The application of domestic rules for cross-border sales below the threshold is likely to have an overall limited impact on compliance and fraud. The change is aimed to support the smallest businesses (or larger businesses with limited cross border sales). It would introduce a compliance risk of under-declaration of cross-border sales in order to remain below the threshold.

6.2.4 Policy Option 4: Option 3 plus Single Electronic Mechanism

Policy Option 4 entails the removal of the current distance sales threshold, the small consignment exemption and the introduction of a new cross-border exemption threshold for EU micro enterprises of EUR 10 000 (or at EUR 5 000). In addition, the Option introduces a Single Electronic Registration (SEM) for intra-EU supplies of goods and non-TBE services. Option 4 is expected to affect the roles and responsibilities of Member States, EU and non-EU businesses and couriers and postal operators.

Impacts on Member States

The table below provides an overview of the impacts on Member States assessed for this Option.

Table 111 – Overview of impacts on Member States for Option 4 (threshold of EUR 10 000)

Member States	VAT revenues
EU cross-border e-Commerce	**Threshold of EUR 10 000 (EUR billion)**
VAT revenues below the threshold(EUR billion)	0.388
VAT loss due to non-compliance (EUR billion)	0.633
VAT revenue (EUR billion)	9.128
Imports from third countries	
Volume of consignment below EUR 150	187 288 192
VAT revenue via the SEM	
Volume of consignment processed via the SEM	140 840 720
VAT loss due to non-compliance (EUR billion)	0.035
VAT revenue (EUR billion)	0.665
Compliance	5% non-compliance
VAT revenue outside of the SEM	
Volume of consignment processed outside the SEM	46 447 472
VAT loss due to non-compliance (EUR billion)	0.138
Corresponding VAT revenue (EUR billion)	0.092
Compliance	60% non-compliance

Source: Deloitte analysis

For Member States, the VAT revenues corresponding to the intra-EU cross-border transactions below the common EU VAT exemption threshold set at EUR 10 000 is estimated at approximately EUR **9.128 billion** (up to EUR 9.208 billion under the high growth scenario), while the VAT revenue corresponding to the transactions below the threshold are EUR 0.388 billion (up to EUR 0.409 billion under the high growth scenario). VAT revenues from TBE services are considered to remain stable at approximately EUR 3 billion. VAT revenues from imports are also expected to increase with respect to the Status Quo, as an effect of the use of the SEM for all parcels below the Customs thresholds of

EUR 150 by non-EU traders (either via direct registration or via third party registration). These figures represent a notable increase with respect to the Status Quo (as well as with respect to Options 2 and 3), which is due to a large extent to an increase in compliance with VAT-related obligations.

If the common VAT threshold is set at EUR 5 000, VAT revenues from intra-EU cross-border e-Commerce transaction are estimated at approximately **EUR 9.127 billion** (up to EUR 9.236 billion under the high growth scenario), while the VAT revenue corresponding to the cross-border transactions below the common EU VAT exemption threshold is estimated at approximately EUR 0.360 billion (up to EUR 0.379 billion under the high growth scenario).

When alternative 2 is considered (i.e. VAT exemption for transactions below the common VAT threshold), the overall VAT revenues for Member States are lower, as the revenue below the threshold is exempt and not collected by the Member State of Identification. With the common VAT threshold of EUR 10 000, the corresponding VAT revenues are estimated at approximately EUR 8.740, and of EUR 8.766 with the threshold of EUR 5 000.

Under both alternatives (i.e. domestic rules and VAT exemption for cross-border transactions below the common VAT threshold) and with both levels of thresholds (i.e. EUR 5 0000 and EUR 10 000), the differences in VAT revenues for Member States are relatively small. Clearly, in the case of the VAT exemption, the VAT revenue corresponding to the cross-border transactions below the common VAT threshold is not collected by either the Member State of Identification or the Member State of Consumption. The share of VAT revenues collected by the Member State of Identification and by the Member State of Consumption depends on the alternative considered (i.e. application of domestic rules or application of VAT exemption to transactions below the threshold), as well as on the amount of the revenue collection fee (0, 10%, 20% or 30%). With a threshold of EUR 10 000, for the Member State of Identification, VAT revenues range from 0 (in the case of VAT exemption and no collection fee) to EUR 2.122 billion (in the case of domestic rules and collection fee of 30%). For the Member State of Consumption, VAT revenues range from 3.658 billion EUR (in the case of VAT exemption and 30% collection fee) to EUR 5.781 billion (in the case of domestic rules and no collection fee applied).

Based on data provided by Member States as part of Lot 3 analysis, the **average cost for upgrading/adapting the IT systems** to the requirement of the SEM can be considered to some extent lower than the costs for setting up the MOSS. MOSS costs have been estimated at approximately **EUR 2.5 million. Maintenance costs** are expected to be similar to those currently sustained for the MOSS, which have been quantified to approximately EUR 250 000 per year (on average) for the MOSS.

The average **overhead costs** (including organisational costs, business process re-engineering, training, etc.) for the implementation of the national MOSS portals can be estimated as ranging from EUR 7.630 million to EUR 12.7 million on average. This is likely to be lower for the SEM.

Impacts on businesses

The table below provides an overview of the main impacts on businesses assessed for this option.

Table 112 –Overview of impacts on businesses of Option 4 (threshold of EUR 10 000)

	Threshold at EUR 10 000

Administrative burden	Goods	Services	Goods and services
Total (EUR billion)	0.981	1.437	2.418
per company (EU businesses) (EUR)	0 – (below the threshold) 2 071 (above the threshold and in SEM) 28 163 (above the threshold and outside SEM)	0 – (below the threshold) 2 172 (MOSS/SEM registered) 23 601 (non registered for MOSS/SEM)	0 – (below the threshold) 2 071 (above the threshold and in SEM) 28 163 (above the threshold and outside SEM 2 172 (MOSS/SEM registered) 23 601 (non registered for MOSS/SEM)
per company per Member State (EUR)	0 – (below the threshold) 688 (above the threshold and in SEM) 4 694 (above the threshold and outside SEM)	434 (MOSS/SEM registered) 5 203 (non registered for MOSS/SEM)	0 – (below the threshold) 688 (above the threshold and in SEM) 4 694 (above the threshold and outside SEM) 434 (MOSS/SEM registered) 5 203 (non registered for MOSS/SEM)
No of companies	429 171 (below the threshold) 101 354 (above the threshold and in SEM) 27 383 (above the threshold and outside SEM)	10 604 (MOSS/SEM registered) 33 969 (non registered for MOSS/SEM)	429 171 (below the threshold) 101 354 (above the threshold and in SEM) 27 383 (above the threshold and outside SEM) 10 604 (MOSS/SEM registered) 33 969 (non registered for MOSS/SEM)

Source: Deloitte analysis

If the threshold is set at **EUR 10 000,** the overall administrative burden for businesses is expected to amount to **EUR 2.418 billion**, i.e. to decrease by 42%. EU businesses will benefit from a clearer legislative framework applying throughout the EU. If the common VAT threshold is set at EUR 5 000 the overall administrative burden for businesses is estimated at approximately **EUR 2.481 billion**. This figure represents a decrease of 40% with respect to the Status Quo.

Overall, it is estimated that about 18% of businesses engaged in cross-border e-Commerce will register to the **SEM**, representing about **62% of the volume** of cross-border e-Commerce.

Furthermore, postal operators and couriers are likely to experience an increase in the volume of parcels to be processed. Further, a reduction in the processing costs is estimated at about 24% with respect to the Status Quo. In addition, third parties (including postal operators, couriers and large marketplaces) would have a stronger role and more responsibilities under alternative 2 as they will register with the SEM and report and pay VAT on behalf of non-EU businesses (i.e. becoming agents).

Businesses will be likely to incur costs for adapting their systems and procedures to the new rules and to the requirements of the SEM, including IT costs, process re-engineering, training, etc. The SEM is likely to be similar to the MOSS in terms of requirements and functionalities. It is therefore likely to assume that businesses will face similar costs for using the SEM as they incur for the MOSS. Non-EU businesses and third parties (e.g. couriers, postal operators and marketplaces) registering directly for the SEM will also incur in the same costs.

With regard to the costs for postal operators and couriers to adapt their current systems to the requirements of the SEM, it has to be noted that they will incur in some costs to comply with the upcoming provisions of the Union Customs Code (UCC) (Regulation (EU) No 952/2013). The UCC will in any event place additional obligations on both postal operators and couriers in respect of the advanced information they will need to provide to EU Customs administrations. This presents an excellent opportunity to consider aligning the requirements for VAT-related information with the Customs information. Such a development should reduce development costs for couriers and postal operators. This would also bring benefits to Customs administrations as the necessity to ensure that VAT has been pre-declared can be integrated into the general clearance process rather than having a separate process only for VAT.

Businesses interviewed as part of Lot 3 activities quantified the IT-related costs for adapting their IT systems to the 2015 place of supply rules and the MOSS. It was found that costs would amount to about EUR 1.172 million, with very large variations across businesses, as the costs identified vary from EUR 8 000 to EUR 10 000 000 (depending on the size of the business, on the amount of changes required, etc.). Businesses quantified the external costs related to accompanying **trainings** at around EUR 3 000 – EUR 5 000 on average, without including the internal selection process for the training providers. As for the internal costs, they were also quantified in approximately 20 FTE personnel days, including both design and delivery.

Impacts on the market for e-Commerce in the European Union

The table below provides an overview of the key economic impacts assessed for this Option.

Table 113 – Overview of economic impacts for Option 4 (threshold of EUR 10 000)

	Total e-Commerce	Cross-border e-Commerce	EU cross-border e-Commerce	Non-EU cross-border
EU e-Commerce volume				
Threshold of EUR 10 000				
Millions of transactions	-113.9	-158.7	40.5	-199.2
%	-0.39	-2.72	1.10	-9.3
EU e-Commerce prices				
Threshold of EUR 10 000				
%	0.73	1.84	-0.03	5.66
e-Commerce value				
Threshold of EUR 10 000				
EUR billions	3.77	-0.69	1.48	-2.17
%	0.33	-0.36	1.07	-4.2

Source: Deloitte analysis

The introduction of the SEM (with a registration threshold of EUR 10 000) is expected to have a positive impact on EU cross-border e-Commerce volumes (increase of 1.1% in volume, and 1.07% increase in value). However, the effect on non-EU imports is estimated to be negative due to the increase in compliance and VAT paid. The change in e-Commerce volumes is largely driven by the change in prices, which reflect the administrative burden.

The introduction of the SEM (with a registration threshold of EUR 5 000) is likely to have a positive impact on EU cross-border e-Commerce volumes (increase of 1.1%, and 1.07% increase in value).

When considering the impact of the **DSM scenario** on cross-border e-Commerce within the EU, Option 4 is estimated to have a relatively more positive impact on EU cross-border e-Commerce than non-EU e-Commerce. Since the administrative burden on within-EU cross-border e-Commerce decreases, the fact that EU cross-border e-Commerce grows faster in this scenario means that the reduction in costs affects more of the market and has a more positive impact. This translates into an overall decrease of overall e-Commerce **volumes** of 109.4 million transactions (-0.3% with respect to the Status Quo), but in an increase on intra-EU e-Commerce of 44.5 million transactions (1.1% increase). In terms of **prices**, the DSM scenario (similar to the high growth scenario) is associated with greater downward pressure on prices thanks to more firms entering the market and more competition. The effect on overall **value** of e-Commerce is also more positive under the high growth and DSM scenario, both in absolute and percentage terms (increase of 7.9 EUR billion or 7.9% and of 4.2 EUR billion or 0.3% respectively).

Impacts on compliance

Option 4 is expected to further improve both voluntary compliance and compliance control on intra-EU cross border trade in goods and non-TBE services. The SEM would facilitate the monitoring of compliance and the fight against fraud for Member States due to increased exchange of information and closer administrative cooperation, similarly to the current MOSS system for TBE services.

Option 4 is expected to further improve both voluntary compliance and compliance control on the import of goods with value up to EUR 150. The Option would also support the fight against by sustaining the reduction of undervaluation and incorrect labelling of the goods, or split imports. The use of SEM on imports has a potential to also improve compliance control, as the non-EU trader would become VAT registered in the EU, therefore having a closer connection with the EU tax authorities.

6.2.5 Policy Option 5: Option 4 plus amendments to the Single Electronic Mechanism (home country legislation and home country control)

Policy Option 5 entails a removal of the current distance sales threshold, the small consignment exemption and the introduction of a new cross-border exemption threshold for EU micro enterprises of EUR 10 000 (or of EUR 5 000). In addition, the Option introduces a Single Electronic Registration (SEM) for intra-EU supplies of goods and non-TBE services. The Option is expected to affect the roles and responsibilities of Member States, EU and non-EU businesses and couriers and postal operators. Cross-border transactions will be subject to home country rules (while still being taxed at the VAT rate of the MSC).

Impacts on Member States

The table below provides an overview of the impacts on Member States assessed for this Option.

Table 114 – Overview of impacts on Member States for Option 5 (threshold of EUR 10 000)

Member States	VAT revenues
EU cross-border e-Commerce	Threshold of EUR 10 000 (EUR billion)

Member States	VAT revenues
VAT revenues below the threshold(EUR billion)	0.388
VAT loss due to non-compliance (EUR billion)	0.578
VAT revenue (EUR billion)	9.183
Imports from third countries	
Volume of consignment below EUR 150	187 288 192
VAT revenue via the SEM	
Volume of consignment processed via the SEM	140 840 720
VAT loss due to non-compliance (EUR billion)	0.035
VAT revenue (EUR billion)	0.665
Compliance	5% non-compliance
VAT revenue outside of the SEM	
Volume of consignment processed outside the SEM	46 447 472
VAT loss due to non-compliance (EUR billion)	0.138
Corresponding VAT revenue (EUR billion)	0.092
Compliance	60% non-compliance

Source: Deloitte analysis

For Member States, the VAT revenues corresponding to the intra-EU cross-border transactions below the common EU VAT exemption threshold set at EUR 10 000 is estimated at about EUR **9.183 billion** (up to EUR 9.266 billion under the high growth scenario). VAT revenues from TBE services are considered to remain stable at about EUR 3 billion. VAT revenues from imports are also expected to increase with respect to the Status Quo, as an effect of the use of the SEM for all parcels below the Customs thresholds of EUR 150 by non-EU traders (either via direct registration or via third party registration). The figures presented above represent a notable increase in VAT revenues with respect to the status quo (as well as with respect to Options 2 and 3), and similar to those estimated under Option 4. Such an improvement in VAT revenues for Member States is explained to a large extent to an increase in compliance with VAT-related obligations.

If the common VAT threshold is set at EUR 5 000, VAT revenues from intra-EU cross-border e-Commerce transaction are estimated of about **EUR 9.182 billion** (up to EUR 9.294 billion under the high growth scenario), while the VAT revenue corresponding to the cross-border transactions below the common EU VAT exemption threshold is estimated of about EUR 0.360 billion.

When alternative 2 is considered (VAT exemption for transactions below the common VAT threshold), the overall VAT revenues for Member States are lower, as revenue below the threshold is exempt and not collected by the Member State of Identification. With the common VAT threshold of EUR 10 000, the corresponding VAT revenues are estimated at about EUR 8.795, and of EUR 8.822 with threshold of EUR 5 000.

Under both alternatives (i.e. application of domestic rules and application of VAT exemption for cross-border transactions below the common VAT threshold) and with both levels of thresholds (i.e. EUR 5 0000 and EUR 10 000), the differences in VAT revenues for Member States are relatively small, as under Option 4. The share of VAT revenues collected by the Member State of Identification and by the Member State of Consumption depends on the alternative considered (i.e. application of domestic rules and application of VAT exemption for cross-border transactions below the common VAT threshold), as well as on the amount of the revenue collection fee (0, 10%, 20% or 30%). With a threshold of EUR 10 000, for the Member State of Identification, VAT revenues range from 0 (in case of VAT exemption and no collection fee) to EUR 2.437 billion (in case of domestic rules and collection fee of 30%). For the Member State of Consumption, VAT revenues range from 4.392 billion EUR (in case of VAT exemption and 30% collection fee) to EUR 6.829 billion (in case of domestic rules and no collection fee applied).

Based on data provided by Member States as part of Lot 3 analysis, the **average cost for upgrading/adapting the IT systems** to the requirement of the SEM can be considered to some extent lower than the costs for setting up the MOSS. MOSS costs have been estimated at about **EUR 2.5 million. Maintenance costs** are expected to be similar to those currently sustained for the MOSS, which have been quantified at about EUR 250 000 per year (on average) for the MOSS.

The average overhead costs (including organisational costs, business process re-engineering, training, etc.) can be estimated as ranging from EUR 7.630 million to EUR 12.7 million on average. This is likely to be lower for the SEM.

With regard to imports, Option 5 is not expected to have different impacts than Option 4.

Impacts on businesses

The table below provides an overview of the main impacts on businesses assessed for this Option.

Table 115 –Overview of impacts on businesses of Option 5 (threshold of EUR 10 000)

	Threshold at EUR 10 000		
Administrative burden	Goods	Services	Goods and services
Total (EUR billion)	0.439	1.437	1.871
per company (EU businesses) (EUR)	0 – (below the threshold) 1 212 (above the threshold and in SEM) 28 163 (above the threshold and outside SEM)	0 – (below the threshold) 2 020 (MOSS/SEM registered) 23 601 (non registered for MOSS/SEM)	0 – (below the threshold) 1 212 (above the threshold and in SEM) 28 163 (above the threshold and outside SEM 2 020 (MOSS/SEM registered) 23 601 (non registered for MOSS/SEM)
per company per Member State (EUR)	0 – (below the threshold) 404 (above the threshold and in SEM) 4 694 (above the threshold and outside SEM)	404 (MOSS/SEM registered) 5 203 (non registered for MOSS/SEM)	0 – (below the threshold) 404 (above the threshold and in SEM) 4 694 (above the threshold and outside SEM) 404 (MOSS/SEM registered) 5 203 (non registered for MOSS/SEM)
No of companies	429 171 (below the threshold) 118 216 (above the threshold and in SEM) 10 521 (above the threshold and outside SEM)	10 604 (MOSS/SEM registered) 33 969 (non registered for MOSS/SEM)	429 171 (below the threshold) 118 216 (above the threshold and in SEM) 10 521 (above the threshold and outside SEM) 10 604 (MOSS/SEM registered)

	Threshold at EUR 10 000		
Administrative burden	Goods	Services	Goods and services
			33 969 (non registered for MOSS/SEM)

Source: Deloitte analysis

If the threshold is set at **EUR 10 000** the overall administrative burden for businesses is estimated at **EUR 1.871 million**, i.e. a decrease by 55% with respect to the status quo (the reduction is estimated of 42% under Option 4). EU businesses will benefit from a clearer legislative framework applying throughout the EU. Our analysis estimates that under Option 5, with a common EU VAT exemption threshold of EUR 5 000, the **overall administrative costs** for businesses active on cross-border e-Commerce of goods are of about **EUR 1.908 billion**. This figure represents a decrease of 55% with respect to the status quo.

Overall, it is estimated that about 20% of businesses will register to **SEM** under Option 5, representing about **74% of the volume** of cross-border e-Commerce.

The impacts of Option 5 for processing costs of postal operators and couriers are not likely to differ from those of Option 4, i.e. a 24% reduction with respect to the Status Quo. In addition, third parties (including postal operators, couriers and large marketplaces) would have a stronger role and more responsibilities under alternative 2, as they will register with the SEM and report and pay VAT on behalf of non-EU businesses (i.e. becoming agents).

Businesses will be likely to incur costs for adapting their systems and procedures to the new rules and to the requirements of the SEM, including IT costs, process re-engineering, training, etc., lower than those estimated under Option 4 (as well as those incurred under the current MOSS system).

In consideration of the upcoming implementation of the Union Customs Code (UCC), which imposes specific information requirement to Customs procedures, the possibility to align the requirements for information in respect of VAT with those for Customs could be considered (as for Option 4). Such provisions should reduce development costs for couriers and postal operators. This would also bring benefits to Customs administrations as the necessity to ensure that VAT has been pre-declared can be integrated into the general clearance process rather than having a separate process only for VAT.

The first alternative (application of domestic rules) is relatively simple to implement, as cross-border supplies can be declared for VAT purposes together with domestic supplies, and businesses can deduct inputs VAT directly. On the other hand, under this alternative VAT is changed on supplies, which may influence pricing. However, this effect is reduced by the right for businesses to deduct input VAT.

The second alternative (exemption from VAT of cross-border supplies below the common VAT threshold) is more complex to implement, as cross-border supplies need to be declared separately, and businesses cannot deduct input VAT. Conversely, the absence of VAT on outputs may lead to lower consumers' prices, even though this benefit is reduced by non-deductible VAT costs. This alternative can lead to potential (while limited) distortions of cross-border competition, more than the first alternative.

Impacts on the market for e-Commerce in the European Union

The table below provides an overview of the key economic impacts assessed for this Option.

Table 116 – Overview of economic impacts for Option 5 (threshold of EUR 10 000)

	Total e-Commerce	Cross-border e-Commerce	EU cross-border e-Commerce	Non-EU cross-border
EU e-Commerce volume				
Threshold of EUR 10 000				
Millions of transactions	-104.7	-153.0	47.4	-200.4
%	-0.36%	-2.62%	1.29%	-9.35%
EU e-Commerce prices				
Threshold of EUR 10 000				
%	0.68%	1.75%	-0.15%	5.66%
e-Commerce value				
Threshold of EUR 10 000				
EUR billions	3.57	-0.63	1.57	-2.20
%	0.32%	-0.33%	1.13%	-4.22%

Source: Deloitte analysis

The introduction of the SEM (with a registration threshold of EUR 10 000) is expected to have a positive impact on EU cross-border e-Commerce volumes (increase of 1.29%, and 1.13% increase in value); however, the effect on non-EU imports is estimated to be negative due to the increase in compliance and VAT paid. The change in e-Commerce volumes is largely driven by the change in prices (0.7% increase in the medium growth scenario and in the DSM scenario, 0.6% increase in the high growth scenario).

As with Option 4, the DSM scenario has a relatively more positive impact on intra-EU e-Commerce (increase of 52.1 million of transactions vs increase of 47.4 million transactions under the medium growth scenario), whereas a more negative impact on non-EU imports (9.41% decrease compares to 9.35% decrease under the medium growth and 9.18% decrease under the high growth scenario).

The introduction of the SEM (with a registration threshold of EUR 5 000) is likely to have a positive impact on EU cross-border e-Commerce volumes (increase of 1.28% in volume, and 1.13% increase in value), not different from that of the EUR 10 000 threshold.

Impacts on compliance

The compliance impact of Option 5 would be very similar to Option 4. However, Option 5 is expected to further increase voluntary compliance by providing additional simplification to the SEM in the form of application of home country legislation. Option 5 also has potential to further improve compliance controls and reduce fraud, provided there is an effective administrative cooperation between the MSI and all the MSCs.

6.2.6 Policy Option 6: Option 4 plus fully harmonised EU rules for Single Electronic Mechanism

Option 6 takes on the same changes as Option 4 but under the SEM, allows for common EU VAT rules while applying the VAT rate of the MSC.

Option 6 is expected to further lower the administrative costs for businesses using the SEM with respect to the costs estimated under Option 4 and under the Status Quo, but to a lower extent than Option 5. This Option would likely increase voluntary VAT compliance with respect to Option 4 (and to the Status Quo) as further simplification is brought by the application of harmonised EU rules.

Impacts on Member States

The table below provides an overview of the impacts on Member States assessed for this Option.

Table 117 – Overview of impacts on Member States for Option 6 (threshold of EUR 10 000)

Member States	VAT revenues
EU cross-border e-Commerce	**Threshold of EUR 10 000 (EUR billion)**
VAT revenues below the threshold(EUR billion)	0.388
VAT loss due to non-compliance (EUR billion)	0.581
VAT revenue (EUR billion)	9.179
Imports from third countries	
Volume of consignment below EUR 150	187 288 192
VAT revenue via the SEM	
Volume of consignment processed via the SEM	140 840 720
VAT loss due to non-compliance (EUR billion)	0.035
VAT revenue (EUR billion)	0.665
Compliance	5% non-compliance
VAT revenue outside of the SEM	
Volume of consignment processed outside the SEM	46 447 472
VAT loss due to non-compliance (EUR billion)	0.138
Corresponding VAT revenue (EUR billion)	0.092
Compliance	60% non-compliance

Source: Deloitte analysis

For Member States, the VAT revenues corresponding to the intra-EU cross-border transactions below the common VAT threshold set at EUR 10 000 is estimated at about EUR **9.179 billion** (up to EUR 9.263 billion in the high growth scenario). If the common VAT threshold is set at EUR 5 000, VAT revenues from intra-EU cross-border e-Commerce transactions are estimated at about **EUR 9.178 billion** (up to EUR 9.291 billion in the high growth scenario). The VAT revenues corresponding to the cross-border transactions below the common EU VAT exemption threshold set at EUR 5 000 is estimated of about EUR 0.360 billion.

VAT revenues from TBE services are considered to remain stable at about EUR 3 billion. VAT revenues from imports are also expected to increase with respect to the Status Quo, as an effect of the use of the SEM for all parcels below the Customs thresholds of EUR 150 by non-EU traders (either via direct registration or via third party registration). The figures presented above represent a notable increase in VAT revenues with respect to the status quo (as well as with respect to Options 2 and 3), and similar to those estimated under Options 4 and Option 5. Such an improvement in VAT revenues for Member States is explained to a large extent to an increase in compliance with VAT-related obligations.

When alternative 2 is considered (VAT exemption for transactions below the common VAT threshold), the overall VAT revenue for Member States is lower, as the revenue below the threshold is exempt and not collected by the Member State of Identification. With the common VAT threshold of EUR 10 000, the corresponding VAT revenue is estimated of about EUR 8.792, and of EUR 8.818 with threshold of EUR 5 000.

Under both alternatives (i.e. application of domestic rules and application of VAT exemption for cross-border transactions below the common VAT threshold) and with both levels of thresholds (i.e. EUR 5 0000 and EUR 10 000), the differences in VAT revenues for Member States are relatively small, as under Option 4. The share of VAT revenues collected by the Member State of Identification and by the Member State of Consumption depends on the alternative considered (i.e. application of domestic rules and application of VAT exemption for cross-border transactions below the common VAT threshold), as well as on the amount of the revenue collection fee (0, 10%, 20% or 30%). With a threshold of EUR 10 000, for the Member State of Identification, VAT revenues range from 0 (in case of VAT exemption and no collection fee) to EUR 2.416 billion (in case of domestic rules and collection fee of 30%). For the Member State of Consumption, VAT revenues range from 4.342 billion EUR (in case of VAT exemption and 30% collection fee) to EUR 6.758 billion (in case of domestic rules and no collection fee applied).

Overall, it is estimated that about 20% of businesses will register to **SEM** under Option 5, representing about **74% of the volume** of cross-border e-Commerce.

IT costs for the upgrade/adaptation of MOSS systems to the SEM requirements are expected to be (to a certain extent) lower than those incurred by Member States for setting up the MOSS. Set-up costs for the MOSS have been estimated to about **EUR 2.5 million** per Member State. **Maintenance costs** are expected to be similar to those currently sustained for the MOSS, which have been quantified to about EUR 250 000 per year (on average) the same as under Option 4 and Option 5).

With regard to imports, Option 6 is not expected to have different impacts than Option 4.

Impacts on businesses

The table below provides an overview of the main impacts on businesses assessed for this Option.

Table 118 –Overview of impacts on businesses of Option 6 (threshold of EUR 10 000)

	Threshold at EUR 10 000		
Administrative burden	Goods	Services	Goods and services
Total (EUR billion)	0.617	1.437	2.054
per company (EU businesses) (EUR)	0 – (below the threshold) 1 558 (above the threshold and in SEM) 28 163 (above the threshold and outside SEM)	0 – (below the threshold) 2 595 (MOSS/SEM registered) 23 601 (non registered for MOSS)	0 – (below the threshold) 1 558 (above the threshold and in SEM) 28 163 (above the threshold and outside SEM 2 595 (MOSS/SEM registered) 23 601 (non registered for MOSS/SEM)
per company per Member State (EUR)	0 – (below the threshold) 519 (above the	519 (MOSS/SEM registered) 5 203 (non registered	0 – (below the threshold) 519 (above the threshold

	Threshold at EUR 10 000		
Administrative burden	Goods	Services	Goods and services
	threshold and in SEM) 4 694 (above the threshold and outside SEM)	for MOSS)	and in SEM) 4 694 (above the threshold and outside SEM) 519 (MOSS/SEM registered) 5 203 (non registered for MOSS/SEM)
No of companies	429 171 (below the threshold) 111 951 (above the threshold and in SEM) 15 8711 (above the threshold and outside SEM)	10 604 (MOSS/SEM registered) 33 969 (non registered for MOSS/SEM)	429 171 (below the threshold) 111 951 (above the threshold and in SEM) 15 8711 (above the threshold and outside SEM) 10 604 (MOSS/SEM registered) 33 969 (non registered for MOSS/SEM)

Source: Deloitte analysis

If the threshold is set at **EUR 10 000** the overall administrative burden for businesses is expected to decrease by 51% with respect to the Status Quo (the reduction is estimated of 42% under Option 4). EU businesses will benefit from a clearer legislative framework applying throughout the EU. With the common VAT threshold set at EUR 5 000, **overall administrative costs** for businesses active on cross-border e-Commerce of goods are estimated of about **EUR 2.100 billion**, which represent a decrease of 50% with respect to the status quo.

Overall, it is estimated that under Option 6 about 20% of businesses engaged in cross-border e-Commerce will register to the SEM, representing close to 74% of the volume of cross-border e-Commerce.

The impacts of Option 6 for processing costs of postal operators and couriers are not likely to differ from those of Option 4 and Option 5, i.e. a 24% reduction with respect to the Status Quo. In addition, third parties (including postal operators, couriers and large marketplaces) would have a stronger role and more responsibilities under alternative 2, as they will register with the SEM and report and pay VAT on behalf of non-EU businesses (i.e. becoming agents).

Businesses will be likely to incur in costs for adapting their systems and procedures to the new rules and to the requirements of the SEM, including IT costs, process re-engineering, training, etc., lower than those estimated under Option 4 (as well as those incurred under the current MOSS system).

In consideration of the upcoming implementation of the Union Customs Code (UCC), which imposes specific information requirements to Customs procedures, the possibility to align the requirements for information in respect of VAT with those for Customs could be considered (as for Option 4 and Option 5). Such provisions should reduce development costs for couriers and postal operators. This would also bring benefits to Customs administrations as the necessity to ensure that VAT has been pre-declared can be integrated into the general clearance process rather than having a separate process only for VAT.

Impacts on the market for e-Commerce in the European Union

The table below provides an overview of the key economic impacts assessed for this Option.

Table 119 – Overview of economic impacts for Option 6 (threshold of EUR 10 000)

	Total e-Commerce	Cross-border e-Commerce	EU cross-border e-Commerce	Non-EU cross-border
EU e-Commerce volume				
Threshold of EUR 10 000				
Millions of transactions	-108.4	-156.0	44.1	-200.1
%	-0.37%	-2.68%	1.20%	-9.34%
EU e-Commerce prices				
Threshold of EUR 10 000				
%	0.69%	1.79%	-0.10%	5.66%
e-Commerce value				
Threshold of EUR 10 000				
EUR billions	3.60	-0.68	1.52	-2.19
%	0.32%	-0.35%	1.10%	-4.20%

Source: Deloitte analysis

The introduction of the SEM (with a registration threshold of EUR 10 000) is expected to have a positive impact on EU cross-border e-Commerce volumes (increase of 1.2% in volume, and 1.1% increase in value under the medium growth scenario); however, the effect on non-EU imports is estimated to be negative due to the increase in compliance and VAT paid. The change in e-Commerce volumes is largely driven by the change in prices, which reflect the administrative burden.

The effect on non-EU imports is estimated to be negative due to the increase in compliance and VAT paid. The change in e-Commerce volumes is largely driven by the change in prices (0.7% increase in the medium growth scenario, 0.6% increase in the high growth and in the DSM scenarios).

The DSM scenario has a relatively more positive impact on intra-EU e-Commerce (increase of 48.5 million of transactions vs increase of 44.1 million transactions under the medium growth scenario), whereas a more negative impact on non-EU imports (9.3% decrease compared to 9.18% decrease under the high growth scenario).

Also for Option 6, the impact of changing the registration threshold (EUR 5 000 instead of EUR 10 000) on the e-Commerce market is generally not significant, as the impacts on e-Commerce volume, prices and value do not differ across the two alternatives.

Impacts on compliance

The compliance impact of Option 6 would be very similar to Option 5, although additional voluntary compliance would arise from the application of fully harmonised EU rules, rather than home country rules. As in Option 5, this Option has a potential to improve compliance control provided there is effective administrative cooperation between the MSI and all the MSC. Option 6 may further facilitate the compliance control by providing a single set of harmonised rules for taxpayer compliance which could facilitate the administrative cooperation on controls and simplify the compliance control of non-resident taxpayer activities.

6.3 Impacts of the Policy Options with respect to the Status Quo

This section provides an overview of the main impacts of the Policy Option covered by the assignment with respect to the Status Quo and in relation to the different types of impacts considered, namely on Member States (VAT revenues and other costs), administrative costs for businesses, economic impacts and compliance. For each of them, we provide a summary table with the main impacts quantified during the analysis.

6.3.1 Impacts on Member States

The table below provides an overview of the impact on Member States' VAT revenues estimated for the different Policy Options identified.

Table 120 – Overview of impacts on Member States' VAT revenues

Impacts on Member States		
Policy Option	**VAT revenues from intra-EU cross-border e-Commerce transactions (EUR billion)**	**VAT revenues from imports (EUR billion)**
Policy Option 1	VAT gap estimated between EUR 2.6 and 3.8 billion	VAT foregone due to VAT exemption for importation of small consignments EUR 0.75 – 1 billion
Policy Option 2	2.303	0.326
Policy Option 3 – threshold EUR 5 000	3.164	0.326
Policy Option 3 – threshold EUR 10 000	3.150	0.326
Policy Option 4 - threshold EUR 10 000	9.128	0.757
Policy Option 5 - threshold EUR 10 000	9.183	0.757
Policy Option 6 - threshold EUR 10 000	9.179	0.757

Source: Deloitte analysis

VAT revenues from TBE services are considered to remain stable at about EUR 3 billion across the different Policy Options.

With respect to the Status Quo, **Option 2 increases to a limited extent the VAT revenues of Member States** as an effect of the elimination of the small consignment exemption, and transfers the VAT revenue from intra-EU trade to the Member State of Consumption as an effect of the elimination of the distance selling threshold (for the share below the distance selling threshold in the Status Quo). The estimated impact on Member States' VAT revenues of different growth rates for both intra-EU trade and imports from third countries is quite small, the low estimated compliance rate due to the overall legislative framework prevents positive impacts to show. The range of VAT revenues from intra-EU e-Commerce ranges from EUR 2.180 billion to EUR 2.427 billion (low growth scenario and high growth scenario respectively), while VAT revenues from imports are estimated to range from EUR 671 million to EUR 542 million under the same scenarios.

Under **Option 3**, the VAT revenue corresponding to the cross-border transactions below the common EU VAT exemption threshold set at EUR 5 000 is estimated at about EUR 360 million. With the common VAT threshold at EUR 10 000, the VAT revenue below the threshold is about EUR 380 million. Overall, the VAT collected is slightly lower than under alternative 2 (VAT exemption of transactions below threshold), as the VAT below threshold is not collected by the Member State identification. The differences in VAT revenue between the two scenarios are small.

Similar to Option 2, the estimated impact on Member States' VAT revenues of different growth rates for both intra-EU trade and imports from third countries is quite small, the low estimated compliance rate due to the overall legislative framework prevents positive impacts to show. The range of VAT revenues from intra-EU e-Commerce (domestic rules) goes from EUR 3.336 billion to EUR 3.713 billion (low growth scenario and high growth scenario respectively) with the threshold of EUR 5 000, and from EUR 2.045 billion to EUR 3.551 billion with the threshold of EUR 10 000 under the same scenarios.

Under **Option 4,** Member States are likely to benefit of a notable **increase of VAT revenues** from the elimination of the distance selling threshold. The VAT revenue corresponding to the cross-border \transactions below the common EU VAT exemption threshold set at EUR 10 000 is estimated at about EUR 380 million, while the VAT revenue above is estimated at EUR 9.218 million (up to EUR 9.208 billion under the high growth scenario), while the VAT revenue corresponding to the transactions below the threshold are EUR 0.388 billion (up to EUR 0.409 billion under the high growth scenario). VAT revenues from imports are also expected to increase with respect to the Status Quo, as an effect of the use of the SEM for all parcels below the Customs thresholds of EUR 150 by non-EU traders (either via direct registration or via third party registration). If the common VAT threshold is set at EUR 5 000, VAT revenues from intra-EU cross-border e-Commerce transaction are estimated of about **EUR 9.127 billion** (up to EUR 9.236 billion under the high growth scenario), while the VAT revenue corresponding to the cross-border transactions below the common EU VAT exemption threshold is estimated of about EUR 0.360 billion (up to EUR 0.379 billion under the high growth scenario). Under both alternatives (i.e. domestic rules and VAT exemption for cross-border transactions below the common VAT threshold) and with both levels of thresholds (i.e. EUR 5 0000 and EUR 10 000), the differences in VAT revenues for Member States are relatively small. VAT revenues from imports are also expected to increase (expected to more than double) with respect to the Status Quo, as an effect of the use of the SEM for all parcels below the Customs thresholds of EUR 150 by non-EU traders (either via direct registration or via third party registration).

Option 5 and **Option 6** have similar positive impacts on VAT revenues for Member States, even if Option 6 is slightly less favourable than Option 5.

The figures estimated for options 4, 5 and 6 represent a notable increase with respect to the Status Quo (as well as with respect to Options 2 and 3), which is due to a large extent to an increased compliance with VAT-related obligations. More in detail, the largest share of such increase can be attributed to intra-EU e-Commerce transactions processed via the SEM (which account for 60%-70% of the total VAT revenues), as well as outside of the SEM (20%-30% of the total VAT revenues). Imports from third countries represent about 10% of the total, with transactions processed via the SEM representing 8%-8.5% of the total, whereas imports processed outside the SEM are expected to account for the remaining 2%-1.5% of the total.

Furthermore, under Options 4 to 6, Member States are also likely to incur in costs for upgrading/adapting their MOSS systems to the SEM requirements. Such costs are expected to be somewhat lower than those incurred to set-up the MOSS, as the SEM represent an adaptation of such system. Based on information provided by Member States on MOSS-related costs, the **average cost for setting-up the IT systems** can be estimated to about **EUR 2.5 million**. **Maintenance costs** are to be lower than the development and setting-up costs, and have been quantified to EUR 250 000 million per year (on average) for the MOSS. Maintenance costs for the SEM are expected to be similar to those of the MOSS. As for the related **overhead costs**, they include organisational costs, business process re-engineering, training, etc. The average overhead costs for the implementation of the national MOSS portals (and likely lower for the SEM) can be estimated as ranging from EUR 7.630 million to EUR 12.7 million on average.

6.3.2 Impacts on businesses

The table below provides an overview of the main impacts of the six Policy Options covered by the study with respect to the administrative costs for businesses.

Table 121 – Overview of the impacts of the Policy Options on administrative costs for businesses

Policy Option	No. of businesses active in e-Commerce (goods)	Administrative costs Overall (EUR billion)	Administrative Costs per MS where company is VAT-registered	Nature of Costs/Burden(s)
Policy Option 1 (Status Quo)	Approx. 557 908	About EUR 4.166 billion	EUR 7 866 EUR 434 - 7 865 (TBE services)	Compliance with VAT registration and VAT submission
Policy Option 2	137 586	EUR 4.684 billion	EUR 7 863 EUR 434 - 7 865 (TBE services)	Businesses likely to incur costs to modify their internal systems and processes to comply with MSC VAT rules (e.g. invoicing, auditing) Less internal costs related to monitoring the distance selling threshold.
Policy Option 3 – threshold EUR 5 000	**Below the threshold:** 426 383 **Above the threshold:** 131 525	EUR 4.554 billion	**Below the threshold:** EUR 0 **Above the threshold:** EUR 7 863	With the removal of the threshold businesses will have VAT-related obligations (including registration, submission of returns, etc.) with all the Member States where they sell B2C; Postal operators and couriers will have to pass through Customs a larger share of parcels;
Policy Option 3 – threshold EUR 10 000	**Below the threshold:** 429 171 **Above the threshold:** 129 737	EUR 4.451 billion	**Above the threshold:** EUR 0 **Below the threshold:** EUR 7 863	
Policy Option 4 – threshold EUR 10 000	**Below threshold:** 429 171 **Above threshold and in SEM:** 101 354 **Above threshold and outside SEM:** 27 383	EUR 2.418 billion	**Below threshold:** EUR 0 **Above threshold and in SEM:** EUR 685 **Above threshold and outside SEM:** EUR 4 694	Businesses incurring costs for adapting their systems and procedures to the new rules and to the SEM requirements, including IT costs, process re-engineering, training, etc.; SEM likely to cost the same as MOSS; Non-EU businesses and third parties (e.g. couriers, postal operators and marketplaces) registering directly for the SEM will incur the same costs.
Policy Option 5 – threshold EUR 10 000	**Below threshold:** 429 171 **Above threshold and in SEM:** 118 216 **Above threshold and outside SEM:** 10 521	EUR 1.871 billion	**Below threshold:** EUR 0 **Above threshold and in SEM: EUR** 404 **Above threshold and outside SEM: EUR** 4 694	Same as above; Applying MSC rate of VAT. Only one set of (domestic) rules
Policy Option 6 – threshold EUR 10 000	**Below threshold:** 429 171 **Above threshold and in SEM:** 111 951 **Above threshold and outside SEM:** 15 8711	EUR 2.054 billion	**Below threshold:** EUR 0 **Above threshold and in SEM:** EUR 518 **Above threshold and outside SEM: EUR** 4 694	Familiarisation with new EU rules; Applying MSC rate of VAT; Two sets of rules apply

Source: Deloitte analysis

With respect to the Status Quo, **Option 2** represents an **increase of about 12% of the administrative costs for businesses** as a result of the removal of the threshold. In addition, the large majority (about 90%) of micro-businesses will cease to trade cross-border or be non-compliant as an effect of the increase of the administrative costs. Option 3 is likely **to increase the administrative costs for businesses** with respect to the Status Quo, but to a lower extent than Option 2. If the **threshold is set at EUR 5 000**, it is estimated that administrative costs for business would **increase by approximately 9%** in comparison to the status quo. If the **threshold is set at EUR 10 000** the costs is expected to **increase by 7%.** In both cases, EU businesses will benefit from a clearer legislative framework applying throughout the EU. **Option 4** is likely to **reduce the administrative burden for businesses of 42%** with respect to the Status Quo (40% is estimated if the threshold is set at EUR 5 000). In both cases, EU businesses will benefit from a clearer legislative framework applying throughout the EU. Overall, it is estimated that about 18% of businesses engaged in cross-border e-Commerce will register to the SEM, representing about 62% of the volume of cross-border e-Commerce.

Postal operators and couriers are likely to experience higher processing costs because of a higher volume of parcels to pass through Customs, but the simplified procedures available both via and outside the SEM are leading to a reduction of processing costs of about 24% with respect to the status quo. In addition, third parties (including postal operators, couriers and large marketplaces) would have a stronger role and more responsibilities under alternative (ii), as they will register with the SEM and report and pay VAT on behalf of non-EU businesses (becoming agents).

Option 5 is expected to f**urther lower the administrative costs for businesses** using the SEM with respect to the costs estimated under Option 4 and thus with respect to the Status Quo, leading to a **55% decrease** in the administrative burden (the estimated decrease with the EUR 5 000 threshold is similar) Overall, it is estimated that about 20% of businesses will register to the SEM under Option 5, representing **74% of the volume** of cross-border e-Commerce.

Option 6 is expected to **further lower the administrative costs** for businesses using the SEM with respect to the costs estimated under Option 4 and under the Status Quo, but to a lower extent than Option 5 (as businesses will have to be subject to two set of rules). The analysis estimated a **51% decrease** of administrative burden under Option 6 (and a 50% considering a EUR 5 000 common VAT threshold). As for Option 5, it is estimated that about 20% of businesses will register to the SEM under Option 5, representing **74% of the volume** of cross-border e-Commerce.

Under options 4 to 6, businesses will be likely to incur in costs for adapting their systems and procedures to the new rules and to the requirements of the SEM, including IT costs, process re-engineering, training, etc. Data provided by businesses on MOSS-related costs allowed us to quantify the **IT-related costs** to about EUR 1.172 million (with very large variations across businesses, as the costs identified vary from EUR 8 000 to EUR 10 000 000 depending on the size of the business, on the amount of changes required, etc.). Businesses quantified the external costs related to accompanying **trainings** in EUR 3 000 – EUR 5 000 on average and the internal costs in approximately 20 FTE personnel days, including both design and delivery.

Finally, the impact of changing the registration threshold on the e-Commerce market is generally not significant, since the businesses affected by the change in policy account for a very small share of turnover in the e-Commerce market. Moreover the introduction of the SEM means that the administrative burden associated with VAT registration is small enough that it is not likely to influence the market entry decisions of those businesses with cross-border revenues of between EUR 5 000 and EUR 10 000.

The tables below show the administrative costs for businesses making intra-EU supplies of goods in three, five, 10 and 27 Member States under the different options, both in absolute numbers and in percentage change with respect to the status quo.

As shown by the tables below, the use of the SEM entails some economies of scale in the filing and submission of VAT returns.

Table 122 – administrative costs for businesses making intra-EU supplies of goods under the different options (EUR)

	E-Commerce business trading in 3 MSs	E-Commerce Business trading in 5 MS	E-Commerce Business trading in 10 MS	E-Commerce Business trading in 27 MS
Option1	23 598	39 330	78 660	212 382
Option2	23 598	39 330	78 660	212 382
Option 3 - Threshold of EUR 5000				
above threshold	23 589	39 315	78 630	212 301
Option 3 - Threshold of EUR 10 000				
above threshold	23 589	39 315	78 630	212 301
Option 4 - Threshold of EUR 10 000				
above threshold and in SEM	2 055	3 288	5 994	14 419
above threshold and outside SEM	23 589	39 315	78 630	212 301
Option 5 - Threshold of EUR 10 000				
above threshold and in SEM	1 212	1 939	3 535	8 504
above threshold and outside SEM	23 589	39 315	78 630	212 301
Option 6 Threshold of EUR 10 000				
above threshold and in SEM	1 557	2 491	4 541	10 925
above threshold and outside SEM	23 589	39 315	78 630	212 301

Source: Deloitte analysis

Table 123 - administrative costs for businesses making intra-EU supplies of goods under the different options (% change with respect to the status quo)

	E-Commerce business trading in 3 MS	E-Commerce Business trading in 5 MS	E-Commerce Business trading in 10 MS	E-Commerce Business trading in 27 MS
Option 1	0	0	0	0
Option 2	0%	0%	0%	0%
Option 3 – Threshold EUR 5000				
above threshold	-0.04%	-0.04%	-0.04%	-0.04%
Option 3 – Threshold EUR 10 000				
above threshold	-0.04%	-0.04%	-0.04%	-0.04%
Option 4 – Threshold EUR 10 000				
above threshold and in SEM	-91%	-92%	-92%	-93%
above threshold and outside SEM	0%	0%	0%	0%
Option 5 – Threshold EUR 10 000				
above threshold and in SEM	-95%	-95%	-96%	-96%
above threshold and outside SEM	0%	0%	0%	0%
Option 6 – Threshold EUR 10 000				
above threshold and in SEM	-93%	-94%	-94%	-95%
above threshold and outside SEM	0%	0%	0%	0%

Source: Deloitte analysis

Finally, it has to be recalled that the implementation of the Union Customs Code (UCC) imposes specific information requirements to Customs procedures, so that the opportunity to align the requirements for information related to VAT with those required for Customs should be carefully considered[93] (under Options 4, 5 and 6).

6.3.3 Impacts on the market for e-Commerce in the European Union

The table below provides an overview of the main impacts of the six Policy Options covered by the study with respect to the economic impacts identified.

[93] See section 6.3.5

Table 124 – Overview of the impacts on competition and growth in the European Union

EU e-Commerce volume								
Policy Option	**Total e-Commerce**		**Cross-border e-Commerce**		**EU cross-border e-Commerce**		**Non-EU cross-border**	
	Transactions (mill.)	**%**	**Transactions (mill.)**	**%**	**Transactions (mill.)**	**%**	**Transactions (mill.)**	**%**
Policy Option 2	-111	-0.4%	-271	-4.6%	-59	-1.6%	-212	-9.9%
Policy Option 3 – threshold EUR 5 000	-154	-0.5%	-216	-3.7%	-16	-0.4%	-200	-9.3%
Policy Option 3 – threshold EUR 10 000	-163	-0.6%	-203	-3.5%	-5.3	-0.1%	-198	-9.2%
Policy Option 4 – threshold EUR 10 000	-113.9	-0.39%	-158.7	-2.72%	40.5	1.1%	-199.2	-9.3%
Policy Option 5– threshold EUR 10 000	-104.7	-0.36%	-153.0	-2.62%	47.4	1.29%	-200.4	-9.35%
Policy Option 6 – threshold EUR 10 000	-108.4	-0.37%	-156.0	-2.68%	44.1	1.20%	200.1	-9.34%

EU e-Commerce Prices				
Policy Option	**Total e-Commerce**	**Cross-border e-Commerce**	**EU cross-border e-Commerce**	**Non-EU cross-border**
	%	**%**	**%**	**%**
Policy Option 1 (Status Quo)	539 686 million		96 840 million	
Policy Option 2	0.5%	2.6%	1.1%	5.7%
Policy Option 3 – threshold EUR 5 000	0.84%	2.39%	0.77%	5.71%
Policy Option 3 – threshold EUR 10 000	0.9%	2.33%	0.68%	5.71%
Policy Option 4 – threshold EUR 10 000	0.73%	1.84%	-0.03%	5.66%
Policy Option 5 – threshold EUR 10 000	0.68%	1.75%	-0.15%	5.66%
Policy Option 6– threshold EUR 10 000	0.69%	1.79%	-0.10%	5.66%

e-Commerce value								
Policy Option	**Total e-Commerce**		**Cross-border e-Commerce**		**EU cross-border e-Commerce**		**Non-EU cross-border**	
	EUR bill.	**%**	**EUR bill.**	**%**	**EUR bill.**	**%**	**EUR bill.**	**%**
Policy Option 1 (Status Quo)	3.1 - 5.2	0.3 - 0.5	2.5 -4.2	1.3 - 2.2	2.1 - 3.7	1.5 - 2.6	0.3 - 0.6	0.6 - 1.1
Policy Option 2	3.5	0.3%	-1.7	-0.9%	0.5	0.3%	-0.3	-4.2%
Policy Option 3 – threshold EUR 5 000	3.5	0.3%	-1.7	-0.9%	0.5	0.3%	-2.2	-4.2%
Policy Option 3 – threshold EUR 10 000	3.9	0.3%	-1.4	-0.7%	0.7	0.5%	-2.1	-4.1%
Policy Option 4 – threshold EUR 10 000	3.77	0.33%	-0.69	-0.36%	1.48	1.07%	-2.17	-4.2%
Policy Option 5 – threshold EUR 10 000	3.57	0.32%	-0.63	-0.33%	1.57	1.13%	-2.20	-4.22%
Policy Option 6– threshold EUR 10 000	3.60	0.32%	-0.68	-0.35%	1.52	1.10%	-2.19	-4.20%

Source: Deloitte analysis

With respect to the Status Quo, **Option 2** is likely to have a **negative impact on cross-border e-Commerce** because the average price of imports will increase leading to a fall in the volume of transactions and the removal of thresholds may lead to smaller firms exiting the cross-border market. A **higher rate of e-Commerce growth (high growth scenario[94])**, especially in the domestic market, can partially mitigate some of the negative impacts of Option 2 on the cross-border e-Commerce market both in terms of volumes and prices. Under the **DSM scenario[95]**, the negative effects on e-Commerce volumes and prices are stronger. The increase in administrative burden affects a larger proportion of the e-Commerce market and risks a larger number of firms leaving the market, so that the estimated reduction of total e-Commerce **volumes** is of 147.7 million transactions (-0.5%) with respect to the Status Quo, and of 66.5 million transactions (-1.6%) for EU cross-border e-Commerce. With regard to **prices**, in the DSM scenario the faster growth rate of intra-EU e-Commerce means that a larger proportion of the market is affected, leading to a grated impact on prices (estimated to increase of 0.55% overall, and of 1.11% for EU cross-border e-Commerce).

Option 3 (similar to Option 2) is likely to result in a decrease in e-Commerce sales because of the burden to register for SME's exceeding the EUR 5 000 threshold. Increasing the threshold to EUR 10 000 would have less negative effects than the lower threshold but is still likely to adversely affect e-Commerce sales. At a broader economic level, there is likely to be a negative impact on cross-border e-Commerce because the average price of imports will increase leading to a fall in the volume of transactions and the removal of thresholds may lead to smaller firms exiting the market. A **higher rate of e-Commerce growth (high growth scenario[96])**, especially in the domestic market, can partially mitigate some of the negative impacts of this Option. Under the **DSM scenario[97]**, the negative effects on e-Commerce volumes and prices are stronger. The increase in administrative burden affects a larger proportion of the e-Commerce market and risks a larger number of firms leaving the market. The estimated reduction of total e-Commerce **volumes** is of 174.4 million transactions (-0.5%) with respect to the Status Quo, and of 5.6 million transactions (-0.1%) for EU cross-border e-Commerce. With regard to **prices**, in the DSM scenario the faster growth rate of intra-EU e-Commerce means that a larger proportion of the market is affected, leading to a greater impact on prices (estimated to increase of 0.9% overall, and of 0.7% for EU cross-border e-Commerce).

Under **Option 4,** introduction of the SEM (with a registration threshold of EUR 10 000) is expected to have a positive impact on EU cross-border e-Commerce volumes (increase of 1.1% in volume, and 1.07% increase in value); however, the effect on non-EU imports is estimated to be negative due to the increase in compliance and VAT paid. The change in e-Commerce volumes is largely driven by the change in prices, which reflect the administrative burden. The introduction of the SEM (with a registration threshold of EUR 5 000) is likely to have a positive impact on EU cross-border e-Commerce volumes (increase of 1.1%, and 1.07% increase in value), not different from that of the EUR 10 000 threshold. When considering the impact of the Digital Single Market Strategy on cross-border e-Commerce within the EU ('**DSM scenario'**), Option 4 is estimated to have a relatively more positive impact on EU cross-border e-Commerce than non-EU e-Commerce. Since the administrative

94 CAGR of 18%, see Assumption 4 in Annex 4.

95 This scenario allows for the impact of the Digital Single Market strategy on cross-border e-Commerce within the EU. It is assumed that domestic and non-EU markets grow at 12%, while intra-EU cross-border e-Commerce grows at 18%

96 CAGR of 18%, see Assumption 4 in Annex 4.

97 This scenario allows for the impact of the Digital Single Market strategy on cross-border e-Commerce within the EU. It is assumed that domestic and non-EU markets grow at 12%, while intra-EU cross-border e-Commerce grows at 18%

burden on within-EU cross-border e-Commerce decreases under Option 4, the fact that EU cross-border e-Commerce grows faster in this scenario means that the reduction in costs affects more of the market and has a more positive impact. This translates into an overall decrease of total e-Commerce **volumes** of 109.4 million transactions (-0.3% with respect to the Status Quo), but in an increase on intra-EU e-Commerce of 44.5 million transactions (1.2% increase). In terms of **prices**, the DSM scenario (similar to the high growth scenario) is associated with greater downward pressure on prices thanks to more firms entering the market and more competition. The effect on overall **value** of e-Commerce is also more positive under the high growth and DSM scenario, both in absolute and percentage terms (increase of 7.9 EUR billion or 7.9% and of 4.2 EUR billion or 0.3% respectively).

Within **Option 5**, the introduction of the SEM (with a threshold of EUR 10 000) is expected to have a positive impact on EU cross-border e-Commerce volumes (increase of 1.29%, and 1.13% increase in value). However, the effect on non-EU imports is estimated to be negative due to the increase in compliance and VAT paid. The change in e-Commerce volumes is largely driven by the change in prices (0.68% increase in the medium growth scenario and in the DSM scenario, 0.6% increase in the high growth scenario). As with Option4, the **DSM scenario** has a relatively more positive impact on intra-EU e-Commerce (increase of 52.1 million of transactions vs increase of 47.4 million transactions under the medium growth scenario), whereas a more negative impact on non-EU imports (9.41% decrease compares to 9.35% decrease under the medium growth and 9.18% decrease under the high growth scenario). The registration threshold of EUR 5 000 is likely to have a positive impact on EU cross-border e-Commerce volumes (increase of 1.28% in volume, and 1.13% increase in value), not different from the EUR 10 000 threshold.

The impacts of **Option 6** are not likely to differ notably from those of Option 5 (and of Option 4). The introduction of the SEM (with a registration threshold of EUR 10 000) is expected to have a positive impact on EU cross-border e-Commerce volumes (increase of 1.2% in volume, and 1.1% increase in value under the medium growth scenario). Also in this case, the effect on non-EU imports is estimated to be negative due to the increase in compliance and VAT paid. The effect on non-EU imports is estimated to be negative due to the increase in compliance and VAT paid. The change in e-Commerce volumes is largely driven by the change in prices (0.69% increase in the medium growth scenario, 0.6% increase in the high growth and in the DSM scenarios). The **DSM scenario** has a relatively more positive impact on intra-EU e-Commerce (increase of 48.5 million of transactions vs increase of 44.1 million transactions under the medium growth scenario), whereas a more negative impact on non-EU imports (9.3% decrease compared to 9.18% decrease under the high growth scenario). Also for Option 6, the impact of changing the registration threshold (EUR 5 000 instead of EUR 10 000) on the e-Commerce market is generally not significant, as the impacts on e-Commerce volume, prices and value do not differ across the two alternatives.

6.3.4 Impacts on compliance

The table below provides an overview of the main impacts of the six Policy Options covered by the study with respect to compliance.

Table 125 – Overview of the impacts of the Policy Options on compliance

Impact on Compliance	
Policy Option	**Compliance summary**
Policy Option 1 (Status Quo)	▸ The estimated VAT loss due to non-compliance on B2C cross-border sales ranges from EUR 2.6 billion to EUR 3.8 billion (conservative estimate); ▸ The actual respective EU VAT loss is likely to be closer to the upper end of the estimated range.
Policy Option 2	▸ The removal of distance sales threshold simplifies the VAT system is expected to facilitate and improve the compliance control by tax authorities; ▸ The increase in the administrative burden it is likely to increase the level of non-compliance among businesses with limited cross border trade; ▸ The risk of non-compliance may be bigger among those currently not registered for domestic VAT; ▸ The removal of small consignment exemption simplifies the VAT system and should reduce non-compliance (including fraud), as a result of more efficient compliance controls (e.g. by reviewed risk assessment).
Policy Option 3	▸ Option will generally improve intra-EU compliance; ▸ non-compliance is likely to increase in relation to businesses currently trading below the distance sales threshold; ▸ overall limited impact on compliance and fraud; ▸ expected to significantly improve the compliance of the impacted businesses supplying TBE services; ▸ would introduce a compliance risk of under-declaration of cross-border sales in order to remain below the threshold(s).
Policy Option 4	▸ expected to further improve both voluntary compliance and compliance control on intra-EU cross border trade in goods and non-TBE services. ▸ expected to improve both voluntary compliance and compliance control on the import of goods with value up to EUR 150. ▸ supports the fight against by sustaining the reduction of undervaluation and incorrect labelling of the goods, or split imports. ▸ SEM on imports has the potential to improve compliance control.
Policy Option 5	▸ very similar to Option 4; ▸ expected to further increase voluntary compliance by providing additional simplification to the SEM in the form of application of home country legislation. ▸ potential to further improve compliance controls and reduce fraud, provided there is an effective administrative cooperation between the MSI and all the MSCs
Policy Option 6	▸ very similar to Option 5; ▸ additional voluntary compliance from the application of fully harmonised EU rules; ▸ likely to facilitate compliance control.

Source: Deloitte analysis

With respect to the Status Quo, the removal of the distance selling threshold under **Option 2** is expected to facilitate and therefore improve the compliance control by tax authorities. However, the increase in the administrative burden it is likely to increase the level of non-compliance among the businesses with limited cross border trade. The removal of small consignment exemption is likely to simply the VAT system and reduce non-compliance (including fraud), as a result of more efficient compliance controls (e.g. by reviewed risk assessment). This Option is not expected to modify the framework (and thus the impacts) for TBE services. **Option 3** is expected to generally improve compliance on intra-EU trade. However, the non-compliance is likely to increase in relation to businesses currently trading below the distance sales threshold (similarly to Option 2). The Option would also improve compliance on low value import due to simpler system which allows more efficient compliance control. **Option 4** is expected to further improve both voluntary **compliance** and compliance control on intra EU cross border trade in goods and non-TBE services and on B2C e-Commerce trade from non-EU businesses. **Option 5** takes on the same changes as Option4 but allows for the use of home country (MSI) VAT rules while applying the VAT rate of the MSC. This Option would likely increase voluntary VAT compliance with respect to Option4 (and to the Status Quo) as further simplification is brought by the application of domestic rules. **Option 6** takes on the same changes as Option4 but allows for common EU VAT rules while applying the VAT rate of the MSC. This Option would likely increase voluntary VAT compliance with respect to Option 4 (and to the Status Quo) as further simplification is brought by the application of the harmonised set of rules.

6.3.5 Additional Impacts

This section presents the conclusions on specific impacts identified as relevant during the analysis, namely:

- Impacts on SMEs and microbusinesses;
- Regional and Member States' specific impacts; and
- Set-up costs for postal operators and couriers.

Impacts on SMEs and microbusiness

Micro-enterprises and SMEs account for more than 99% of businesses in the EU[98], and are also engaged in B2C e-Commerce. Small and medium-sized enterprises are already active in cross-border B2C e-Commerce, and are increasingly interested in this channel to expand their activities.

SMEs and micro-enterprises have to face a complex legislative framework for cross-border transactions, which generates compliance issues. It also distorts competition between EU businesses and non-EU businesses (which benefit from the small consignment exemptions), and among EU businesses (where businesses established in a country with a low VAT rate can apply the VAT rate of that country up until the threshold set in the EU Member State of destination while businesses established in a Member State with a high VAT rate cannot benefit from the same advantage).

In addition, the current framework imposes a high compliance burden on businesses (especially for businesses selling goods cross-border). In order to determine the correct place of supply businesses have to monitor for each of the Member States they sell to whether they exceed the distance selling

[98] Definitions from http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition/index_en.htm

thresholds. Determining the place of supply is difficult as the distance selling thresholds differ between Member States, distribution chains are complex and different rules apply to B2B and B2C sales. The compliance burden is aggravated for those businesses that exceed the distance selling threshold in a Member State and must register and comply with the VAT rules in that Member State.

With regard to compliance, the assessment of Option 2 clearly identified the need for simplification measures to ensure voluntary compliance, monitoring and enforcement by Member States. The results from the assessment of the policy options show how the increase in compliance is higher with the SEM (i.e. Options 4, 5 and 6), because of the combined effect of a simplified legislative framework, simplified procedures and more information available for Member States to monitor compliance.

Ensuring a level playing field for European businesses is crucial for the realisation of the Digital Single Market and for economic growth. The removal of the distance sales threshold and small consignment exemption (Option 2) can lead to adverse effects for businesses (especially micro- and small-businesses). Businesses may ultimately face administrative costs exceeding their revenue from cross-border trade and are thus likely to cease their cross-border trade or to be non-compliant. The introduction of a common VAT threshold (Option 3) only partially solves the issue. The combination of a common VAT threshold and of the SEM is especially important for businesses (and micro and small businesses in particular), as they can benefit from the threshold when they are very small (e.g. the cross-border share of their sales is only marginal) and of the SEM, as long as their cross-border supplies grows. Options 4, 5 and 6 thus reduce the risk of discouraging businesses from developing cross-border trade due to increased administrative burden and compliance costs.

Options 4, 5 and 6 indeed have similar results in terms of reduction of administrative burden for businesses (reduction of 42%, 55% and 51% respectively), increased VAT revenues (mostly as an effect of higher compliance in intra-EU trade), and an increase in volume and value of intra-EU e-Commerce trade. Such increases are estimated to be slightly higher in the case of Option 5 (increase of 1.29% in volume and of 1.13% in value), while they are less favourable for Options 4 (increase of 1.1% in volume and 1.07% increase in value) and Option 6 (increase of 1.20% in volume and of 1.10% in value).

The implementation of the common VAT threshold can follow the application of domestic rules or exempt from VAT for the transactions below the threshold. The application of domestic rules is simpler to implement for both Member States and businesses (that expressed their preference for this possibility), as cross-border supplies can be declared for VAT purposes together with domestic supplies, and businesses can deduct inputs VAT directly. The exemption alternative is more complex to implement, as cross-border supplies need to be declared separately, and businesses cannot deduct input VAT, while the absence of VAT on outputs may lead to lower consumer prices (potentially creating distortion of competition).

The definition of the rules applying to cross-border transactions above the common VAT threshold is also an important element. The application of home country rules (e.g. for invoicing, reporting, audit, etc.) exposes businesses to be subject to (potentially) up to 28 different set of rules (including for domestic trade), and thus to potentially up to 28 different audit procedures on the same transactions, which clearly poses a higher burden. While administrative cooperation between Member States tax administrations is needed to ensure some degree of coordination of the audit procedures, Member States maintain direct control over these. Applying home country rules to cross-border transactions above the common VAT threshold can lead to a notable simplification of the obligations (e.g. for invoicing, reporting, audit, etc.) for businesses as they are subject to only one set of rules they are already familiar with (VAT rates of the Member State of Consumption still apply). Such a solution however requires a strong administrative cooperation between Member States, as the Member State of Consumption will have to require information (or to start an audit procedure) via the Member State of Identification. The implementation of a harmonised set of EU rules for cross-border transactions above the common VAT threshold provides a relief for businesses, which are then subject to only two sets of rules; while still requiring some form of administrative cooperation between Member States. However, the risk of setting a high standard for the common EU rules (upward harmonisation) can represent a disincentive for micro- and small businesses.

Regional impacts/specific impact on Member States

As described, the overall VAT revenue from (intra-EU) cross-border e-Commerce transactions is estimated to increase notably under Options 4, 5 and 6, as an effect of higher compliance and of the positive impacts of such options on intra-EU e-Commerce volume and value. The share of such increased revenues obtained by Member States however will vary by country, depending on a number of factors:

- Contribution to cross-border e-Commerce, by origin: countries that account for a larger share of cross-border online trade relative to population are expected to see a greater impact from the policy options since a larger proportion of businesses will be affected.
- Proportion of businesses affected by the change in registration thresholds: smaller businesses (i.e. those that currently fall below the registration thresholds) will be most affected by the reduction in the registration thresholds. Therefore countries in which SMEs make up a greater contribution to e-Commerce would be expected to be disproportionately impacted;
- Contribution to e-Commerce flows, by destination: countries that account for a disproportionately large share of inward e-Commerce flows are estimated to see a greater revenue impact as a result of a greater share of transactions falling within the scope of VAT.
- Change in VAT registration thresholds: countries that experience a greater reduction in the VAT registration threshold will also see a greater increase in VAT revenues, since the change in policy will make a larger impact in these markets.

Overall, the size of the domestic market may insulate larger European economies (such as Germany and France) from the potentially adverse effects on cross-border trade deriving from being major countries of origin. In addition, countries such as the UK and Spain would be expected to capture an above-average share of additional VAT revenues, given that spending on cross-border e-Commerce relative to the size of the economy, is higher in these markets. The impact in the UK is likely to be particularly pronounced since the current threshold for VAT registration for international businesses is approximately EUR 100,000. Thus the reduction in the threshold may significantly increase the share of spending that is subject to VAT. Germany, France, Luxembourg and the Netherlands also have registration thresholds of EUR 100,000 and may therefore see a greater than average impact on tax revenues.

Set-up costs for Postal operators/couriers

It is relevant also to consider that postal operators and couriers will need to develop/adapt their information systems in order for them to make sure that they receive, in advance of Customs clearance, electronic information indicating whether VAT on consignments up to EUR 150 has been pre-declared or not through SEM (under Options 4, 5 and 6). Such a system is essential in order for postal operators and couriers to automatically distinguish parcels for which a declaration and payment is required and therefore to avail of the reduced processing costs which the SEM will offer. The final design of such advance information system is not yet decided. It could be based on the SEM registration number that may either be included in the Customs Early Notification System (compulsory on all consignments, including postal ones, as of 2020) or also implemented outside the Customs process by postal operators and couriers.

Providing a robust estimate of such one-off costs is difficult as for some operators it may only be a matter of making relatively minor adjustments to the existing systems which are very well developed due to the full integration of the process from the exporting country until the place of final destination. However, it should also be recognised that other operators, particularly postal operators, may need to build new systems – e.g. based on agreements with foreign stakeholders.

In considering the costs that postal operators and couriers will face in either developing new information systems or developing existing systems it is important to recognise that the forthcoming changes in 2020 to the Union Customs Code will put security-related obligations on both postal operators and couriers in respect of the advanced information they will need to provide anyway to EU customs administrations in advance of clearance (end of any exemption granted to postal operators in this field by 2020). This presents an excellent opportunity to consider aligning the requirements for information in respect of VAT with the customs information. Such a development should reduce development costs for the couriers and postal operators. This would also bring benefits to Customs administrations as the necessity to ensure that VAT has been pre-declared can be integrated into the general clearance process rather than having a separate process only for VAT.

One has also to remember that the ongoing security threats will unavoidably lead to more requirements for proper identification of all types of packages and letters sent either on the postal or courier environments. The envisaged EU VAT changes should aim to link as much as possible to such changes needed for security purposes.

Also, it is critical in considering any costs faced by this sector that under the status quo Member States currently lose significant amounts of VAT revenues due to the VAT foregone under the small consignments exemption as well as substantial losses due to non-compliance. Further, EU business are at a competitive disadvantage as many B2C supplies from non-EU suppliers are effectively VAT free. It is also relevant that Member States apply the current exemption differently and that some have already introduced restrictions to the exemption notably France who excluded e-Commerce supplies and it is not infeasible that others will follow. Therefore, the set-up costs faced by operators can be seen in the context of an ongoing reduction of 24% in processing costs, increased VAT revenues for Member States of EUR 8 to 9 billion, as well as a more stable harmonised regime. In addition, the postal operators and couriers will be beneficiaries of the increase in e-Commerce generally whether domestically or intra-EU.

6.4 Policy Options and policy objectives

The policy objectives for the current intervention were formulated during the study. These objectives are derived from the Digital Single Market (DSM) Strategy for Europe and are as follows:

- To minimise burdens attached to cross-border e-Commerce arising from different VAT regimes;
- To facilitate the monitoring of compliance and the fight against fraud for Member State authorities;
- To provide a level playing field for EU business; and
- To ensure that VAT revenues accrue to the Member State of the consumer.

The policy options respond to the policy objectives in several ways. Some policy options have a more positive impact on the objectives than others. Table 126 illustrates the extent to which the policy objectives are met by each option by allocating a number of tick marks (✓) from one to four. Four ticks indicates the highest positive impact while one indicates that the impact on the policy option is positive. There are some options that do not meet certain objectives and may actually have negative impacts. In this case, no ticks are given. Option 1 has not been marked as it represents the Status Quo.

Table 126 – Policy objectives vs Policy Options

Specific Objectives	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6
Minimising burdens attached to cross-border e-Commerce arising from different VAT regimes.				✓✓	✓✓✓✓	✓✓✓
Providing a level playing field for EU businesses involved in cross-border e-Commerce.		✓	✓	✓✓✓✓	✓✓✓✓	✓✓✓✓
Facilitating the monitoring of compliance and the fight against fraud for Member States' authorities.		✓	✓	✓✓✓	✓✓✓✓	✓✓✓
Ensuring that VAT revenues accrue to the Member State of the consumer		✓	✓	✓✓✓	✓✓✓✓	✓✓✓✓

The above table shows that options 4, 5 and 6 meet all of the policy objectives, with Option 5 comparatively better results with respect to the others.

Regarding the minimisation of burdens attached to cross-border e-Commerce, **Option 5** has the most positive impact since it reduces the number of rules to be followed by businesses (only 2 sets of rules apply) and administrative costs would be reduced by 55%. Option 6 is similarly positive with administrative costs being reduced by 51%, while Option 4 is estimated to reduce the administrative burden of 42%. Options 2 and 3 have an adverse effect on the administrative burden businesses have to face to engage in cross-border e-Commerce, as they are estimated to lead to an increase of 12% and 7% (with the common VAT threshold of EUR 5 000) of and 9% (with the common VAT threshold of EUR 10 000) respectively.

The objective of providing a level playing field for EU businesses involved in cross-border e-Commerce is somewhat satisfied by all the Policy Options considered by the study, while to different degrees. Option 2 removes the distance sales threshold and the small consignment exemption contributing thus to realising a level playing field (as businesses cannot benefit anymore of competitive advantages resulting from selecting Member States of establishment based on the VAT rates applied and from exemption of small value transactions). However, it introduces a serious disincentives for micro- and small businesses, as they would have to face administrative costs to comply with the resulting VAT-related obligations exceeding their revenue from cross-border trade. Therefore, they will be likely to cease their cross-border trade or to be non-compliant. Option 3 partially reduces this adverse effects, by introducing a common VAT threshold applying to all intra-EU transactions of EUR 5 000 or EUR 10 000. **Option 4** introduces a simplification provision (the SEM) intended to provide a simple and non-expensive tool for businesses (and in particular micro- and small businesses) to comply with the VAT-related obligations. **Options 5 and 6** have similar positive implications since the application of domestic rules (Option 5) or of common EU rules (Option 6) would provide a level playing field to all businesses. The risk of setting a high standard for the common EU rules (upward harmonization) can represent a disincentive for micro- and small businesses.

For facilitating the monitoring of compliance, **Options 5 and 6** are the most positive since harmonised rules will ensure a consistent approach and European level monitoring of compliance. Option 4 also satisfies this objective quite politely since the adoption of the SEM can encourage compliance and assist with monitoring. Options 2 and 3 satisfy this policy objective but only to a limited extent.

Ensuring that VAT revenues accrue to the Member State of the consumer is satisfied by all of the options however it is most positively impacted by **Options 5 and 6** since harmonised rules can ensure a consistent approach. Overall, Options 4, 5 and 6 all lead to a notable increase in VAT revenues for Member States, thanks to the implementation of a framework that facilitates compliance with VAT-related obligations for businesses (especially in intra-EU trade), and on the other hand provides better provisions for Member States to monitor and enforce compliance.

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Annex 2: Fiscalis Seminar

Here we report the key elements from the discussions on the Policy Options during the Fiscalis Group Seminar held in Dublin on September 7th-9th 2015.

Per each of the Policy Options, attendees discussed the advantages, disadvantages and other relevant elements (if any).

Option	*Viewpoints*
Option1 (Status Quo)	**Advantages**: • No additional costs as process unchanged
	Disadvantages: • Not adequate. Problems with Distance-Selling, thresholds… • Threshold for EU distance selling almost impossible to monitor and enforce at present. Some traders register in other MS in advance as the threshold is impractical. • No level playing field in goods supplies i.e. non-EU suppliers do not apply VAT. • Under-declaration of small consignment values – too resource intensive to control. No risk to vendor. • If minimum Registration Threshold introduced, it would also be difficult to monitor/enforce by MS. • Obligation to Register may deter traders from dealing with smaller markets/countries • Problems on inherent distance sales rules as certain businesses sidestep their obligations • Import exemption threshold creating distortion • Different rates for goods in various member states in relation to distance sales
	Other observations: N/A
Option2	**Advantages:** • Increase of revenue for tax administrations • Removal of Distance Selling Threshold (level playing field)
	Disadvantages: • Administrative burden and cost of compliance (cost of managing mechanism

	and reporting cost) will increase • Small companies will have higher costs and could see their business affected • Cross-border selling too burdensome without threshold
	Other observations: • The MS would prefer harmonization or, in some cases, removal of thresholds • Difficult to manage volumes/low value consignment reliefs • Optionis not practical
Option3	**Advantages**: • One rule, easy communication, avoids confusion (versus difficult management if every country has their own) • Thresholds are good for small businesses (and less work for administrations) • Cross-border selling too burdensome without threshold
	Disadvantages: • How would common exemption threshold be calculated? • How could value of cross-border sales be monitored by home country of trader? • How can tax administration in MSC determine that the threshold is exceeded? • Increase cost from monitoring the threshold • Loss of VAT revenues in some countries • Does not deal with non-EU suppliers which leads to distortion of competition • Trader may be exempt in home country but input entitlements from sales to other MS. • Compliance/Audit extremely complex as effectively a dual VAT system • Business will not do business in other MS anymore • How to audit/control if a company is always beneath a threshold

	Other observations:
	• Mixed feelings from MS on thresholds (mainly on rates):
	    o Most MS not in favour of threshold if also SEM
	    o Some MS in favour of low threshold
	    o Others in favour of something similar to the distance selling
	    o Create a threshold for all activities inside the same country
	• Have MSI rules apply under the level (rather than exemption) and over threshold MSC rules apply
	• Business in favour, MS against

Option4	**Advantages**: • Expands MOSS to all EU services

	• Expands MOSS to Non-EU Goods • SEM introduces stronger reporting mechanism, transparency & audit trail for compliance • Business only has to deal with one set of rules, easier to comply
	Disadvantages: N/A
	Other observations: • Alternative: Have a single mechanism without having thresholds • Need more time to evaluate • MS not in favour, businesses yes
Option5	**Advantages:** • Easier for business to deal with MSI and to apply rules of MSI
	Disadvantages: • Conflicts between procedural law and application of directive could arise for some sectors e.g. gaming industry • Constitutional problems for one member state to accept that audits on its tax are conducted by MSI • MSC point of view: if only MSI rule is applicable danger to register in the "best" MSI • Is the MSI interested in collecting the revenue of the MSC? • Trader may be exempt in home country but input entitlements from sales to other MS. • Compliance/Audit extremely complex as effectively a dual VAT system • Does responsibility for payment of VAT on non-EU Goods move to Vendor? Impractical?
	Other observations: • We have to wait and learn lessons from MOSS • Some MS are not in favour of home country control • Home country legislation and controls are supported by businesses • More cooperation among MS is needed • More harmonization needed as if harmonized rules exist then home country legislation is less important • Chosen as best Optionas number 6 is unfeasible
Option6	**Advantages**: • Some simplification and clarification of rules and administration for Businesses • Continue relationships with MSI • Success of MOSS depends on the harmonisation of EU rules but could be difficult to achieve and may also be unnecessary

	Disadvantages: • Application of Rules of MS 1 becomes responsibility of MS 2. Politically untenable. • Interpretation still varies amongst MS
	Other observations: • e-Commerce is part of the economy so there is no need for specific rules for this kind of activity

Other issues raised	• Could SEM be extended to higher value imports (B2C)?
	• Could SEM be extended to B2B as well?
	• Business would like to see input tax included. Risk for Tax administrations
	• Harmonised VAT rates for all cross border supplies (unlikely to be agreed!)
	• VAT Rate certainty (TIC/automated retrieval)
	• Improved/expanded web portal
	• Allow 1 piece of information (Payment providers – aggregate level?)
	• Commission newsflashes? Auto-sign up and VAT rate alerts?
	• No VAT invoicing for B2C supplies
	• Allow corrections to be made in current returns
	• All 3rd countries businesses able to use MOSS
	• Business/administration cooperation in development of policy and law in future.
	• Why not include all Services in all Options – not just eServices?
	• Place of Supply always at point of consumption
	• removal of all thresholds but need of a 'BOSS' = Big One Stop shop (another name for Single electronic mechanism) apply to goods and services (always Optional) with some simplification and some harmonization:
	    ○ Simplify the procedure: one piece of evidence to determine the place of supply (business claim), should allow easy registration/deregistration
	    ○ Harmonize the cross-border threshold: zero or very very low - same threshold for goods and services
	    ○ Harmonization on invoicing: no invoice for B2C commerce or standard electronic statement (transaction details)
	    ○ Audit: responsibility of each MS: idea of a specialized audit team between all MS
	    ○ Customs rules have to align with VAT rules

Annex 3: Business survey

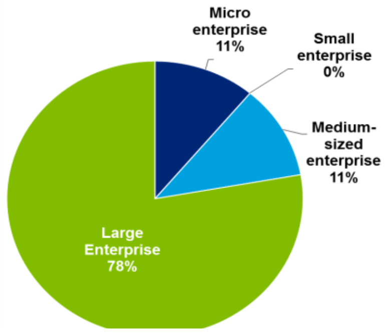
This annex presents the results of the online business survey carried out as part of the data gathering activities for Lot 2. It also includes the text of the online survey.

Profile of Respondents

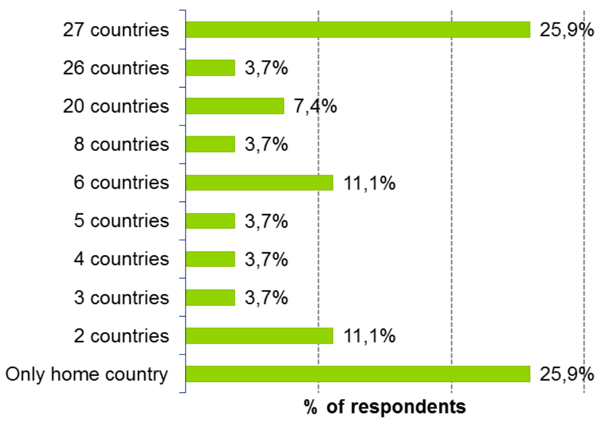
The survey received a total of 27 responses. The majority of the respondents are large enterprises and mostly coming from the UK and Ireland.

Of the respondents, the majority are suppliers of services only (48%) with 33% indicating that they supply goods and services and 19% indicating that they supply goods only.

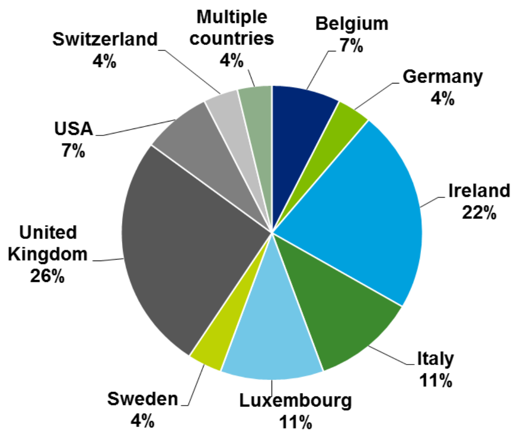
Regarding VAT registration, 74.1% of respondents are registered for VAT in (an)other Member State(s) in addition to their home country. Additionally, nearly half are registered for MOSS (44%) with another 26% indicating that they do not supply TBE services and are thus not registered. Other reasons for not registering for MOSS are diverse. Some examples include preferring direct VAT registration (2 companies) and unsure about the functioning of the MOSS (1 company).



Respondent Profiles: type of company



Respondent Profiles: No of VAT registrations



Respondent Profiles: Country of establishment

Policy changes

Removal of the distance sales threshold and of the small consignment exemption

When asked about the removal of the distance sales threshold and of the small consignment exemption, out of 26 respondents, 65.4% think that this would worsen the situation[99], while 26.9% think that it will improve the situation[100]. The other 7.7% think that the change would have no impact.

Introduction of a common VAT threshold for EU sales of both goods and services

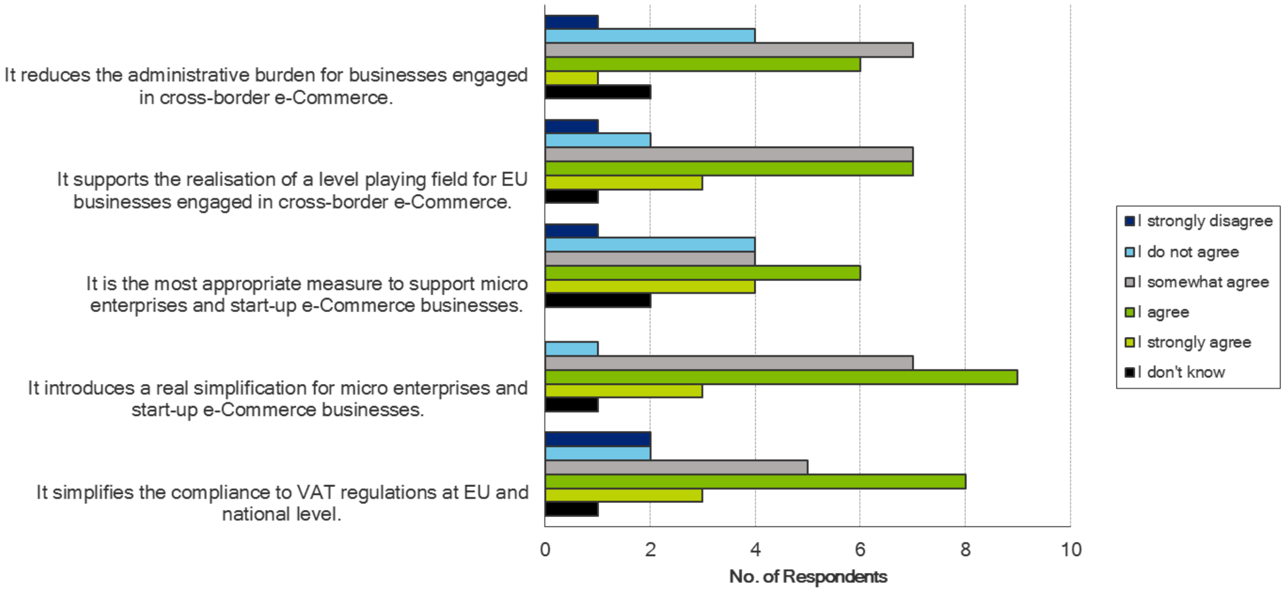
Respondents were asked to indicate their opinion regarding the proposed changes that form part of Policy Option 3 i.e. removal of the existing small consignment exemption and distance selling thresholds, and the introduction of a new type of cross-border exemption threshold. Respondents were provided with an envisaged structure for the Option which was supplemented by an examples for both intra-EU sales and imports.

The results show that the majority of the respondents generally believe that the introduction of this change would have positive impacts when compared with the current situation. The figure below illustrates the level of agreement respondents have with statements on:

- The simplification of compliance to VAT regulations;
- The simplification for micro enterprises and start-up e-Commerce businesses;
- The support micro enterprises and start-up e-Commerce businesses;
- The realisation of a level playing field for EU businesses engaged in cross-border e-Commerce; and
- The reduction of the administrative burden for businesses engaged in cross-border e-Commerce.

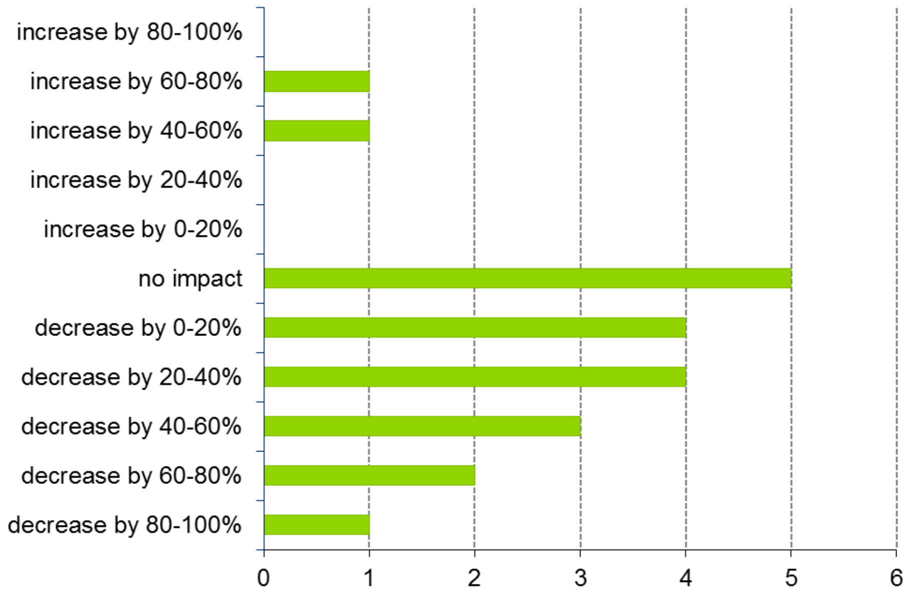
[99] E.g by increasing the complexity, non-compliance or administrative burden.
[100] E.g. by reducing distortion of competition and tax fraud or by simplifying the system.

Respondent opinion on removing distance sales threshold and the small consignment exemption and introducing a common VAT threshold for EU sales of goods and services[101]



Respondents were also asked their opinion about the impact this change would have on **VAT registration**. Out of 21 respondents who answered the question (Q15), the majority of respondents think that there would be no impact on the internal cost of VAT registration for micro-businesses and start-ups.

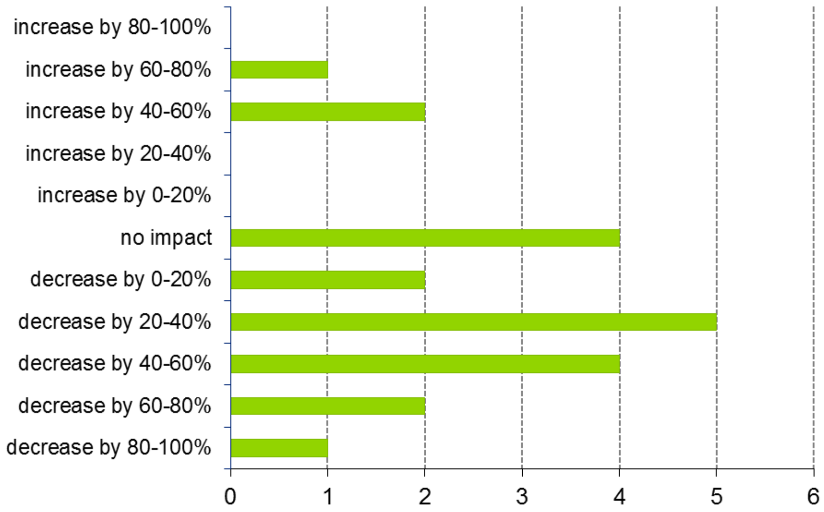
Respondent opinion on the impact of the removal of the distance sales threshold and small consignment exemption and the introduction of a common VAT threshold on the internal cost of VAT registration for micro-businesses and start-up companies



[101] Q10, Q11, Q12, Q13.

Respondents were also asked whether the change would have an impact on the **outsourcing costs that micro-businesses and start-up companies** incur for registering for VAT purposes in other EU countries. Out of the 21 respondents who answered the question (Q16), the majority of them indicated that they think the outsourcing costs would decrease by 20-40%. In general most respondents believe that costs would be reduced.

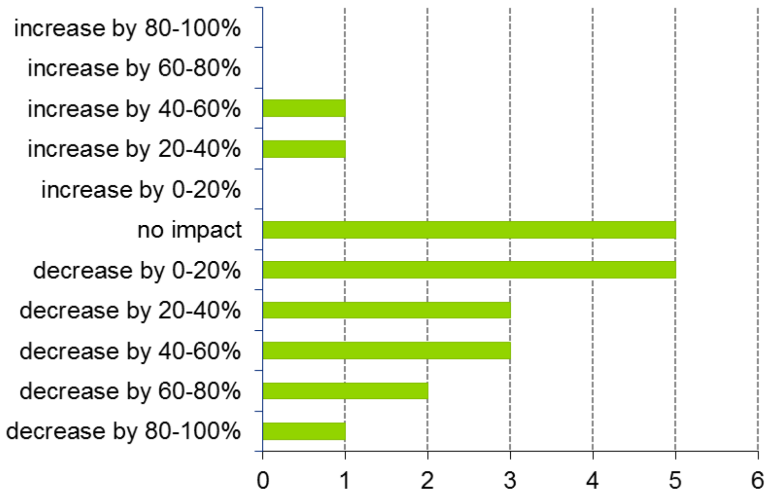
Respondent opinion on the impact of the removal of the distance sales threshold and small consignment exemption and the introduction of a common VAT threshold on the outsourcing cost of VAT registration for micro-businesses and start-up companies[102]



Regarding the **submission of VAT declarations/returns**, the majority of respondents think that this change would have no impact or would reduce internal costs for micro-businesses and start-up companies between 0-20%.

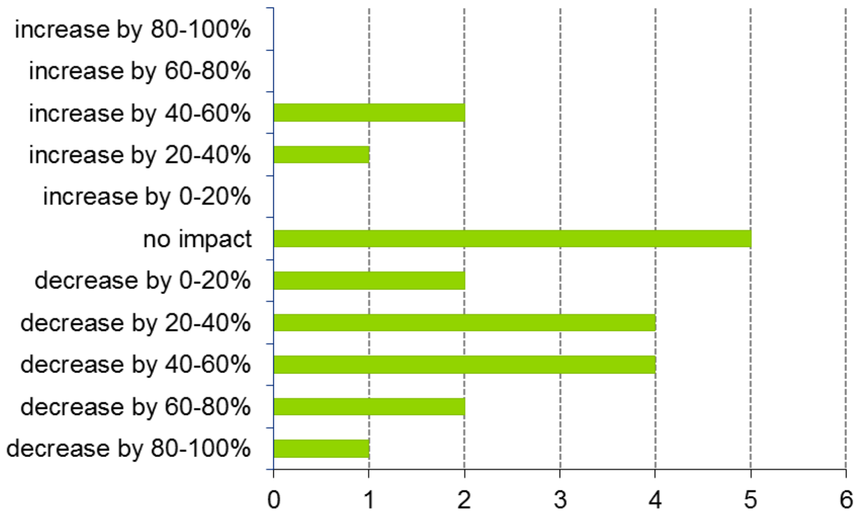
[102] Q16

Respondent opinion on the impact of the removal of the distance sales threshold and small consignment exemption and the introduction of a common VAT threshold on the internal cost of VAT declarations/returns for micro-businesses and start-up companies[103]



Furthermore, respondents also think that in general, outsourcing costs micro-businesses and start-up companies incur submitting VAT declarations/returns in other EU countries would be reduced. The most popular indications here were that the changes would have no impact, and that costs would decrease by 20-60%.

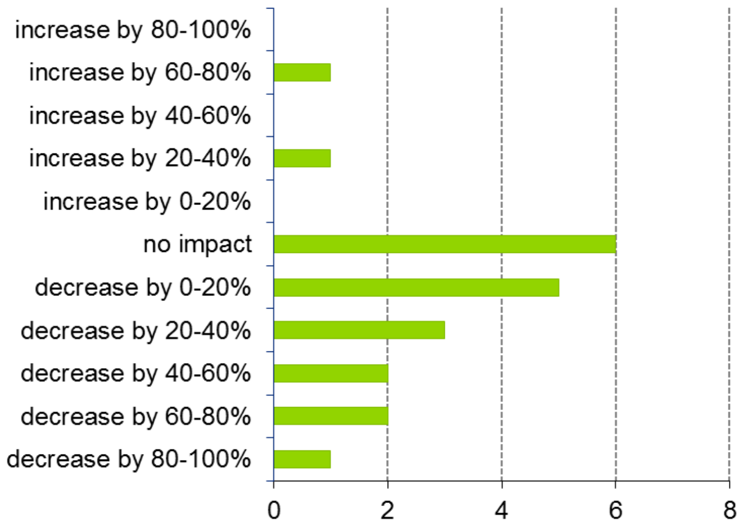
Respondent opinion on the impact of the removal of the distance sales threshold and small consignment exemption and the introduction of a common VAT threshold on the internal cost of VAT declarations/returns for micro-businesses and start-up companies[104]



[103] Q17
[104] Q17

With regard to the **payment of VAT**, the majority of respondents think that the changes will reduce the internal costs micro-businesses and start-up companies incur for registering for VAT purposes in other EU countries. Mostly, respondents indicated that the changes would have no impact.

Respondent opinion on the impact of the removal of the distance sales threshold and small consignment exemption and the introduction of a common VAT threshold on the internal cost of VAT registration for micro-businesses and start-up companies .



Introduction of a Single Electronic registration and payment Mechanism (SEM)

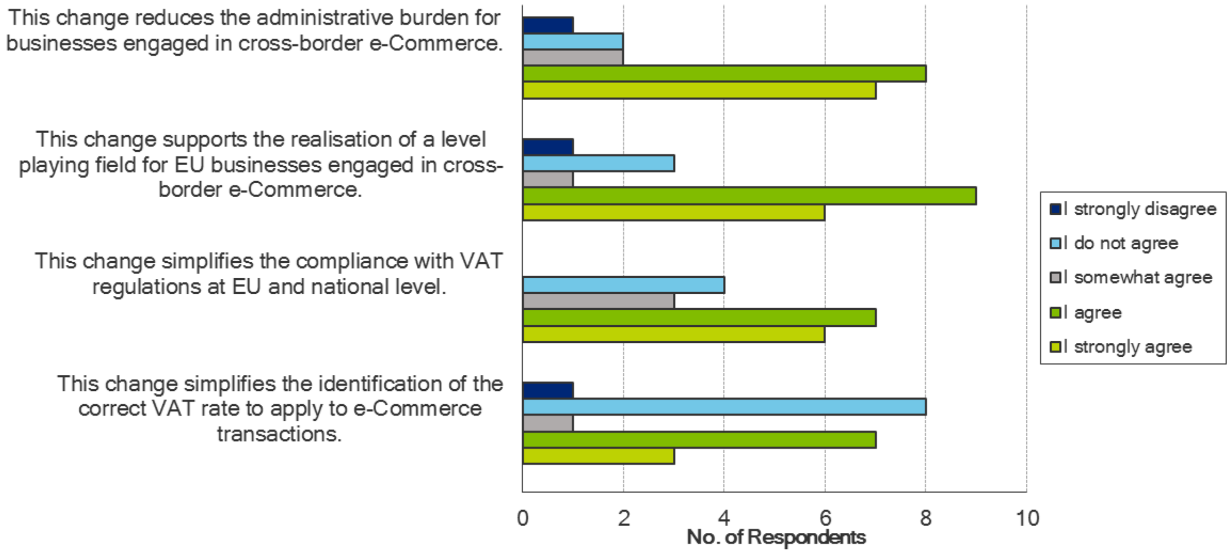
Respondents were asked to indicate their opinion regarding the proposed changes that form part of Policy Option 4 i.e. removal of the existing small consignment exemption and distance selling thresholds, and the introduction of a new type of cross-border exemption threshold plus the introduction of the Single Electronic registration and payment Mechanism (SEM). Respondents were provided with an envisaged structure for the Option which was supplemented by an examples for both intra-EU sales and imports.

The results show that the majority of the respondents generally believe that the introduction of this change would have positive impacts when compared with the current situation. The figure below illustrates the level of agreement respondents have with statements on:

- The simplification of compliance to VAT regulations;
- The simplification for micro enterprises and start-up e-Commerce businesses;
- The support micro enterprises and start-up e-Commerce businesses;
- The realisation of a level playing field for EU businesses engaged in cross-border e-Commerce; and
- The reduction of the administrative burden for businesses engaged in cross-border e-Commerce.

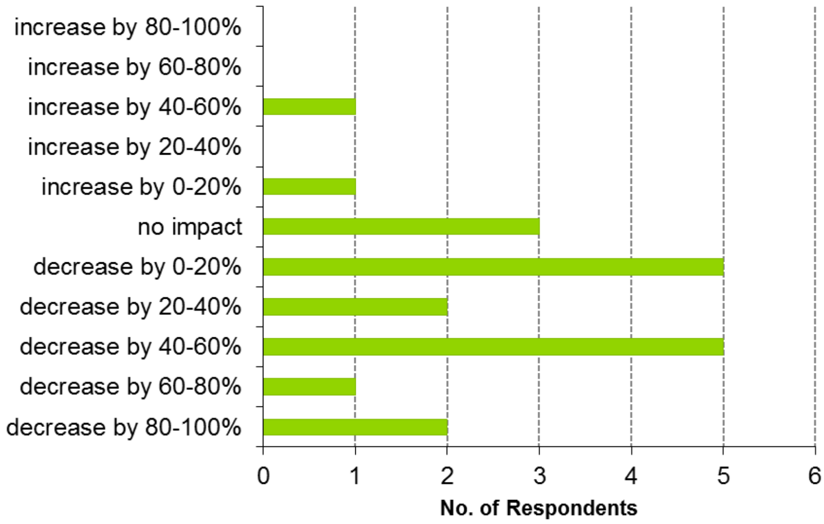
Responses were generally positive with regard to the reduction of the administration burden, promoting level competitions and simplifying compliance with most respondents indicating that they agree or strongly agree with the statements. Negatively however, the majority of respondents do not believe that the change simplifies the identification of the correct VAT rate to apply to VAT e-Commerce.

Respondent opinion on removing distance sales threshold and the small consignment exemption, introducing a common VAT threshold for EU sales of goods and services and introducing the SEM[105]



Regarding the impact the change would have on the internal costs for all types of businesses registering for VAT purposes, the survey found that the majority of respondents believe costs would decrease. The range of the expected decrease varied among respondents however was found to be most strong at both 0-20% and 40-60%.

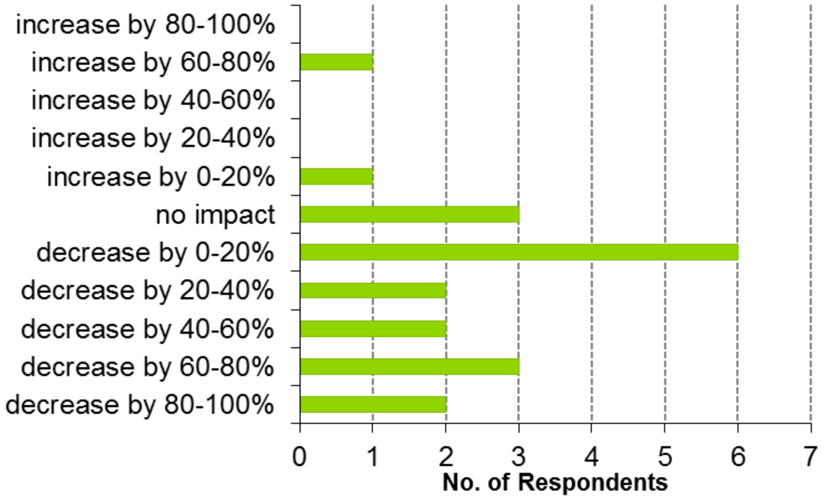
Respondent opinion on the impact of the removal of the distance sales threshold and small consignment exemption, the introduction of a common VAT threshold, and introducing the SEM on the internal cost of VAT registration for all companies[106]*.*



[105] Q20, Q21, Q22, Q23.
[106] Q24.

Furthermore, respondents indicated that they expect this change to decrease their outsourcing costs[107] incurred on registering for VAT purposes in other EU countries. A significant majority found that this change would decrease their costs by 0-20%.

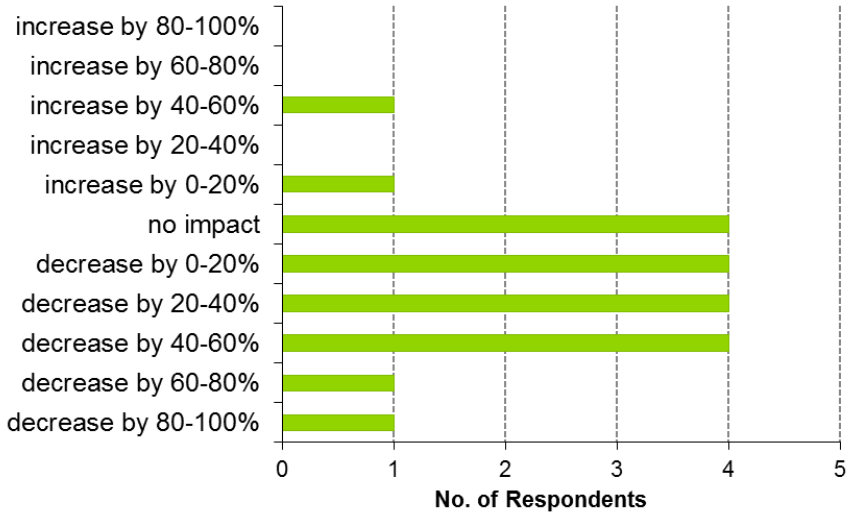
Respondent opinion on the impact of the removal of the distance sales threshold and small consignment exemption, the introduction of a common VAT threshold, and introducing the SEM on the outsourcing costs of VAT registration for all companies[108]



Regarding the submission of VAT declarations and returns, businesses were also asked their opinion on the expected impacts of this change on the internal costs for submitting VAT declarations/returns to other EU countries. Overall, the majority of respondents indicated that this Option would decrease their costs for VAT declarations/returns. The degree of reduction varies significantly among respondents.

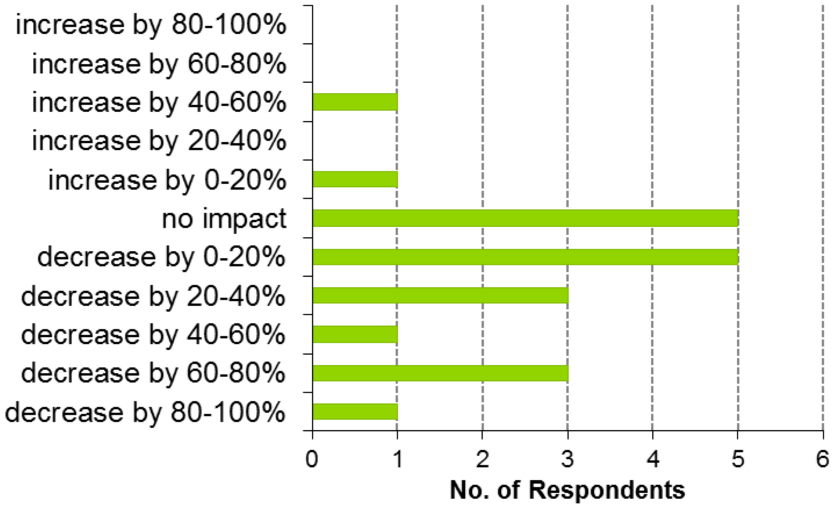
[107] e,g. external counselling or advisors
[108] Q25.

Respondent opinion on the impact of the removal of the distance sales threshold and small consignment exemption, the introduction of a common VAT threshold, and introducing the SEM on the internal cost of VAT declarations/returns for all companies[109].



Regarding outsourcing costs for submitting VAT declarations/returns to other EU countries, the majority of respondents also found that costs would be reduced.

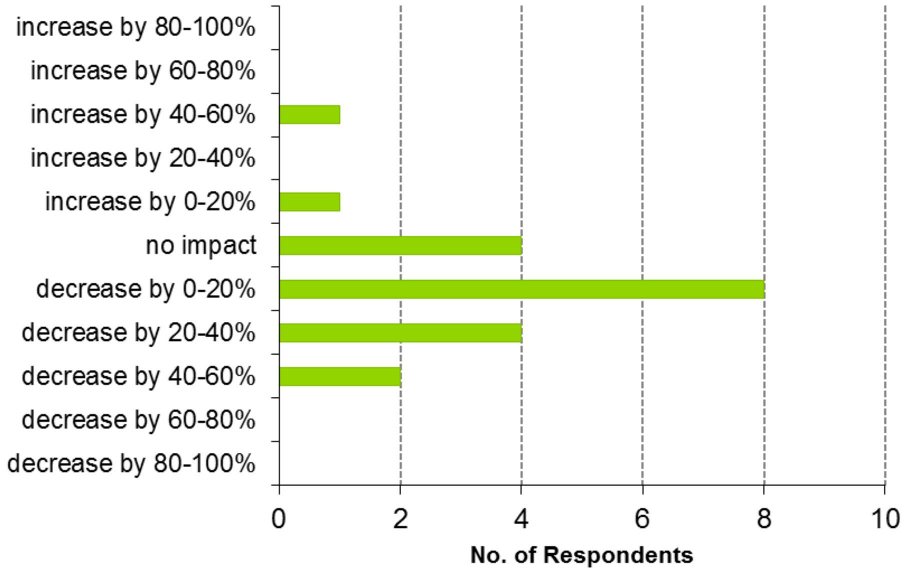
Respondent opinion on the impact of the removal of the distance sales threshold and small consignment exemption, the introduction of a common VAT threshold, and introducing the SEM on the external cost of VAT declarations/returns for all companies[110].



[109] Q26.
[110] Q27.

Respondents were also asked to indicate the impact they expect from this change with regard to the payment of VAT to other EU countries (Q28). Overall, the majority of respondents believe that this change would decrease their costs. The most popular degree of reduction was 0-20%.

Respondent opinion on the impact of the removal of the distance sales threshold and small consignment exemption, the introduction of a common VAT threshold, and introducing the SEM on the cost of payment of VAT to other EU countries[111]



Functioning of the SEM

Home country Rules

Respondents were asked to indicate their opinion regarding the proposed changes that form part of Policy Option 5 i.e. removal of the existing small consignment exemption and distance selling thresholds, the introduction of a new type of cross-border exemption threshold, the introduction of the SEM and the Option of particular rules for the functioning of the SEM. One Option includes adopting the principle of 'home country' rules (the introduction of EU rules is considered in the paragraph below). This would allow EU and non-EU supplier/third party can apply rules of their country of establishment/registration regarding the supplies declared in SEM ('home country' rules). The rules may include invoicing, chargeability, evidence, cash accounting, bad debt relief, audit and penalties. The only 'external' rule would be the rate of VAT which would be set at the MSC. Respondents were provided with an envisaged structure for the Option which was supplemented by an examples for both intra-EU sales and imports.

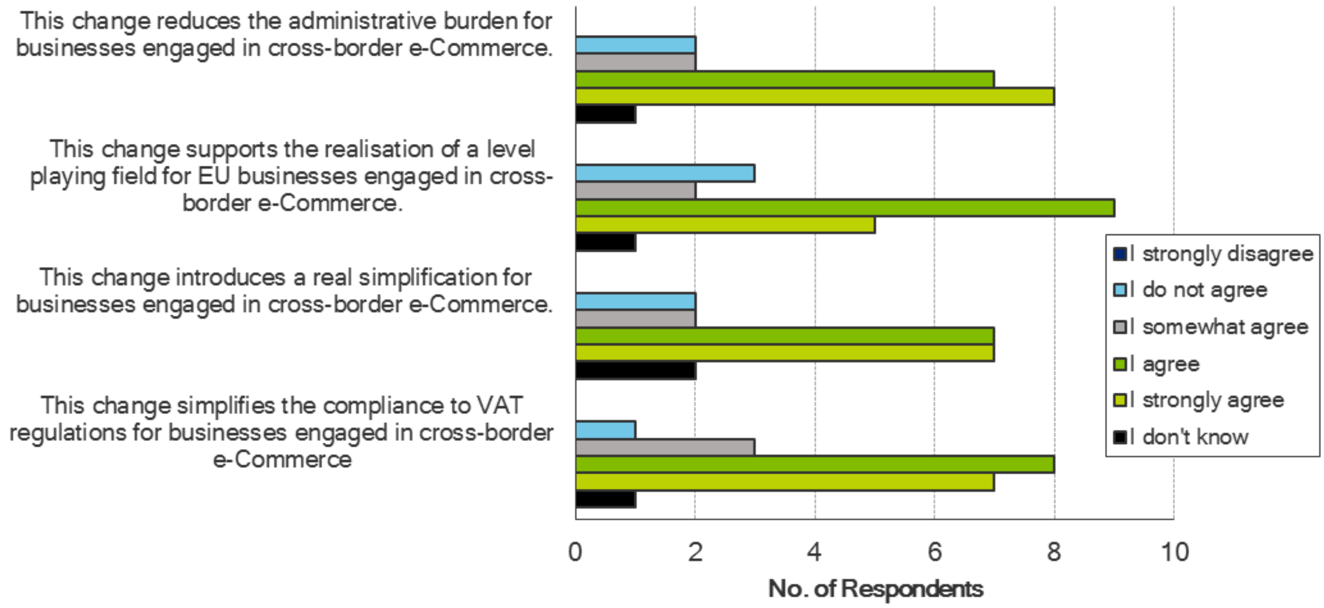
The results show that the majority of the respondents generally believe that the introduction of this change would have positive impacts when compared with the current situation. The figure below illustrates the level of agreement respondents have with statements on:

[111] Q28.

- The simplification of compliance to VAT regulations;
- The simplification for micro enterprises and start-up e-Commerce businesses;
- The support micro enterprises and start-up e-Commerce businesses;
- The realisation of a level playing field for EU businesses engaged in cross-border e-Commerce; and
- The reduction of the administrative burden for businesses engaged in cross-border e-Commerce.

It can be noted from the figure below that no respondent strongly disagreed with any of the statements. Likewise, only a small minority disagreed with each statement.

Respondent opinion on allowing home country rules for the SEM and applying VAT rate of the MSC[112]



EU common rules

Respondents were asked to indicate their opinion regarding the proposed changes that form part of Policy Option 6 i.e. removal of the existing small consignment exemption and distance selling thresholds, the introduction of a new type of cross-border exemption threshold, the introduction of the SEM and the Option of one set of common EU rules for the functioning of the SEM. This would allow EU and non-EU supplier/third party can apply a common set of rules regarding invoicing, chargeability, evidence, cash accounting, bad debt relief, audit and penalties. The only 'external' rule would be the rate of VAT which would be set at the MSC. Respondents were provided with an envisaged structure for the Option which was supplemented by an examples for both intra-EU sales and imports.

The results show an overwhelming positive reaction to this policy change. The majority of respondents generally believe that the introduction of this change would have positive impacts when compared with the current situation. The figure below illustrates the level of agreement respondents have with statements on:

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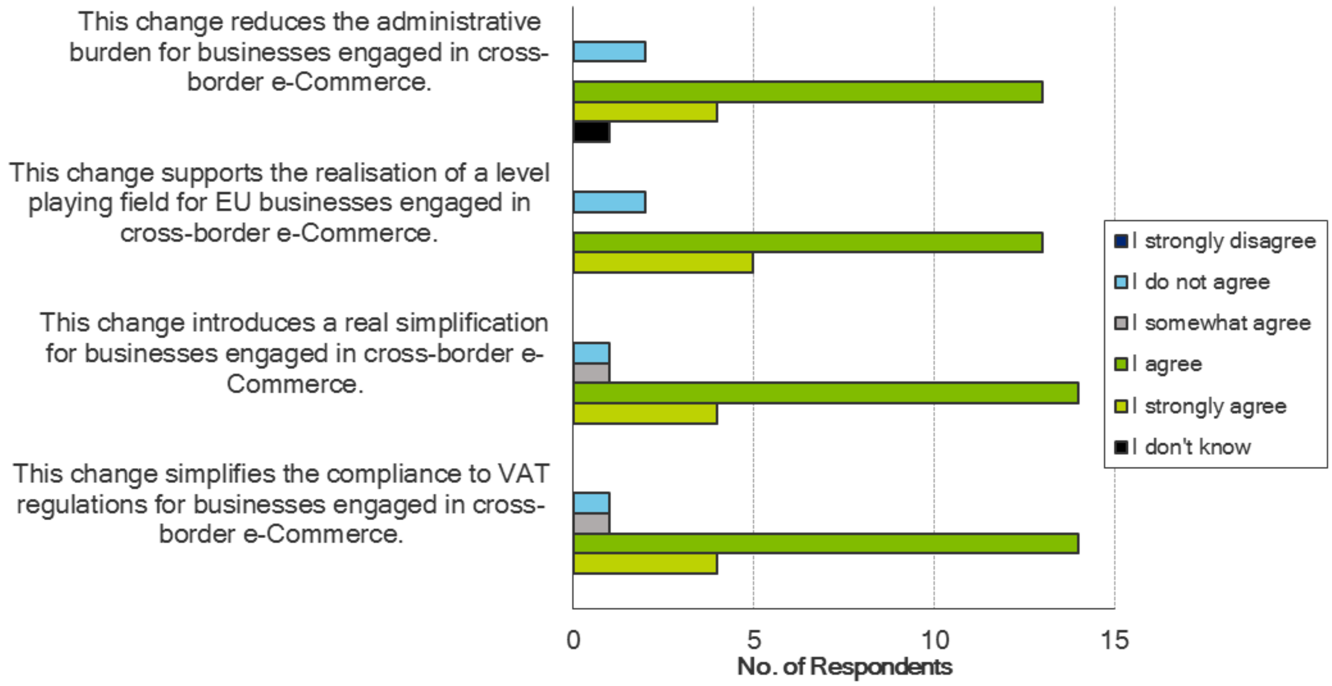
[112] Q29, Q30, Q31, Q32.

- The simplification of compliance to VAT regulations;
- The simplification for micro enterprises and start-up e-Commerce businesses;
- The support micro enterprises and start-up e-Commerce businesses;
- The realisation of a level playing field for EU businesses engaged in cross-border e-Commerce; and
- The reduction of the administrative burden for businesses engaged in cross-border e-Commerce.

It can be noted from the figure below that no respondent strongly disagreed with any of the statements. Likewise, only a small minority disagreed with each statement.

Respondent opinion on introducing commune EU rules for the SEM and applying VAT rate of the MSC[113]

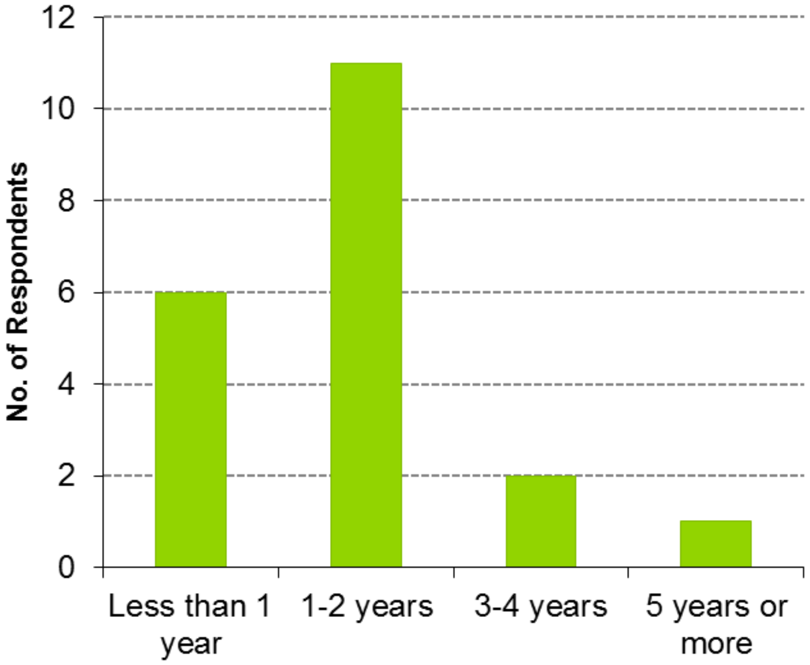


Final questions

In addition to seeking reactions on the proposed Policy Options, the survey also asked for an indication on the length of time required by businesses for the preparation and implementation of the changes (Q37). Out of the 20 respondents who answered this question, just over half indicated that businesses would need 1-2 years from the approval of the changes to prepare and implement the changes. 6 respondents indicated that it would take less than 1 year and only 3 indicated that it would take over 3 years.

[113] Q33, Q34, Q25, Q36.

Respondent opinion on time needed for preparation and implementation of policy changes[114]



AS a final input, respondents were asked to mention any other key elements they would like to be taken into account during this study (and that were not mentioned in the survey). The responses received for this question (Q38) were quite varied. The table below contains the feedback received from the 7 respondents who answered.

Business survey: other key elements

Responses to Question 38 - Do you think there are some key elements that the changes discussed earlier do not consider? Which one(s)?
information, support from national tax offices
Two main points to note. Firstly, the possibility of a 'per country' EU VAT exemption threshold - while I support the principle of a common EU VAT exemption threshold (at, for argument's sake EUR 56,000), a per country threshold of EUR 2,000 would achieve a similar aim while being less prone to abuse. Second, I have some concerns around the practicalities of the proposals for collection of tax on low value imports - I am not entirely clear on how it is envisaged that this would work, what the costs of tax collection would be and whether it would be proportionate to the tax collected.
Input tax recovery
What I didn't see is anything to consider what happens when a business registered for VAT in one

[114] Q27.

Responses to Question 38 - Do you think there are some key elements that the changes discussed earlier do not consider? Which one(s)?
country chooses to hold stock in other countries - if the destination principle is adopted for determining the amount of VAT, it should not be necessary to obtain extra VAT registrations just because some stock is stored physically in the market by a business that otherwise considers itself a CBT operator.
outsourcing contracts; Education/Training to be provided for updated changes
It's worth pointing out that the existing rules for goods actually motivated me to avoid selling anything that could be considered a good. e.g. CDs containing my company's products, promotional items (T-shirts, mugs etc.). Had the SEM, in particular, existed, I might have considered doing so. Also, the 28 sets of invoicing rules thing is completely unworkable; I think it unlikely any business will comply with that — indeed, I'd go as far as to say you'll end up with a de facto home country rules situation, with updated invoices issued manually if/when there is a complaint about a technicality.
Only one unified set of rules can simplify e-business - everything else is juts hot air.

Online survey to businesses

Introductory note

Within the context of our study for the European Commission of VAT and e-Commerce, we have conducted some preliminary analysis of the current VAT regime for e-Commerce and the burden it imposes to businesses.

In this survey we present some of the key elements of the policy changes the Commission may introduce to promote a simple, efficient and robust VAT system, reduce the burden on businesses and realise the Digital Single Market.

We would appreciate your opinions on the possible policy changes prospected. The results of the survey will be presented and discussed during the Fiscalis Seminar to be held in Dublin on September which you have been invited to attend.

Participation in the survey should not take more than 15 minutes.

Please provide us with your feedback by **Friday 28th of August**.

In case of questions, please do not hesitate to contact us at the following address: cdekempeneer@deloitte.com.

CONFIDENTIALITY GUARANTEE: In line with common evaluation practices, and in accordance with the Belgian Law of 11 December 1998 implementing Directive 95/46 on Privacy Protection in relation to the Processing of Personal Data, the content of your completed questionnaire will remain strictly confidential and the questionnaire will not be disclosed by Deloitte to third parties. During the survey, individual answers to the questionnaires are hosted on the server of the web-survey provider. Final results will be presented in aggregate form only.

Profile of respondents

*Questions marked with * are mandatory*

1. What is the size of your enterprise[115]? *
   a. Micro enterprise (i.e. less than 10 employees and turnover or balance sheet below or equal to 2 million EUR)
   b. Small enterprise (i.e. less than 50 employees and turnover or balance sheet below or equal to 50 million EUR)
   c. Medium-sized enterprise (i.e. less than 250 employees and turnover below or equal to 50 million EUR and or balance sheet below or equal to 43 million EUR)
   d. Large enterprise (i.e. more than 250 employees and turnover above 50 million EUR)

2. What is your country of establishment? *

3. In how many European countries are you registered for VAT purposes? (in addition to your home country) *

4. Does your company supply via e-Commerce:
   a. Goods only
   b. Services only
   c. Goods and services

5. If providing TBE services (Telecommunication, Broadcasting and Electronic Services), are you registered with the Mini One-Shop-Shop MOSS? *
   a. Yes
   b. No

6. If no, why you have decided not to use the MOSS even if you qualify for it?
   a. I preferred direct VAT registration
   b. I could not register (e.g. registration refused or revoked by tax authorities)
   c. I was not sure about the functioning or implications of MOSS (‘wait and see’)
   d. I was not aware of it
   e. Other (please specify)

[115] Definitions from

7. What was the turnover from e-Commerce for your company (including both goods and services) in the last fiscal year as a percentage of the total turnover? *

8. What is the name of your enterprise?

Policy changes

Introduction to policy changes

Here we present the key elements of the policy changes the Commission may introduce.

The changes are presented in a progressive order, so that each of them builds upon the previous one (unless specified otherwise).

Key elements of Policy Options

Removal of the distance sales threshold and of the small consignment exemption

The Commission may propose policy changes, which remove the distance sales thresholds for intra-EU sales of goods and the small consignment exemption (for imports from third countries of low value commercial consignments under EUR 10-22). Therefore, all intra-EU cross-border B2C sales of goods may become taxed in the MS of destination (at a VAT rate applicable in that MS) notwithstanding the value of supply or the extent of sales by the supplier in that MS.

9. What is your opinion on such a policy change (in absence of any accompanying simplification measures)? *
    a. It will mostly improve the current situation (e.g. by reducing distortion of competition and tax fraud or by simplifying the system)
    b. It will mostly worsen the current situation (e.g. by increasing the complexity, non-compliance or administrative burden)
    c. It will have no impact

Introduction of a common VAT threshold for EU sales of both goods and services

As part of the changes to the regime of VAT for cross-border e-Commerce, the Commission may propose a new common VAT threshold for intra-EU sales of both goods and services. This threshold would come in addition to the existing domestic VAT registration thresholds (currently between EUR 0 and EUR 114 000 depending on the Member State).

This change removes the existing small consignment exemption and distance selling thresholds, but introduces a new type of cross-border exemption threshold, aimed to provide a simplification to businesses having incidental or low value cross border sales (mainly micro-businesses).

Envisaged Structure:

- The threshold is based on the total amount of annual B2C cross-border sales of goods and services;
- The threshold provides an exemption to the cross-border supplies below threshold to suppliers who are not registered for VAT in the MS of establishment;
- The threshold applies in addition to the domestic VAT registration threshold;

- The cross-border supplies below the threshold (for monitoring the threshold) will be identified in a simplified way, e.g. based on the residence declared by the customer;
- Threshold does not apply to imports and exports or B2B sales;
- Threshold is Optional for businesses;
- If the supplier is VAT registered regarding their domestic supplies, then sales below the threshold will be treated for VAT following the VAT treatment in the MS of establishment, i.e. part of domestic taxable supplies.

Examples:

Intra-EU sales

Companies A, B and C are established in EU country X with a domestic VAT registration threshold of 100 000 EUR. There is an EU exemption threshold of 10 000 EUR for cross-border B2C supplies of goods and services.

- Company A has a domestic turnover of 90 000 EUR and a cross-border turnover of 8 000 EUR.
  - Company A benefits from the domestic threshold: it is not registered for VAT and does not charge VAT in country X regarding its domestic supplies.
  - Company A also benefits from the EU exemption threshold: it does not have to charge VAT on its cross-border B2C supplies.
- Company B has a domestic turnover of 105 000 EUR and a cross-border turnover of 8 000 EUR.
  - Company B does not benefit from the domestic threshold: it is registered for VAT and pays VAT on its domestic supplies.
  - Company B benefits from the EU exemption threshold: it does not have to charge VAT on its cross-border B2C supplies.
- Company C has a domestic turnover of 105 000 EUR and a cross-border turnover of 15 000 EUR.
  - Company C does not benefit from the domestic threshold: it is registered for VAT and pays VAT on its domestic supplies.
  - Company C does not benefit from the EU exemption threshold either: it must register for VAT in the Member State(s) of destination of its cross-border supplies, charge VAT on its supplies at the correct VAT rate of the Member State(s) of destination, declare and pay VAT in the Member State(s) of destination, and apply other relevant rules of the Member State(s) of destination (invoicing, chargeability, auditing etc.).

Imports

Company D supplies goods from a non-EU country to the EU.

- VAT is applied at the rate of the Member State(s) of import to all consignments notwithstanding their value
- VAT is paid by the postal operator/courier or by the customer (e.g. via a broker)

In the following questions, please answer by comparing the policy change suggested (i.e. the removal of the distance sales threshold and small consignment exemption and the introduction of common VAT threshold) with the current situation.

10. This change simplifies the compliance to VAT regulations at EU and national level.

1 I strongly	2 I do not agree	3 I somewhat	4 I agree	5 I strongly agree	6 I don't know

disagree		agree			

11. This change introduces a real simplification for micro enterprises and start-up e-Commerce businesses.

1 I strongly disagree	2 I do not agree	3 I somewhat agree	4 I agree	5 I strongly agree	6 I don't know

12. This threshold is the most appropriate measure to support micro enterprises and start-up e-Commerce businesses.

1 I strongly disagree	2 I do not agree	3 I somewhat agree	4 I agree	5 I strongly agree	6 I don't know

13. This change supports the realisation of a level playing field for EU businesses engaged in cross-border e-Commerce. *

1 I strongly disagree	2 I do not agree	3 I somewhat agree	4 I agree	5 I strongly agree	6 I don't know

14. This change reduces the administrative burden for businesses engaged in cross-border e-Commerce. *

1 I strongly disagree	2 I do not agree	3 I somewhat agree	4 I agree	5 I strongly agree	6 I don't know

Impacts on administrative burden

With regard to administrative burden, three tasks have been identified as particularly burdensome for businesses, namely VAT registration, submission of VAT declarations/returns and payment of VAT. Here we focus on the (expected) impact of this policy change on these tasks.

In the following questions, please answer by comparing the policy change suggested (i.e. the removal of the distance sales threshold and small consignment exemption and the introduction of common VAT threshold) with the current situation.

VAT registration

15. Do you think this change will have an impact on the internal costs micro-businesses and start-up companies incur for registering for VAT purposes in other EU countries? * (please consider the costs per **one** registration of average complexity)

In will decrease internal costs	No impact	It will increase internal costs

80-100%	60-80%	40-60%	20-40%	0-20%	0%	0-20%	20-40%	40-60%	60-80%	80-100%

16. Do you think this change will have an impact on the outsourcing costs (e,g, external counselling or advisors) micro-businesses and start-up companies incur for registering for VAT purposes in other EU countries? * (please consider the costs per **one** registration of average complexity)

In will decrease internal costs					No impact	It will increase internal costs				
80-100%	60-80%	40-60%	20-40%	0-20%	0%	0-20%	20-40%	40-60%	60-80%	80-100%

Submission of VAT declarations/returns

17. Do you think this change will have an impact on the internal costs micro-businesses and start-up companies incur for submitting VAT declarations/returns in other EU countries? * (please consider the costs per **one** submission of average complexity)

In will decrease internal costs					No impact	It will increase internal costs				
80-100%	60-80%	40-60%	20-40%	0-20%	0%	0-20%	20-40%	40-60%	60-80%	80-100%

18. Do you think this change will have an impact on the outsourcing costs (e,g, external counselling or advisors) micro-businesses and start-up companies incur submitting VAT declarations/returns in other EU countries? * (please consider the costs per **one** submission of average complexity)

In will decrease outsourcing costs					No impact	It will increase outsourcing costs				
80-100%	60-80%	40-60%	20-40%	0-20%	0%	0-20%	20-40%	40-60%	60-80%	80-100%

Payment of VAT

19. Do you think this change will have an impact on the internal costs micro-businesses and start-up companies incur for registering for VAT purposes in other EU countries? * (please consider the costs per **one** payment of average complexity)

In will decrease internal costs					No impact	It will increase internal costs				
80-100%	60-80%	40-60%	20-40%	0-20%	0%	0-20%	20-40%	40-60%	60-80%	80-100%

Introduction of a Single Electronic registration and payment Mechanism (SEM)

As part of the changes to the regime of VAT for cross-border e-Commerce, the Commission may propose a **single electronic registration and payment mechanism (SEM),** which would be applicable to:

- Importation of low value goods up to the existing Customs threshold of €150

- Intra-EU B2C supplies of goods; and

  Intra-EU B2C services not currently covered by the MOSS (e.g. locally taxed services provided by non-resident supplier).

If you are already registered for MOSS, intra-EU supplies of goods and other type of services will now be included. The SEM would not change the applicable VAT rate or the other rules (invoicing, auditing etc.), which would continue to follow the legislation of the Member State of destination/customer residence.

The Option will provide also Optional alternative Customs simplifications for B2C imports under the Customs threshold of €150:

- Non-EU vendor registration and collection with VAT reporting and payment through the SEM;
- Third party collection (postal operator/courier, marketplace on behalf of non-EU vendor) with VAT reporting and payment through the SEM;
- Simplified standard Customs procedure *without* reporting through the SEM when reporting an import at the standard VAT rate

Examples:

Intra-EU sales

- Companies A, B and C are established in EU country X with a domestic VAT registration threshold of 100 000 EUR. There is an EU exemption threshold of 10 000 EUR for cross-border B2C supplies of goods and services.
    - Company A has a domestic turnover of 90 000 EUR and a cross-border turnover of 8 000 EUR.
        - Company A benefits from the domestic threshold: it is not registered for VAT and does not charge VAT in country X regarding its domestic supplies.
        - Company A also benefits from the EU exemption threshold: it does not have to charge VAT on its cross-border B2C supplies.
    - Company B has a domestic turnover of 105 000 EUR and a cross-border turnover of 8 000 EUR.
        - Company B does not benefit from the domestic threshold: it is registered for VAT and pays VAT on its domestic supplies.
        - Company B benefits from the EU exemption threshold: it does not have to charge VAT on its cross-border B2C supplies.
    - Company C has a domestic turnover of 105 000 EUR and a cross-border turnover of 15 000 EUR.
        - Company C does not benefit from the domestic threshold: it is registered for VAT and pays VAT on its domestic supplies.
        - Company C does not benefit from the EU exemption threshold either: it must charge VAT on its supplies at the correct VAT rate of the Member State(s) of destination.
        - If company C opts for using the single electronic registration and payment system (SEM), it can:
            - register for SEM in its Member State of establishment;
            - declare relevant supplies quarterly via the SEM portal; and
            - pay VAT via the SEM portal; but it must still
            - apply the relevant rules of the Member State(s) of destination (invoicing, chargeability, auditing etc.).
        - If company C does not opt for using the SEM, it must:

- register for VAT in the Member State(s) of destination of its cross-border supplies;
- declare and pay VAT in the Member State(s) of destination; and
- apply other relevant rules of the Member State(s) of destination (invoicing, chargeability, auditing etc.).

Imports

- Company D supplies goods from a non-EU country to the EU.
  - VAT is applied at the rate of the Member State(s) of import to all consignments notwithstanding their value
  - For imports under the Customs threshold of 150 EUR, three alternative simplifications are available for company D:
    - Company D can register for the SEM itself in an EU Member State of its choice, and report and pay the VAT through the SEM.
    - Company D can request a third party (e.g. postal operator, courier, online marketplace) to register for the SEM on its behalf. The third party reports and pays the VAT through the SEM.
    - Company D can decide not to opt for reporting through the SEM. In this case, a simplified Customs declaration is available provided that VAT is paid on a general tariff code and standard VAT rate.

In the following questions, please answer by comparing the policy change suggested (i.e. the introduction of a single electronic registration and payment mechanism – the SEM – with the removal of the distance sales threshold and small consignment exemption and a common VAT threshold for micro-businesses) with the current situation.

Please state to what extent you agree with the following statement (1=strongly disagree, 5=strongly agree):

20. This change simplifies the identification of the correct VAT rate to apply to e-Commerce transactions. *

1 I strongly disagree	2 I do not agree	3 I somewhat agree	4 I agree	5 I strongly agree	6 I don't know

21. This change simplifies the compliance with VAT regulations at EU and national level.

1 I strongly disagree	2 I do not agree	3 I somewhat agree	4 I agree	5 I strongly agree	6 I don't know

22. This change supports the realisation of a level playing field for EU businesses engaged in cross-border e-Commerce. *

1 I strongly disagree	2 I do not agree	3 I somewhat agree	4 I agree	5 I strongly agree	6 I don't know

23. This change reduces the administrative burden for businesses engaged in cross-border e-Commerce. *

1 I strongly disagree	2 I do not agree	3 I somewhat agree	4 I agree	5 I strongly agree	6 I don't know

Impacts on administrative burden

With regard to administrative burden, three tasks have been identified as particularly burdensome for businesses, namely VAT registration, submission of VAT declarations/returns and payment of VAT. Here we focus on the (expected) impact of this policy change on these tasks.

In the following questions, please answer by comparing the policy change suggested (i.e. the introduction of a single electronic registration and payment mechanism – the SEM – with the removal of the distance sales threshold and small consignment exemption and a common VAT threshold for micro-businesses) with the current situation.

VAT registration

24. Do you think this change will have an impact on the internal costs businesses like yours incur on registering for VAT purposes regarding their cross-border sales to other EU countries? * (please consider the costs per **one** registration of average complexity)

In will decrease internal costs					No impact	It will increase internal costs				
80-100%	60-80%	40-60%	20-40%	0-20%	0%	0-20%	20-40%	40-60%	60-80%	80-100%

25. Do you think this change will have an impact on the outsourcing costs (e,g. external counselling or advisors) businesses like yours incur on registering for VAT purposes in other EU countries? * (please consider the costs per **one** registration of average complexity

In will decrease outsourcing costs					No impact	It will increase outsourcing costs				
80-100%	60-80%	40-60%	20-40%	0-20%	0%	0-20%	20-40%	40-60%	60-80%	80-100%

Submission of VAT declarations/returns

26. Do you think this change will have an impact on the internal costs businesses like yours incur on submitting VAT declarations/returns to other EU countries? * (please consider the costs per **one** submission of average complexity)

In will decrease internal costs					No impact	It will increase internal costs				
80-100%	60-80%	40-60%	20-40%	0-20%	0%	0-20%	20-40%	40-60%	60-80%	80-100%

27. Do you think this change will have an impact on the outsourcing costs (e.g. external counselling or advisors businesses like yours incur submitting VAT declarations/returns to other EU countries? * (please consider the costs per **one** submission) of average complexity)

In will decrease outsourcing costs					No impact	It will increase outsourcing costs				
80-100%	60-80%	40-60%	20-40%	0-20%	0%	0-20%	20-40%	40-60%	60-80%	80-100%

Payment of VAT

28. Do you think this change will have an impact on the internal costs businesses like yours incur on payment of VAT to other EU countries? * (please consider the costs per **one** payment of average complexity)

In will decrease internal costs					No impact	It will increase internal costs				
80-100%	60-80%	40-60%	20-40%	0-20%	0%	0-20%	20-40%	40-60%	60-80%	80-100%

Functioning of the SEM

As part of the changes to the regime of VAT for cross-border e-Commerce, the Commission could opt for having businesses subject to a single set of principles and rules for the SEM, instead of the rules of all the 27 (potential) MS of destination.

Envisaged Structure:

- EU supplier can use SEM for all its intra-EU cross-border B2C supplies;
- Non-EU supplier/third party can use SEM for B2C imports under Customs threshold of 150 EUR;
- Both EU and non-EU supplier/third party can apply a single set of principles and rules regarding the supplies declared in SEM. The rules may include invoicing, chargeability, evidence, cash accounting, bad debt relief, audit and penalties;
- The VAT rates and exemptions of the MSC continue to apply;
- The single set of principles and rules can be applied only on the supplies declared in SEM, all other supplies (e.g. B2B or B2C if supplier is established in the MSC) will continue to follow the current rules (mostly the rules of MSC).

Home country rules

In this context (the SEM with the removal of the distance sales threshold and small consignment exemption and a common VAT threshold for micro-businesses), the Commission may decide to adopt the principle of 'home country' rules. In this way, EU and non-EU supplier/third party can apply rules of their country of establishment/registration regarding the supplies declared in SEM ('home country' rules). The rules may include invoicing, chargeability, evidence, cash accounting, bad debt relief, audit and penalties.

Please state to what extent you agree with the following statement (1=strongly disagree, 5=strongly agree):

29. This change simplifies the compliance to VAT regulations for businesses engaged in cross-border e-Commerce

1 I strongly disagree	2 I do not agree	3 I somewhat agree	4 I agree	5 I strongly agree	6 I don't know

30. This change introduces a real simplification for businesses engaged in cross-border e-Commerce. *

1 I strongly disagree	2 I do not agree	3 I somewhat agree	4 I agree	5 I strongly agree	6 I don't know

31. This change supports the realisation of a level playing field for EU businesses engaged in cross-border e-Commerce. *

1 I strongly disagree	2 I do not agree	3 I somewhat agree	4 I agree	5 I strongly agree	6 I don't know

32. This change reduces the administrative burden for businesses engaged in cross-border e-Commerce. *

1 I strongly disagree	2 I do not agree	3 I somewhat agree	4 I agree	5 I strongly agree	6 I don't know

EU common rules

In this context (the SEM with the removal of the distance sales threshold and small consignment exemption and a common VAT threshold for micro-businesses), the Commission may decide to adopt a common European set of rules, that would apply across all Member States. In this way, EU and non-EU supplier/third party can apply common European set of rules for the supplies declared in SEM. The rules may include invoicing, chargeability, evidence, cash accounting, bad debt relief, audit and penalties

Please state to what extent you agree with the following statement (1=strongly disagree, 5=strongly agree):

33. This change simplifies the compliance to VAT regulations for businesses engaged in cross-border e-Commerce

1 I strongly disagree	2 I do not agree	3 I somewhat agree	4 I agree	5 I strongly agree	6 I don't know

34. This change introduces a real simplification for businesses engaged in cross-border e-Commerce. *

1	2	3	4	5	6

I strongly disagree	I do not agree	I somewhat agree	I agree	I strongly agree	I don't know

35. This change supports the realisation of a level playing field for EU businesses engaged in cross-border e-Commerce. *

1 I strongly disagree	2 I do not agree	3 I somewhat agree	4 I agree	5 I strongly agree	6 I don't know

36. This change reduces the administrative burden for businesses engaged in cross-border e-Commerce. *

1 I strongly disagree	2 I do not agree	3 I somewhat agree	4 I agree	5 I strongly agree	6 I don't know

Final questions

37. , How long do you think businesses will need (from the approval of the changes) for the preparation and implementation of the changes?
    a. Less than 1 years
    b. 1-2 years
    c. 3-4 years
    d. 5 years or more

38. Do you think there are some key elements that the changes discussed earlier do not consider? Which one(s)?

Open text response

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Annex 4: Methodological note

This annex presents the key assumptions and data used to assess the impacts of the policy options to modernise the VAT framework for B2C e-Commerce transactions. It provides detailed explanations of the sources used, the assumptions made and their basis.

Introduction

This annex presents the general and option-specific assumptions that we adopted to assess the impacts of the policy options to modernise the VAT framework for B2C e-Commerce transactions.

The **general assumptions** include the following:

1. Number of businesses and micro-businesses, and their share of e-Commerce revenues/turnover;
2. Standard Cost Model;
3. Timeline used for the assessment;
4. Growth rates used in the model.

The assumptions for **Option1** include the following:

5. Compliance;
6. MOSS running costs for Member States;
7. Processing costs for couriers and postal operators;

The assumptions for **Option2** include the following:

8. Member States' VAT revenues from imports;
9. Processing costs for couriers and postal operators;
10. Impact on prices due to the removal of the small-consignments exemption.

The assumptions for **Option3** include the following:

11. Impacts of thresholds on businesses:
    - Number of businesses/volume of trade below the threshold;
    - Number of businesses/volume of trade below the threshold;
12. Member States' VAT revenues from imports;

The assumptions for **Option4** include the following:

13. Take-up of SEM:
    - Number of businesses/volume of trade below the threshold;
    - Number of businesses/volume of trade above the threshold and in the SEM;
    - Number of businesses/volume of trade above the threshold and outside the SEM;
14. Processing costs for couriers and postal operators: processing costs in and outside the SEM;
15. Member States' VAT revenues from imports;
16. Impact on prices due to the removal of the small consignments VAT exemption.

The assumptions for **Option5 and 6** include the following:

17. Reduction of administrative costs for businesses

For each of the assumption, we provide short description and the indication of where it is used (e.g. in which option(s) and for which element(s) of the option(s). We also list the main data sources and the key hypotheses and scenarios adopted. Finally, we present the implications of the assumption, include the key figures of the options' assessment descending from the assumption.

General assumptions

Assumption 1 – Number of businesses and micro-businesses

Along with the qualitative analysis, this report also aims to quantify the impact of the Policy Options on businesses, government revenues and the single market.

The Policy Options under consideration will affect businesses, and in turn the e-Commerce market and the wider economy, in a number of ways:

- **Fixed administrative costs:** the proposed Policy Options will have a direct impact on the overall administrative burden associated with the fixed costs of VAT compliance. This change in the overall burden is due to both changes in the number of businesses required to register and to changes in the costs associated with VAT registration and compliance. In turn, changes in the administrative burden facing firms may be passed on to consumers through changes in prices. This effect could work in both directions: businesses currently incurring administrative costs associated with VAT registration may see these costs decrease with the simplification of the system; smaller firms that are not required to register for VAT cross-border may experience an increase in administrative costs. The overall effect on administrative costs, prices, and hence consumer demand, is therefore ambiguous.

- **Variable administrative costs:** other aspects of the Policy Options, notably the removal of the small consignments exemption, may affect the variable administrative costs associated with non-EU cross-border e-Commerce. Research suggests that these costs are currently lower for sales that fall below the EUR 10-22 threshold. Eliminating this exemption would therefore increase administrative costs on these transactions and this may be passed on to consumers in the form of higher prices; these effects may be mitigated by allowing these transactions to be processed through the SEM. However, by creating a level playing field between EU and non-EU businesses this policy change could also enable EU businesses to compete more effectively against non-EU imports, potentially leading to an increase in demand for domestic and EU online purchases.

- **Average VAT rate on e-Commerce imports:** the other effect of the removal of the small consignments exemption is to increase the proportion of online imports that are subject to VAT. This in turn will increase the average VAT rate paid on imports and thereby ensure that non-EU suppliers do not have a tax advantage over EU businesses. This would tend to reduce demand for non-EU imports with consumers instead buying from domestic or EU suppliers. The extent to which this change is reflected in the prices facing consumers and leads to a change in purchasing behaviour will depend on the level of compliance and whether the increase in VAT is fully passed through to consumers or absorbed by businesses.

- **Supply of cross-border e-Commerce:** the removal or reduction of the current VAT exemption thresholds may discourage some micro-businesses from trading cross-border. In particular, it is assumed that those businesses for which the administrative burden exceeds their revenues from e-Commerce would either be non-compliant or would cease to trade cross-border. This would be expected to have a direct impact on supply of cross-border e-Commerce.

Estimation of the number of businesses engaged in cross-border e-Commerce

In order to estimate the impact of the policy options on the overall administrative burden, it is important to understand the number of businesses that may be affected by each of the policy options. This requires data on the number of businesses engaged in B2C cross-border e-Commerce. Collecting this data presents a number of challenges and therefore additional assumptions have had to be made in a number of areas. The key issues and proposed solutions are set out below; the details of the methodology used and the results are described in the subsequent subsections.

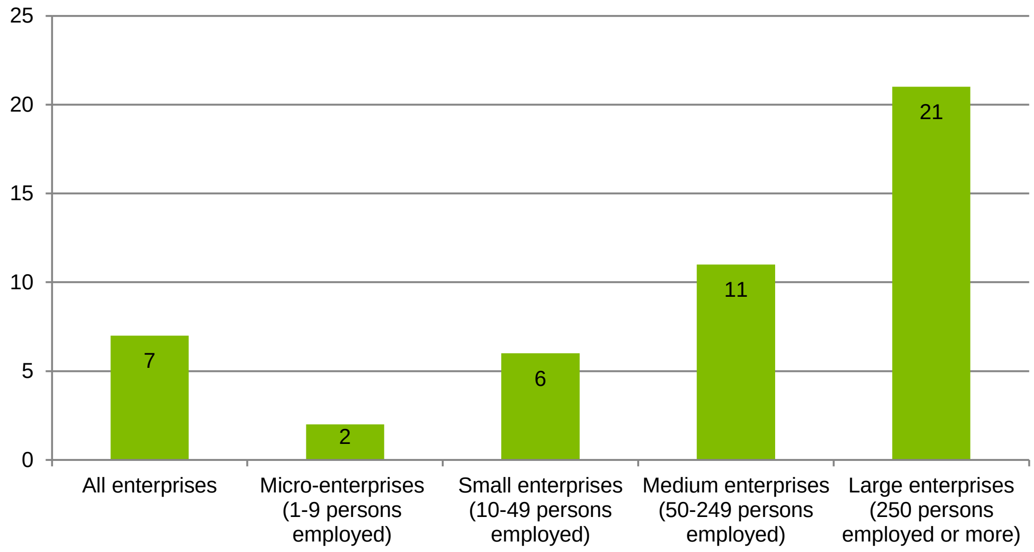
- Eurostat has some data on the proportion of businesses engaged in cross-border e-Commerce by size class (based on the number of employees). However, data on micro-businesses is only available for three countries.
  - Data from these three states is extrapolated to other EU Member States, as described below.
- Eurostat data does not distinguish between B2B and B2C trade, neither for the number of businesses operating in different sectors nor for the proportion of businesses of different sizes engaged in cross-border trade.
  - The former issue is likely to lead to an overstatement of the number of B2C sellers, since the data does not distinguish them from B2B sellers. However the second issue is expected to lead to understatement of the number (since sectors such as retail, travel and accommodation have higher levels of e-Commerce and are likely to be dominated by B2C sellers). Given the uncertainty about the net impact of these two effects and which effect might dominate, the numbers presented cover all businesses.
- Lastly, official data sources such as Eurostat may not account for the fact that a large proportion of cross-border online sellers may be individuals selling through sites such as Etsy, eBay and Amazon marketplace who would not be officially registered as businesses.
  - Data on the number of sellers in the EU is not made publicly available by marketplace providers. However indicative figures are available from other sources.

Further reviews of the data available through Eurostat and other sources have been undertaken in order to address these issues. However, there remains considerable level of uncertainty regarding the total number of businesses engaged in cross-border e-Commerce, particularly when the contribution of unregistered sellers trading through marketplace sites is considered.

The methodology and resulting estimates are described in more detail in subsequent sections.

Eurostat provides data on the proportion of businesses engaged in cross-border e-Commerce, by size class. These estimates of the proportion of firms trading cross-border are shown in the figure below, for the EU as a whole.

Figure 13 – Proportion of EU businesses selling online to other EU Member States, 2013



Source: Eurostat Information Society Statistics 2013, 2011

Data on the activity of small, medium and large enterprises is available for almost all EU Member States for 2013; the only exception is Germany, for which 2011 data is used.

However, data on e-Commerce by micro-enterprises – those with fewer than 10 employees – is only available for three countries: Spain, Portugal and Slovakia. Based on these three markets only, about 2% of micro-businesses are estimated to trade online cross-border. However, these countries have less developed e-Commerce markets than the EU average and therefore are not expected to be representative of the EU as a whole. This issue is addressed as follows:

- The proportion of micro-businesses trading cross-border is compared to the average share of enterprises trading cross border: micro-businesses are estimated to be about 35% as likely to trade cross-border as the reported population average for larger firms in the three Member States for which data is available;
- This figure is then applied to the proportion of businesses trading online cross-border in **each Member State** in order to estimate the proportion of micro-businesses trading cross-border. For example, in Luxembourg 15% of businesses are estimated to trade online cross-border; this methodology would imply that about 5.3% of micro-businesses in Luxembourg are estimated to trade cross-border; in contrast, in Greece about 4% of businesses engage in cross-border e-Commerce, suggesting that about 1.4% of micro-businesses do so.
- Using this approach for each Member States and then calculating a weighted average across the EU as a whole, about 2.1% of EU micro-businesses are estimated to engage in cross-border e-Commerce.

In order to estimate the number of businesses engaged in cross-border e-Commerce, the percentage of businesses trading cross-border is multiplied by the number of firms in each size class. This is done for each Member State and the results are summed to derive the total EU figure. This is shown in the table below:

Table 127 – Number of EU businesses selling online to other EU Member States, 2013

	All enterprises	Micro enterprises (1-9 employees)	Small enterprises (10-49 employees)	Medium enterprises (50-249 employees)	Large enterprises (250 or more employees)
Proportion engaged in cross-border e-Commerce	2.50%	*2.14% (estimate)*	6%	11%	21%
Total number of businesses	22 346 729	20 717 621	1 361 935	223 585	43 590
Number of firms engaged in cross-border e-Commerce	557 908	442 444	81 716	24 594	9 154

Source: Eurostat Information Society Statistics, Structural Business Statistics 2013; Deloitte analysis

However, these figures are expected to exclude the smallest online cross-border sellers, which are generally invisible to authorities and not registered for VAT either domestically or cross-border. In particular, individuals or nano-businesses selling on sites such as Amazon marketplace, eBay or Etsy are unlikely to be reflected in these figures. In general very little data is available on the number or activities of these sellers, although some indicative estimates of the number of sellers can be obtained.

- Worldwide, 2 million sellers are estimated to sell through Amazon marketplace and 25 million through eBay[116].
- No data is available on the number of sellers in each region, but based on the contribution of the EU to revenues at each of these companies, EU-based sellers may make-up between 20-25% of sellers[117]. However, a large proportion of these sellers would not qualify as a business for VAT purposes under current rules (non-commercial, occasional sales).
- Similarly, there is little information on the proportion of sales that are cross-border. Information on leading Amazon marketplace sellers suggests that about 50% of businesses sell cross-border[118] while eBay have claimed that 95% of UK sellers export[119].

This suggests that within the EU up to 500,000 sellers may be active on Amazon marketplace and about 5 million on eBay. Caution should be applied to the estimates of the proportion of these sellers trading internationally, but if 50% of these sellers have exported to other markets then the total

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[116] Amazon Annual Report 2014; http://adage.com/article/digital/ebay-merchants-migrating-amazon-search-sales-growth/297935/
[117] Amazon Annual Reports 2013, 2014; Financial Times http://www.ft.com/cms/s/0/52f3767e-e428-11e3-8565-00144feabdc0.html#axzz3rprDzeVI; http://www.statista.com/statistics/266198/regional-distribution-of-ebays-annual-net-revenue/
[118] http://www.webretailer.com/lean-commerce/top-amazon-marketplace-sellers/
[119] http://www.ebay-mediacentre.co.uk/pressrelease/4091

number of cross-border sellers may exceed 2.5 million[120]. Even if this proportion is significantly lower, for example 20%, there may be in excess of 1 million individuals or businesses engaged in cross-border e-Commerce, but as said not necessarily qualifying as a business for VAT purposes.

While there is considerable uncertainty about this figure, in practice these businesses are unlikely to have a significant impact on the policy options. For the majority of the options considered, they would be mostly expected to fall below the new cross-border threshold and therefore would not be liable for VAT. Under Option2, they would be expected to register in each Member State in which they trade; in practice, there is expected to be significant levels of non-compliance and potentially some exit from the market. However this is not expected to have a significant impact on the value of the cross-border e-Commerce market.

Estimation of the e-Commerce revenues of EU businesses

In addition to the number of businesses engaged in cross-border e-Commerce, estimation of the impact of the policy change also requires information on the revenues (equivalently, turnover) of businesses of different sizes. This information on the distribution of revenues is needed for two reasons:

- To understand how businesses' revenues from cross-border e-Commerce compare to the administrative burden associated with VAT compliance. This will affect businesses' behavioural response to the changes in policy; for example, businesses are more likely to be non-compliant or to stop trading internationally if their profits from trade are small relative to the costs of compliance;
- To understand the value of trade and VAT revenues at stake under each of the policy options. Changes to the registration threshold will affect the proportion of cross-border trade that is exempt from VAT and the volume of trade at risk of being lost if businesses stop trading cross-border.

The main challenge comes from the fact that Eurostat does not report B2C e-Commerce turnover by firm size. This has therefore been estimated as follows:

- Eurostat provides data on the total revenues of businesses in different size classes, across the EU. On this basis, the proportion of overall revenue that comes from businesses of different sizes can be estimated. This is shown in the table below; while micro-businesses make up over 90% of businesses in the EU, they account for a minority of total turnover;
- This Eurostat data refers to total revenues, that is, the sum of e-Commerce revenues and revenues from other channels. Given that larger businesses are more likely to trade online, the distribution of e-Commerce revenues is expected to be more skewed towards larger businesses. This is estimated using Eurostat data on the proportion of revenues that come from e-Commerce, by business size.
    - This data point is not available for micro-enterprises. Given that micro-enterprises are about 35% as likely as small enterprises to trade online, it is assumed that the share of revenues from e-Commerce is likewise about 35% that of small businesses:

[120] This is in line with Eurostat data that indicates that about 50% of businesses selling online sell cross-border.

- The estimated distribution of e-Commerce revenues is therefore calculated by multiplying the contribution of e-Commerce to total revenues by the share of total retail sector revenues for firms of each size. These figures are then rescaled so that they sum to 100% in order to represent the share of e-Commerce revenues by size class. The results are shown in the table below.

Table 128 – e-Commerce revenues of firms, by size

	All businesses	Micro businesses	Small businesses	Medium businesses	Large businesses
Total retail revenues by size class (EUR billions)	9732	2090	2250	2100	3300
Share of total retail sector revenues (by firm size)	100%	21.5%	23.1%	21.6%	33.9%
Contribution of e-Commerce to total revenues	11%	2.1% (estimate)	6%	11%	20%
Total e-Commerce revenues by size class (EUR billions)	1070	44	135	231	660
Share of e-Commerce revenues (by firm size)	100%	4.1%	12.6%	21.6%	61.7%

Source: Eurostat, Business Enterprise Statistics, Information Society Statistics, 2013

Data on the share of total revenues coming from cross-border e-Commerce is not separately available. However, Eurostat data indicates that conditional on selling online, the fraction of businesses that sell online cross-border is similar across business size; specifically, about 50% of businesses selling online also sell cross-border, across all size classes. On this basis, it is assumed that the distribution of cross-border e-Commerce revenues is similar to that of overall e-Commerce revenues.

The total value of cross-border e-Commerce is estimated to be EUR 96.8 billion (calculated from the consumer survey and MOSS receipts as part of Lot 1); the revenues of businesses of different sizes are then estimated based on this total figure and the revenue contributions shown in the table above. Based on these figures and data on the number of businesses engaged in cross-border trade collected as part of Lot 1, the average cross-border revenues of firms of different sizes can be estimated.

Table 129 – Average cross-border e-Commerce revenues of firms, by size

	All businesses	Micro businesses	Small businesses	Medium businesses	Large businesses
Number of firms	557 908	442 444	81 716	24 594	9 154
Share of e-Commerce revenues by firm size	100%	4.1%	12.6%	21.6%	61.7%
Cross-border e-Commerce revenues (EUR billions)	96.8	4.0	12.2	20.9	59.7
Average cross-border e-Commerce revenues	173 505	9 041	149 298	849 801	6 521 739

Source: Eurostat, Business Enterprise Statistics, Information Society Statistics, 2013

These estimates suggest that the average micro-business may be making about EUR 9 000 in revenues from cross-border e-Commerce (across all international markets). Under the status quo, these businesses are therefore unlikely to be registered for VAT in other Member States (unless they provide e-services), given that the current thresholds for cross-border supply of goods (distance sales) are EUR 35 000 or EUR 100 000. Moreover, for these businesses the costs of registration – estimated to be almost EUR 8 000 - are likely to exceed the revenues earned from any single Member State. However, there may be significant variation among micro-businesses, both in terms of the administrative costs they face and their profits from cross-border trade. In order to account for this variation, sensitivity analysis has been conducted in connection to the number of businesses incurring administrative costs. The next section explains the assumptions made in more detail.

Micro-businesses' e-Commerce revenues

Among micro-businesses, a further breakdown of the distribution of revenues is needed in order to estimate the impact of changes to the registration threshold. This is used to estimate the number of businesses that will be exempt from VAT registration under the different policy options and the potential behavioural response of those required to register.

Granular data on the e-Commerce revenues among micro-businesses of different sizes is not available. Moreover, in general there is very little granular data on the activities and revenues of micro-businesses. UK data from the Department of Business, Innovation and Skills provides some indication of the distribution of revenues among micro-businesses[121]. Since this was the most granular data source identified, this information was used to estimate the shape of the revenue distribution, which was then extrapolated to the EU level as follows:

- The UK data is used to provide evidence on the *shape of the revenue distribution*. It enables estimation of the proportion of businesses with revenues below a certain level and the share of overall micro-business revenues that come from these businesses;
- However, this data is not available separately for e-Commerce. It is therefore assumed that the distribution of e-Commerce revenues follows the same pattern. For example, if the largest 5% of micro-businesses account for 85% of total micro-business revenues, it is assumed that among those trading cross-border the largest 5% account for 85% of e-Commerce revenues;
- The *level of the revenue distribution* is estimated by calibrating the estimates so as to match the overall contribution of micro-businesses to cross-border e-Commerce.

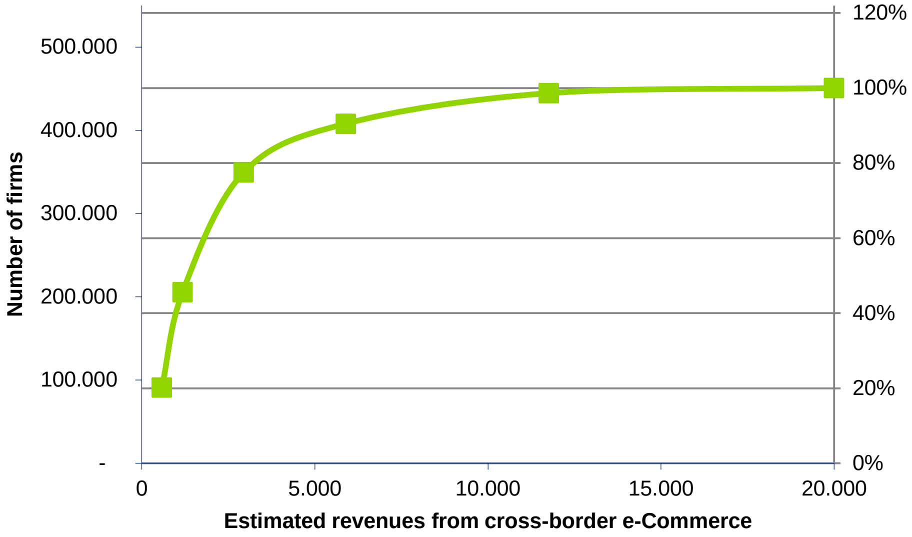
The figures below show the resulting distributions of revenues from cross-border e-Commerce. They suggest a strongly skewed distribution, with very small businesses (with fewer than 5 employees, or revenues of under EUR 500 000) making up the majority of these firms but a much smaller share of revenues.

Given the uncertainty about the number of sellers on marketplaces such as Amazon and eBay that may be selling cross-border, these figures are based on the Eurostat data only. In practice, the number of sellers affected may be significantly higher.

[121] Department for Business, Innovation and Skills, *Business Population Estimates for the UK and Regions 2013, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/254552/13-92-business-population-estimates-2013-stats-release-4.pdf*

Figure 2 shows the cumulative distribution of the number of micro-businesses, based on their revenues from cross-border e-Commerce. To give an example, this figure shows that about 420 000 micro-businesses, or about 97% of all micro-businesses, have cross-border e-Commerce revenues of less than EUR 10 000.

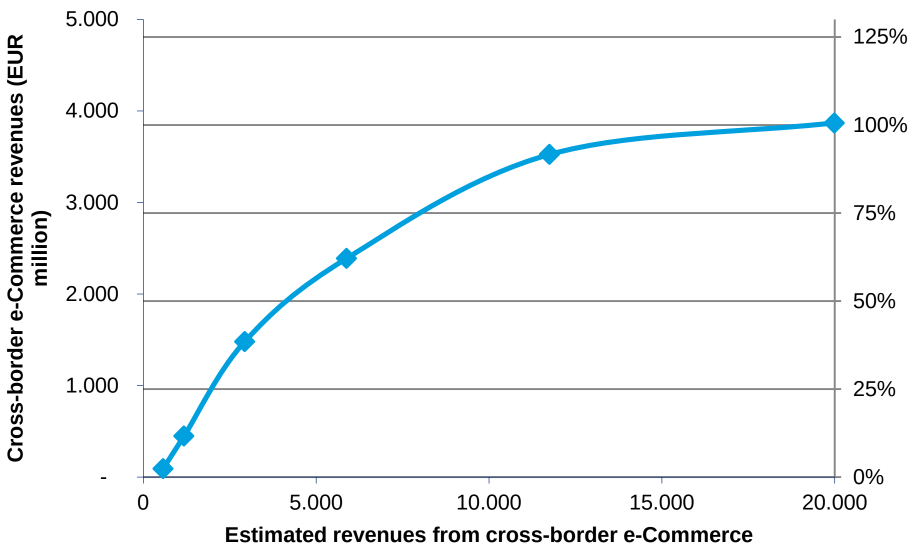
Figure 14 - Cumulative distribution of the number of microbusinesses, by cross-border e-Commerce revenues



Source: Analysis based on UK Business Population Estimates (BIS, 2013)

Figure 3 shows the cumulative distribution of the cross-border e-Commerce revenues of micro-businesses. That is, it shows the cross-border online revenues that come from businesses below a given revenue threshold (and the share of micro-businesses' revenues that come from businesses below the threshold). For example, about EUR 3 500 million in cross-border e-Commerce revenues is estimated to come from businesses with individual cross-border online revenues of less than EUR 10 000; this represents about 95% of the total cross-border e-Commerce revenues of micro-businesses.

Figure 15 - Cumulative distribution of cross-border e-Commerce revenues



Source: Analysis based on UK Business Population Estimates (BIS, 2013)

Based on these distributional estimates the following assumptions are made about the number of businesses affected by the change in policy.

Table 130 – Number of businesses affected by changes to the registration threshold

Threshold	Proportion of businesses with revenues below threshold	Number of businesses with revenues below threshold	Proportion of micro-businesses' e-Commerce revenues attributed to businesses below the threshold	Proportion of total e-Commerce revenues attributed to businesses below threshold
EUR 5 000	90%	398 200	60%	3.69%
EUR 8 000 (Status Quo cost per registration)	95%	420 322	75%	3.90%
EUR 10 000	97%	429 171	85%	3.98%

Source: Deloitte analysis based on UK Business Population Estimates (BIS, 2013), Eurostat data.

The specific assumptions regarding each of the policy options are described in more detail in subsequent sections. These assumptions are important in a number of ways:

- The number of businesses affected by the policy change will determine the potential total administrative burden, assuming all businesses are compliant;
- The administrative burden will also be affected by the behavioural response of businesses: if the value of cross-border e-Commerce is less than the cost of registration businesses may be non-compliant. For example, it is estimated that for 95% of micro-businesses the revenues from a single cross-border market are less than the cost of VAT compliance. These businesses therefore have an incentive to leave the market. In practice, this figure may be higher since the figures above are based on revenues, rather than profits;
- The change in policy may also lead some businesses to exit the market. In this case, the supply of cross-border e-Commerce may fall. The distribution of businesses' revenues provides an indication of the magnitude of this impact.

Assumption 2 – Standard Costs Model

The Standard Costs Model analysis adopted to the largest extent possible the same key parameters used in the analysis for Lot 1 and Lot 3, in order to improve comparability of the results.

A key parameter used consistently throughout the three Lots of the study is the wage rate of the personnel having to carry out the tasks for businesses to comply with the information obligations identified as relevant.

We used the **hourly wage rates** for the category ISCO 2, i.e. for management accounts, were used, as they make up the personnel responsible for VAT-related procedures in businesses. Management accountants are classified under the code 2411 in the International Standard Classification of Occupations elaborated by the ILO.

We used the EU average hourly costs of EUR 32.1, which already includes the 25% overhead costs, as indicated by the Commission's Impact Assessment Guidelines.

These figures date back to 2010, but given the economic crisis, figures are considered still quite accurate by the Commission's services consulted on the topic. Updated hourly earnings should be elaborated by Eurostat by the end of 2015, but are not available yet.

The quantification of the administrative burden for businesses in the three Lots of the study includes this parameter.

Assumption 3 – Timeline

The analysis of the financial impacts (which includes the quantification of the administrative burden for businesses and of VAT revenues for Member States, as well as of the processing costs for postal operators and couriers) uses 2015 as baseline.

We decided to use 2015 as the baseline year for this type of analysis as it allowed to use the key elements on growth and costs deriving from literature and the other lots of the study without making additional assumptions and manipulations, enhancing thus comparability of the results.

In the main report, the analysis will use 2015 as baseline year, i.e. assuming that all the changes introduced by each Option are implemented immediately. The same assumption is also taken for the take-up rate (e.g. of the SEM). This assumption implies that operators (EU and non-EU businesses, postal operators and couriers, marketplaces, etc.) will be ready to implement the necessary changes and thus achieve the maximum expected take-up immediately. Of course, in reality the adoption process will be progressive, and operators will need time (in cases years) to reach the full take-up. For instance, in the case of the introduction of the SEM for imports (under Option4), private couriers will be likely to use this system (almost) immediately, while postal operators might need five or more years for a full take-up which should coincide with the expected timeframe for application of the measures.

Assumption 4 – Growth rates

In order to ensure a consistent like-for-like comparison of the policy options, it is important to assume the same growth rates across all scenarios including the status quo. The policy options are then compared relative to this baseline.

These growth rates capture exogenous trends in the e-Commerce market, including underlying trends in consumers' propensity to buy online, the expansion of the cross-border online market due to the DSM strategy and the growth of international online markets. In keeping with the assumptions agreed for the Lot 1 analysis, three rates are considered: 6%, 12%, 18%. The same rates of growth are used for EU and non-EU trade. For simplicity and to reduce the number of scenarios presented in each chapter of the report, only the medium growth scenario results have been included in the main body of the report; the additional scenarios are included in an Annex. The Annexes also include a scenario in which EU cross-border trade and non-EU cross-border trade grow at different rates, due to the positive impacts of the DSM. Independent forecasts of these growth rates are not available, but for the purpose of this sensitivity analysis EU cross-border trade is assumed to grow at 15% and non-EU cross-border trade at 10%.

Since the same underlying growth rates are assumed across the policy options, these rates do not affect the relative performance of the options. Moreover, they generally do not have a large impact on the impact of the Option relative to the status quo (that is, the assumed rate of growth does not significantly affect the percentage change relative to the status quo, although the absolute difference will be affected).

Assumption 6 – Volume and value of parcels

In Option1 and in all the other Options covered by the study, we estimated the volume and value of parcels imported to the EU from thirds countries due to B2C e-Commerce purchases of EU consumers for the following groups of parcels:

- Small value consignments, i.e. parcels below the 10-22 EUR threshold; and
- Parcels above the small value consignment threshold and below the Customs threshold, i.e. parcels between 10-22 EUR and 150 EUR.

Estimation of value and volume of small value consignments

The starting point for such estimation was the volume and corresponding value of small value consignments (parcels below 10-22 EUR) of 114.85 million in 2013[122]. Such volume was projected to 2015 using the growth rates estimated for the study (i.e. CAGR of 6%, 12% and 16%). The analysis presented in the main report includes however only the medium growth scenario (i.e. CAGR of 12%).

The corresponding value was estimated using an average value of EUR 20 per parcel, in line with available literature, and the corresponding (theoretical maximum) VAT revenue estimated applying a standard VAT rate of 20%.

Different assumptions on compliance were considered under the different policy options covered by the study.

Estimation of value and volume of parcels between EUR 10-22 and EUR 150

This estimation combined the data on volume of small consignment mentioned above with additional available literature[123] estimating the distribution of parcels according to their value. The first study estimated that small value consignment represent about 70% of parcels, while the second study provided additional data on the distribution of parcels by value, showing a peak for parcels of about EUR 30 of value. The combination of such data allowed us to quantify the share of parcels between EUR 10-22 and EUR 150 as 30% of the volume of small value consignment in 2013, and thus to estimate its volume.

Similarly to what explained above, volume was projected to 2015 using the growth rates estimated for the study (i.e. CAGR of 6%, 12% and 16%). The analysis presented in the main report includes however only the medium growth scenario (i.e. CAGR of 12%).

The corresponding value of these parcels was estimated by applying an average value of EUR 30 per parcel (according to a recent study, the most recurrent one by far[124]), and adding a 30% transport

[122] European Commission (2015), Assessment of the application and impact of the VAT exemption for importation of small consignments, prepared by EY, accessed at http://ec.europa.eu/taxation_Customs/resources/documents/common/publications/studies/lvcr-study.pdf on June 12th 2015
[123] Hintsa J., Mohanty S., Tsikolenko V., Ivens B., Leischnig A., Kähäri P., Hameri AP., and Cadot (2014), The import VAT and duty de-minimis in the European Union – Where should they be and what will be the impact?, accessed at http://www.euroexpress.org/uploads/ELibrary/CDS-Report-Jan2015-publishing-final-2.pdf on January 26th 2015.
[124] Ibid.

costs. The corresponding (theoretical maximum) VAT revenue estimated applying a standard VAT rate of 20%.

Different assumptions on compliance were considered under the different policy options covered by the study.

The table below provides an overview of the volume and value of parcels below the Customs threshold estimated for the study, under the different growth scenarios.

Table 131 – Volume and value of parcels below the Customs threshold

	Low growth (CAGR 6%)		Medium growth (CAGR 12%)		High growth (CAGR 18%)	
	Volume	**Value (EUR)**	**Volume**	**Value (EUR)**	**Volume**	**Value (EUR)**
Small value consignments	129 045 460	2 658 336 476	144 067 840	2 967 797 504	159 917 140	3 294 293084
Parcels between EUR 10-22 and EUR 150	38 713 638	1 509 831 882	43 220 352	1 685 593 728	47 975 142	1 871 030538
Total parcels below EUR 150	167 759 098	4 168 168 358	187 288 192	4 653 391 232	207 892 282	5 165 323622

Source: Deloitte study

Option 1 – Status Quo

Assumption 7 – Compliance

As part of the analysis of the Status Quo, we provided a conservative estimation of the VAT loss due to non-compliance on B2C cross-border sales, as calculated under Lot 1 analysis. This estimate is based on B2C total cross-border online expenditure (estimated by the study in about EUR 96.8 billions, 72% of which was intra-EU), general VAT gap and data provided by two Member States. The estimate ranges from EUR 2.6 billion (representing 17.9% VAT loss) to EUR 3.8 billion (25.6% VAT loss), whilst the actual respective EU VAT loss is likely to be closer to the upper end of the estimated range. In fact, as discussed with the Member States Steering Committee on compliance, the non-compliance rate on intra-EU distance sales is considered significant. .

With regard to the current level of non-compliance for imports of goods from third countries, an earlier EU Commission study[125] indicated 25% of total VAT foregone due to non-compliance on the import of goods with value up to 22 EUR. This indication is based on data from 2001 and the rate of non-compliance has significantly increased since, as was confirmed by our discussions with various stakeholders and anecdotal examples from public sources.[126] A report submitted to French senat on

[125] European Commission (2015), Assessment of the application and impact of the VAT exemption for importation of small consignments, ibid.

126 For example reports from the UK disadvantages businesses. https://petition.parliament.uk/petitions/105270 consulted on 18 December 2015

VAT collected in Customs and the volume of parcels processed indicate also significantly higher non-compliance (based on our conservative calculations at least 75%).[127] The main types of non-compliance are undervaluation (as below exemption threshold or just lower than actual value) and mis-declaration (as non-commercial parcel).

Therefore, an overall non-compliance rate of 50% of VAT foregone was used on B2C cross-border sales (both intra-EU and import).

Applying this non-compliance rate to the volume of imports of e-Commerce goods leads to an estimated VAT foregone due to non-compliance of approximately EUR 569 million below the threshold of EUR 10-22 and of approximately EUR 2 143 million on imports with value between 10-22 and 150 EUR.

While we acknowledge that this estimate might be quite conservative, in the light of qualitative information provided by Member States to the Commission, which has been taken into account in the analysis of the other options. Unfortunately, the mock purchases exercise carried out as part of Lot 1 proved inconclusive for the purpose of supporting estimates of the non-compliance rates for imports below the Customs threshold of EUR 150.

Assumption 8 – MOSS running costs for Member States

As part of the analysis of the Status Quo, we did not report the costs sustained by Member States to develop and set-up the current national MOSS portals, nor the maintenance costs provided by the Member States interviewed.

These information were provided as part of the analysis of the current implementation of the MOSS under Lot 3. The total average cost per Member State was calculated of EUR 2.4 million.

As mentioned in the report for Lot 3, these are only average costs, as we registered vary large variations across Member States, due to a number of factors, such as the choice between the use of outsourcing or in-house development. Some Member States noted also that they used the opportunity to carry out more general system updates and changes, they found it therefore difficult to separate the cost of changes relating specifically to 2015 changes and MOSS.

Member States commented also on the maintenance costs, overall considering them lower (sometimes notably lower) than the development and setting-up costs. Maintenance costs are estimated to about EUR 250 000 per year (on average), ranging from EUR 7 400 to EUR 1 366 103.

These costs are also relevant for the assessment of options 4, 5 and 6. The SEM is intended to be built on the MOSS system, therefore the costs for the set-up and the maintenance of the MOSS be considered very similar to the implementation and maintenance of the SEM.

[127] Sénat Commission des finances (2015), Le E-Commerce: proposition pur une TVA payée à la source. , consulted on 18 December 2015

Assumption 9 – Processing costs for couriers and postal operators

As part of the analysis of Option1, we provided estimates of the processing costs for postal operators and couriers for parcels below the EUR 10-22 threshold. The costs for postal operators and couriers were considered for the study because under the current import clearance rules these operators are responsible for clearance procedures, and therefore they suffer the burden of

The estimates detailed the processing costs for couriers to process parcels below the EUR 10-22 threshold and between the EUR 10-22 threshold and the EUR 150 threshold.

Processing costs were estimated starting from the costs for couriers and postal operators estimated by the 2015 study on the small consignment exemption[128]. While this values refer to 2013, we did not consider necessary to correct for inflation, as given the economic crisis, figures are considered still quite accurate.

As agreed during the Steering Committee meeting, we should differentiate the costs for postal operators and couriers for parcels in the small consignment exemption, as the current Customs procedures for postal operators are simpler than those for couriers.

For parcels below the EUR 10-22 threshold the following values we suggest using the following figures:

- Processing costs of EUR 2.34 per parcel for couriers (consistently with the 2015 study on small consignment exemption[129]);
- Processing costs of EUR 2 per parcel for postal operators, subject to expert assessment.

For parcels above the EUR 10-22 threshold and below the Customs threshold of EUR 150, the following values we suggest using the following figures:

- Processing costs of EUR 8.96 per parcel for both couriers and postal operators subject to expert assessment.

Based on the assumptions above on processing costs, and on the estimated distribution of small value consignments between private couriers (estimated to treat 72% of small value consignments) and postal operators (estimated to treat 28% of small value consignments)[130], the following overall processing costs are estimated in 2015.

The corresponding values were estimated as follows. For the value of parcels below the EUR 10-22 threshold, we used an average value of EUR 20 plus 30% of transports costs, consistently with the 2015 study on small value consignments[131]. For the value of parcels between EUR 10-22 and EUR 150, the value was estimated by applying an average value of EUR 30 per parcel (according to a recent study, the most recurrent one by far[132]), and adding a 30% transport costs.

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[128] European Commission (2015), Assessment of the application and impact of the VAT exemption for importation of small consignments, prepared by EY, accessed at http://ec.europa.eu/taxation_Customs/resources/documents/common/publications/studies/lvcr-study.pdf on June 12th 2015.
[129] Ibid.
[130] Ibid.
[131] Ibid.
[132] Hintsa J., Mohanty S., Tsikolenko V., Ivens B., Leischnig A., Kähäri P., Hameri AP., and Cadot (2014), The import VAT and duty de-minimis in the European Union – Where should they be and what will be the impact?, accessed at http://www.euroexpress.org/uploads/ELibrary/CDS-Report-Jan2015-publishing-final-2.pdf on January 26th 2015.

Table 132 – Overview of processing costs for parcels below EUR 150 (Status Quo)

	Volume	Value (EUR)	Processing costs (EUR)
Parcels below EUR 10-22	144 067 840	3 145 865 354	301 850 938
Parcels between 10-22 EUR and 150 EUR	43 220 352	1 685 593 728	387 254 354
Total parcels below EUR 150	187 288 192	4 831 459 082	689 105 292

Source: Deloitte study

Option 2 – Removal of the distance sales threshold and the small consignment exemption (no simplification)

Assumption 10 – Member States' VAT revenues from imports

As part of the analysis of the impacts of Option2, we provided estimates of the impact of the removal of the small consignment exemption on Member States' VAT revenues. As agreed during the Steering Committee Meeting, the analysis should include the impacts on parcels below the small consignment exemption (i.e. the EUR 10-22 threshold), the impacts on parcels between the above the small consignment exemption and below the Customs threshold (i.e. between the EUR 10-22 and the EUR 150 thresholds), and the aggregated view of the parcels below the Customs threshold.

The table below presents the aggregated results. The different elements and related assumptions are explained afterwards.

Table 133 – Impact of Option2 on VAT revenues from imports (below EUR 150 threshold)

	Volume	Value (EUR)	VAT loss (EUR) (65% non-compliance)	VAT revenu (EUR) (35% compliance)
Medium growth (CAGR of 12%)	187 288 192	4 653 391 232	604 940 860	325 737 386

We present the three elements in the sub-section below.

Below the EUR 10-22 threshold

As part of the analysis of the impacts of Option2, we provided estimates of the volume and value of parcels below the EUR 10-22 threshold and between the EUR 10-22 (see Table 132).

To the corresponding values of parcels, we applied an average VAT rate of 20%.

A non-compliance rate of 65% (i.e. a compliance rate of 35%) was assumed, taking into account the larger amount parcels to be processed under this Option with respect to the status quo (where 50% non-compliance was used). We asked a limited number of Member States to provide their inputs on such estimates.

Between the EUR 10-22 threshold and EUR 150

As part of the analysis of the impacts of Option2, we provided estimates of the volume and value of parcels between the EUR 10-22 and EUR 150 threshold (see Table 132).

To the corresponding values of parcels, we applied an average VAT rate of 20%.

A non-compliance rate of 65% (i.e. a compliance rate of 35%) was assumed, taking into account the larger amount parcels to be processed under this Option with respect to the status quo (where 50% non-compliance was used). We asked a limited number of Member States to provide their inputs on such estimates.

Assumption 11 – Processing costs for couriers and postal operators

As part of the analysis of Option2, we provided estimates of the processing costs for postal operators and couriers for parcels below the EUR 10-22 threshold and between the EUR 10-22 threshold and the EUR 150 threshold.

As under Option2 the small value consignment exemption is removed, all parcels below the EUR 150 Customs threshold will be processed under the same procedures. Therefore, couriers and postal operators will be likely to incur in the same costs, which are likely to be the same for parcels between the value of EUR 10-22 and EUR 150 under the Status Quo. We therefore applied the processing costs of EUR 8.96 per parcel.

The same costs were applied for Option3, as it does not modify the framework for imports.

Assumption 12 – Impact on prices of non-EU imports

The removal of the small consignments exemption means that a higher proportion of online imports from outside the EU will become subject to VAT, which may be reflected in the prices facing consumers. The extent to which this impact affects prices is uncertain and will depend on a number of factors including the level of compliance and the extent to which the VAT change is passed on to consumers.

The impact of the removal of the small consignments exemption on the average price level of non-EU imports is calculated as follows:

Impact on average price = Share of parcels affected x level of compliance x pass-through rate x VAT rate

The following assumptions are made for this calculation:

- **Share of parcels affected:** In keeping with the assumptions made in connection to VAT revenues, it is assumed that 60% of parcels currently fall below the small consignments threshold of either EUR 10 or EUR 22; i.e., the change in policy would apply to 60% of parcels;
- **Level of compliance:** The same compliance rate of 35% is also assumed;
- **Pass-through:** This determines the fraction of the VAT increase that is reflected in prices; a pass-through rate of 100% is assumed
- **Average VAT rate:** the average EU VAT rate of 22% is assumed, as discussed above.

The resulting impacts on price is estimated to be 4.6%.

The same assumptions are made for Option3.

Option 3 – Option 2 but with the introduction of a common VAT threshold for EU sales of both goods and services (EUR 5000 and EUR 10000)

Assumption 13 – Member States' VAT revenues from imports

As part of the analysis of the impacts of Option3, we provided estimates of the impact of the removal of the small consignment exemption on Member States' VAT revenues. As agreed during the Steering Committee Meeting, the analysis should include the impacts on parcels below the small consignment exemption (i.e. the EUR 10-22 threshold), the impacts on parcels between the above the small consignment exemption and below the Customs threshold (i.e. between the EUR 10-22 and the EUR 150 thresholds), and the aggregated view of the parcels below the Customs threshold.

As Option3 does not modify the framework for imports as set up by Option2, the same assumptions and estimates presented for Option2 are valid for Option3 as well.

Assumption 14 – Number of businesses impacted

The estimated impacts of the introduction of the common VAT threshold on businesses were based on the analysis and assumptions on the size and number of businesses engaged in cross-border e-Commerce, as well as on the estimated share of their revenues deriving from cross-border e-Commerce (see assumption 1).

The estimates provided in table 4 allowed us to quantify the number and size of businesses falling below the two threshold, and thus the related impacts on the volume of e-Commerce under this option. As explained under assumption 1, the micro-businesses represent the majority of businesses, but only a very limited share of the total e-Commerce turnover. The introduction of such thresholds will thus impact directly mostly micro-businesses, which derive very limited turnover from cross-border e-Commerce. For instance, as mentioned before, about 420 000 micro-businesses, or about 97% of all micro-businesses, have cross-border e-Commerce revenues of less than EUR 10 000.

The table below provides an overview of the number and size of businesses estimated to be below the thresholds, and of the corresponding cross-border e-Commerce volume.

Table 134 – Overview of businesses below the threshold (Option3)

	Number of businesses	(% of businesses)	(% of cross-border e-Commerce volume)
Micro-businesses below the common VAT threshold (EUR 5000)	398 200	*71.4%*	*3.7%*
Micro-businesses below the common VAT threshold (EUR 5000)	429 171	*76.9%*	*3.9%*

Source: Deloitte study

Additional assumptions on processing costs for couriers and postal operators and on impacts on prices of non-EU imports were not modified with respect to Option2.

Option 4 – Option 3 plus Single Electronic Mechanism applying to intra-EU supplies of goods and services and to the import of all goods under the Customs threshold of EUR 150

Assumption 15 - Take-up of the SEM

As part of the analysis of the impacts of Option4, we provided estimates of the impact of the introduction of the SEM on both intra-EU sales and on imports from third countries, using a number of assumptions on the take-up or adoption rate of the SEM. These assumptions were different for intra-EU sales and imports from third countries. We detail the assumptions and their main implications for intra-EU sales and imports from their countries in the sub-sections below.

Intra-EU sales

Under Option4, the same common VAT threshold (set at EUR 5 000 and EUR 10 000) applies. Therefore, we made different assumptions on the adoption rate of the SEM by businesses for the following categories:

- Businesses below the common VAT threshold (EUR 5 000 and EUR 10 000);
- Businesses above the common VAT threshold and in the SEM;
- Businesses above the common VAT threshold and outside the SEM.

Following the Steering Committee meeting, we have revised our estimates, slightly increasing the adoption rate of the SEM among businesses. The key assumptions are presented below.

The table below provides an overview of the estimated take-up of the SEM among EU businesses under Option4.

Table 135 – Estimated take-up of SEM among EU businesses

	Businesses below the common VAT threshold (EUR 5000 – 10 000)	Businesses above the common VAT threshold and in the SEM (EUR 5000 – 10 000)	Businesses above the common VAT threshold and outside the SEM
Micro businesses	398 200-429 171	13 273-44 244	-
Small businesses		65 373	16 343
Medium businesses		17 216	7 378

	Businesses below the common VAT threshold (EUR 5000 – 10 000)	Businesses above the common VAT threshold and in the SEM (EUR 5000 – 10 000)	Businesses above the common VAT threshold and outside the SEM
Large businesses		5 492	3 662
Total number of businesses		101 355-132 326	27 383
(% of businesses)	*71.4%-76.9%*	*23.7% - 18.2%*	*4.9%*
(% of cross-border e-Commerce volume)	*3.7%-3.9%*	*66.6% - 62.3%*	*33.7%*

The estimates above take into account that in many cases businesses above the threshold will be in both categories (i.e. in and outside of the SEM). For instance, large businesses are likely to have hubs in some other Member States (with related VAT registrations), while might decide to use the SEM for the remaining Member States. These considerations are at the basis of our assumptions that only 60% of large businesses engaged in cross-border are likely to use the SEM. Information gathered so far from interviews with businesses and representative organisations, as well as our results on the reduction of administrative burden point to the take-up rate estimated.

Businesses below the common VAT threshold (EUR 5 000 and EUR 10 000)

Businesses with cross-border sales below the common VAT threshold are either exempt from VAT or report these sales are domestic ones, therefore they are likely to be not using the SEM. The take-up rate for this group was thus estimated as 0%.

Depending on the value set for the common VAT threshold (EUR 5 000 or EUR 10 000), the **number** of businesses estimated to be below the threshold is of 398 200 and 428 171, respectively. These figures represent 71.4% and 76.9% of the total number of businesses estimated to be engaged in B2C cross-border e-Commerce, and 90% and 97% of micro-businesses active in cross-border e-Commerce respectively.

When considering the corresponding **volume** of cross-border e-Commerce, it has to be noticed that while this group of businesses is the most numerous, it also represents a limited share of the volume (and value) of intra-EU B2C cross-border e-Commerce. According to available statistics[133], micro-businesses represent only 4.1% of the total e-Commerce revenues. Therefore, the businesses below common VAT threshold and outside the SEM only represent 3.7% and 3.9% of the total volume of cross-border e-Commerce.

Businesses above the common VAT threshold and in the SEM

The group of businesses with cross-border sales above the common VAT threshold and using the SEM is estimated to be composed by those micro-businesses above the common VAT threshold, and by a share of small, medium and large businesses. The adoption rate by size of enterprise is thus estimated to be 10% or 3% among micro-businesses (depending on whether the common VAT

[133] See section 2, General assumptions

threshold is set at EUR 5 000 or EUR 10 000), 80% among small businesses, 70% among medium-sized businesses and 65% among large businesses.

In terms of **number** of businesses, those estimated to be above the common VAT threshold and in the SEM are 13 273 or 44 244micro-businesses (depending on whether the common VAT threshold is set at EUR 5000 or 10 000), 65 373 small businesses, 17 216 medium-sized businesses, and 5 492 large businesses, which together represent about 23.7% and 18.2% of the total number of businesses engaged in cross-border e-Commerce respectively.

With regard to the **volume** of cross-border e-Commerce, the share of cross-border e-Commerce estimated to be processed via the SEM represents 66.6% or 62.3% of the total cross-border e-Commerce spend as estimated under Lot 1 (depending on whether the common VAT threshold is set at EUR 5 000 or EUR 10 000).

The adoption rate is estimated to be lower among large businesses as they are more likely to be VAT-registered in a large number of Member States already, and therefore less likely to switch to the new system (although, this may depend on the business model of a large business, e.g. largely online-business would not be widely established and may still benefit). Also, these are cross-sector estimates, as we did not assume different adoption rates among businesses active is different sectors of economic activities. While we acknowledge that businesses active in some sectors might be more reluctant to adopt the SEM (for instance, those trading clothing and accessories, which have return rates of about 50%), we do not have sufficient data to perform an analysis by sector of economic activity.

Also, it is also likely that the adoption rate will increase over time. However, we do not have reliable sources to provide an estimate of the adoption path of the SEM over time.

Businesses above the common VAT threshold and outside the SEM

The group of businesses with cross-border sales above the common VAT threshold and using the SEM is estimated to be composed by those businesses not included in any of the previous two categories. Therefore, the share of businesses above the common VAT threshold and outside the SEM is estimated to be composed by 20% of small businesses, 30% among medium-sized businesses and 35% of large businesses. We assumed that no micro-business would decide to comply with the VAT-related obligations for cross-border sales outside of the SEM, as the related costs are likely to overcome their revenues from cross-border e-Commerce sales.

In terms of **number** of businesses, those estimated to be above the common VAT threshold and outside the SEM are estimated to be 16 343 small businesses, 7 378 medium-sized businesses, and 3 662 large businesses, which together represent about 4.8% of the total number of businesses engaged in cross-border e-Commerce.

With regard to the **volume** of cross-border e-Commerce, the share of cross-border e-Commerce estimated to be stay outside of the SEM represents about 33.7% of the total cross-border e-Commerce spend as estimated under Lot 1.

Imports from third countries

With regard to the use of the SEM by businesses, postal operators, couriers and marketplaces (alternatives i and ii) for imports of goods below the value of the Customs threshold of EUR 150, we used the assumption that about 75% of the imports of such goods (in volume) will be processed via the SEM. This assumption was elaborated taking into account the current use of the MOSS (70% of the volume of transactions is processed via the MOSS), as well as differentiated take-up rates by postal operators and couriers. Details are provided below:

- Private couriers process already about 70% of parcels, and they are to a large extent ready to implement the changes required by the SEM; a take-up rate of 85% was used for this group;
- Postal operators process currently about 30% of parcels, and they are likely to have more issues than private couriers to operate via the SEM; a take-up rate of 50% was used for this group since still sellers may choose to register and use SEM and send goods via post.

We also analysed different scenarios, considering a higher and lower use of the SEM for imports (85% and 60% of volume of imports via the SEM respectively), as a sensitivity analysis.

Therefore, the share of imports of goods with a value lower than the Customs threshold of EUR 150 estimated to be processed outside of the SEM, but with the simplified Customs procedure (alternative iii) is estimated to be of about 25 % (ranging from 15% to 40% in the sensitivity analysis).

As mentioned earlier, we use the assumption of immediate full take-up for the analysis.

Assumption 16 – Processing costs for couriers and postal operators

As part of the analysis of Option4, we provided estimates of the processing costs for postal operators and couriers for parcels below the Customs threshold of EUR 150. The estimates detailed the processing costs for couriers and postal operators to process parcels below the EUR 150 threshold using the SEM and not using it.

As agreed during the Steering Committee meeting, we should differentiate the costs for postal operators and couriers to process parcels using and not using the SEM.

For parcels below the EUR 150 Customs threshold processed under the SEM, we assume a cost per parcel 30% lower than the one estimated in 2013, i.e. EUR 1.6. This cost is lower than the current cost for processing low value consignment (estimated at EUR 2.34), as under the SEM arrangements, those parcels will benefit from a fast-track at Customs as well as a simplified VAT compliance (moving from transactional basis to turnover basis), reducing thus the time and costs related to their processing.

For parcels below the EUR 150 Customs threshold processed outside the SEM we assume a cost per parcel of EUR 6.3, subject to expert assessment. This value was estimated as a 30% reduction of the cost estimated in 2013, taking into account that under Option4 such parcels will still need to be declared at Customs (even is via a simplified procedures) and VAT paid. We also analysed different scenarios, considering 20% higher and 20% lower processing costs (EUR 7.56 and EUR 5.04 respectively), as a sensitivity analysis.

We applied the same assumptions and estimates to the analysis of options 5 and 6.

The table below provides an overview of the processing costs of parcels below the Customs threshold of EUR 150 under Option4, calculated using the assumptions on the adoption rate of the SEM for imports of goods presented in the previous sub-section.

Table 136 –Processing costs of parcels below the Customs threshold of EUR 150 under Option4.

	Volume	Value	Processing costs
Inside SEM	140 840 720	3 499 350 206	230 697 100
Outside SEM	46 447 472	1 154 041 026	292 619 071

Total	187 288 192	4 653 391 232	**517 964 224**

The total estimated corresponds to a reduction of about 24% with respect to the costs calculated under Option1 (status quo). This estimate only relates to imports. It is likely that this estimated is somehow conservative, as current procedures are quite different across Member States and operators, ranging from clearance at each transaction to periodical VAT compliance. However, it was not possible to have this detailed level of analysis.

Assumption 17 – Member States' VAT revenues from imports and Intra-EU Trade

As part of the analysis of the impacts of Option4, we provided estimates of the impact of the introduction of the SEM on Member States' VAT revenues. As agreed during the Steering Committee Meeting, the analysis should include the impacts on Member States' VAT revenues from both intra-EU trade and imports of goods from third countries, and include specific scenarios on compliance.

The impacts of the introduction of the SEM on Member States' VAT revenues from intra-EU trade and imports is presented in the sub-section below.

It has to be noticed that we do not present here the analysis of the collection fee for Member States (set at 0, 10%, 20% and 30% for the purposes of the study).

The key parameter to assess the impact of Option4 on Member States' VAT revenues from imports is the compliance rates under the SEM, and the compliance outside of the SEM. Compliance under the SEM is expected to be higher than in the Status Quo (as the legislative framework and the related IOs are simpler), while the compliance rate outside the SEM is expected to be lower than with the SEM. For the purpose of our analysis, and after the discussion with the Steering Committee, we have made a set of different assumptions about compliance for intra-EU trade and for imports.

With regard to the **intra-EU trade**, we assume different compliance rates for businesses below the common VAT threshold, for businesses above the common VAT threshold and in the SEM, and finally for businesses above the common VAT threshold and outside the SEM. The compliance rates are estimated as follows, subject to expert assessment:

- Below the common VAT threshold (applying either domestic rules or exemption): same as current domestic compliance, to be assessed using current studies of VAT gaps;
- Above the common VAT threshold and in SEM: about 95% compliance rate, which is higher than the currently estimated 35%;
- Above the common VAT threshold and outside SEM: 90% compliance rate, same estimate as under the Status Quo. As the legislative framework is likely to be simpler, it is also possible to assume a slightly higher compliance rate. These ranges will be validated by expert assessment.

The table below provides an overview of the VAT revenues from imports under Option4

Table 137 – VAT revenues from intra-EU trade under Option4

	EUR 5 000 threshold	EUR 10 000 threshold
VAT revenues below the threshold (EUR)	360 198 679	388 214 031
VAT loss above the threshold (EUR)	634 459 006	937 325 797

VAT exemption (EUR)	360 198 679	388 214 031
Total VAT (domestic rules) (EUR)	9 127 012 994	8 824 146 203
Total VAT (exemption) (EUR)	8 766 814 316	8 435 932 172
Compliance	Non-compliance rate 5% (SEM) - 10% (non SEM)	Non-compliance rate 5% (SEM) - 10% (non SEM)

With regard to the **imports of goods from third countries**, we assume different compliance rates transactions processed via the SEM and those processed outside the SEM (with simplified Customs procedures foreseen under alternative iii). Compliance is likely to be higher for those transactions processed under the SEM. The compliance rates are estimated as follows, subject to expert assessment:

- Transactions processed under the SEM: about 95% compliance rate, same as for intra-EU transactions processed via the SEM;
- Transactions processed outside the SEM: about 40% compliance rate, same as for intra-EU transactions processed outside of the SEM.

The table below provides an overview of the VAT revenues from imports under Option4

Table 138 – VAT revenues from imports under Option4

	Volume	Value (EUR)	VAT loss (EUR)	VAT revenue (EUR)
Within SEM	140 840 720	3 499 350 206	34 993 502	664 876 539
Outside SEM	46 447 472	1 154 041 025	138 484 923	92 323 282
total	187 288 192	4 653 391 232,	173 478 425	757 199 821

As mentioned earlier, we use the assumption of immediate full take-up for the analysis.

Assumption 18 – Impact on prices of non-EU imports

This is calculated in the same way as for Option 2, taking into account the fact that the introduction of the SEM is expected to increase compliance among those businesses registered.

Consistent with the assumptions made regarding take-up of the SEM by non-EU businesses it is assumed that 75% of non-EU imports will come through the SEM, and that compliance among businesses using the SEM will increase to 95%. Assuming that compliance among non-SEM users increases to 40% (as reduced volumes make it easier for authorities to monitor compliance) the average compliance rate will increase to 83%.

Using the same methodology described for Assumption 10 implies an impact on price of 5.5%, 8.2%, 10.9%. Each of these scenarios was tested in the model.

Option 5 – Option 4 plus amendments to SEM (home country legislation and home country control)

Option 5 and Option 6 should also have a quantitative assessment of their impacts, both on businesses and on Member States.

Out of the policy options included in the study, Option5 is likely to have the highest reduction in the administrative burden for businesses, as they will have to comply only with one set of rules. In fact, being subject to domestic legislation and controls should reduce the costs businesses incur to comply with VAT legislation on issues such as invoicing and audit, but also on the requirements of storage of invoicing, for instance.

We used the following approach to quantify the reduction in administrative burden brought by Option5:

- We first identified the key costs impacted and consequently the IOs that may be affected;
- Based on the contribution of the IOs affected to the total administrative costs, we identified a range within which the final estimated may fall;
- We validated the assumptions on the final costs ranges with expert assessment, with the final assumptions and key results to be discussed and validated before finalisation.

Assumption 19 – Impact on relevant IOs

As a first assessment, this Option reduces the one-off costs businesses are likely to incur to adapt their IT systems (including websites and ERP systems), as they will be subject to domestic obligations only. Therefore, they only major changes they will have to incorporate will consist in the inclusion (and automatic application) of the correct VAT rate of the Member States of Consumption for each transaction. Similarly, the maintenance costs and the costs incurred to monitor relevant changes in the legislation are likely to be lower than under Option4.

From the analysis of the burden of the MOSS on businesses carried out under Lot 3, we know that VAT returns are by far the most burdensome obligation, representing about 98% of the total compliance costs. Specific characteristics of the current MOSS system contribute to these costs, such as the rules for currency conversion, the rules on record-keeping, invoicing and for inputting corrections in VAT declarations. If we assume that the new rules for the SEM will modify and simplify the current MOSS, we can assume a reduction in the administrative costs for businesses in the corresponding IOs.

Consequently, the key changes for the assessment of the administrative burden under Option5 concern IO6b (submission of SEM returns) and IO8b (payment of SEM VAT returns), which are likely to be the most impacted by the change in rules (corrections becoming simpler).

The simplification in audit procedures is likely to have a major impact on businesses. Unfortunately, there are no data at this stage to assess the impact of such changes on the costs of audits for businesses.

Therefore, we used the following assumptions for Option5:

- A reduction of 50% of the time needed for businesses to prepare the data and submit their VAT returns (both in-house and outsourced), (IO6b); and
- A reduction of 40% of the outsourcing costs (IO6b);
- A very large share of businesses of businesses in the SEM will have to make corrections;
- A reduction of the time necessary for payment from 7 to 5 minutes for each payment (IO8b).

Assumption 20 – Take-up of the SEM

Similar to what explained under assumption 14 for Option4 we made different assumptions on the adoption rate of the SEM by businesses for the following categories:

- Businesses below the common VAT threshold (EUR 5 000 and EUR 10 000);
- Businesses above the common VAT threshold and in the SEM;
- Businesses above the common VAT threshold and outside the SEM.

The table below provides an overview of the estimated take-up of the SEM among EU businesses under Option5.

Simpler rules will generate an increase in the take-up of the SEM by EU businesses engaged in cross-border e-Commerce, representing about 73% of the volume of cross-border e-Commerce (with respect to 63% under Option4).

Table 139 – Estimated take-up of SEM among EU businesses (Option5)

	Businesses below the common VAT threshold (EUR 5000 – 10 000)	Businesses above the common VAT threshold and in the SEM (EUR 5000 – 10 000)	Businesses above the common VAT threshold and outside the SEM
Micro businesses	398 200 -429 171	44 244 -13 273	
Small businesses		77 630	4 086
Medium businesses		20 905	3 689
Large businesses		6 408	2 746
Total number of businesses	398 200 -429 171	149 189 -118 218	10 521
(% of businesses)	*71.4%-76.9%*	*25.6%-20.1%*	*1.9%*
(% of cross-border e-Commerce volume)	*2.9%-3.2%*	*73.2%-73.9%*	*22.4%*

We did not consider that the provisions under Option5 will lead to any notable change in the volume of imports processed via the SEM with respect to Option4.

Option 6 – Option 4 plus fully harmonised rules for the SEM, subject to applying the rates/exemption of the Member State of Consumption

As discussed with during the Steering Committee meeting, Option 5 and Option 6 should also have a quantitative assessment of their impacts, both on businesses and on Member States.

Similarly to Option 5, Option 6 should lead to a reduction of the administrative costs for businesses, as being subject to domestic legislation and controls should reduce the costs businesses incur to comply with VAT legislation on issues such as invoicing and audit, but also on the requirements of storage of invoicing, for instance. However, such reduction in the administrative costs is likely to be lower than under Option4, but higher than under Option5 (as businesses are subject to two sets of rules instead of up to 28).

Assumption 21 – Impact on relevant IOs

As for Option 5, key changes for the assessment of the administrative burden under Option5 concern IO6b (submission of SEM returns) and IO8b (payment of SEM VAT returns), which are likely to be the most impacted by the change in rules (corrections becoming simpler).

The simplification in audit procedures is likely to have a major impact on businesses. Unfortunately, there are no data at this stage to assess the impact of such changes on the costs of audits for businesses.

Therefore, we used the following assumptions for Option5:

- A reduction of 30% of the time needed for businesses to prepare the data and submit their VAT returns (both in-house and outsourced), (IO6b); and
- A reduction of 20% of the outsourcing costs (IO6b);
- A very large share of businesses of businesses in the SEM will have to make corrections;
- A reduction of the time necessary for payment from 7 to 6 minutes for each payment (IO8b).

Assumption 22 – Take-up of the SEM

Similar to what explained under assumption 14 for Option4 we made different assumptions on the adoption rate of the SEM by businesses for the following categories:

- Businesses below the common VAT threshold (EUR 5 000 and EUR 10 000);
- Businesses above the common VAT threshold and in the SEM;
- Businesses above the common VAT threshold and outside the SEM.

The table below provides an overview of the estimated take-up of the SEM among EU businesses under Option6.

Simpler rules will generate an increase in the take-up of the SEM by EU businesses engaged in cross-border e-Commerce, representing about 73% of the volume of cross-border e-Commerce (with respect to 63% under Option4).

Table 140 - Estimated take-up of SEM among EU businesses (Option5)

	Businesses below the common VAT threshold (EUR 5000 – 10 000)	Businesses above the common VAT threshold and in the SEM (EUR 5000 – 10 000)	Businesses above the common VAT threshold and outside the SEM
Micro businesses	398 200 -429 171	44 244-13 273	
Small businesses		73 544	8 172
Medium businesses		19 183	5 411
Large businesses		5 950	2 289
Total number of businesses	398 200 -429 171	149 189 -118 218	15 871
(% of businesses)	*71.4%-76.9%*	*25.6%-20.1%*	*1.9%*
(% of cross-border e-	*2.9%-3.2%*	*73.2%-73.9%*	*23.2%*

	Businesses below the common VAT threshold (EUR 5000 – 10 000)	Businesses above the common VAT threshold and in the SEM (EUR 5000 – 10 000)	Businesses above the common VAT threshold and outside the SEM
Commerce volume)			

We did not consider that the provisions under Option5 will lead to any notable change in the volume of imports processed via the SEM with respect to Option4.

Simpler rules will generate an increase in the take-up of the SEM by EU businesses engaged in cross-border e-Commerce, representing about 73% of the volume of cross-border e-Commerce (with respect to 63% under Option4, but slightly lower than under Option5.

We did not consider that the provisions under Option5 will lead to any notable change in the volume of imports processed via the SEM with respect to Option4.

Annex 5: Standard Cost Model

This annex describes the approach and data strategy of the Standard Costs Model for the specific objectives and scope of Lot of the assignment.

Introduction

The quantification of the burden for European and non-European businesses (as well as for national postal operators and couriers) is an important component of the study. In keeping with the European Commission's Guidelines and Terms of Reference, this study uses the Standard Costs Model (SCM) methodology.

The SCM was developed by the Dutch ministry of Finance and is used to measure the administrative burden imposed on businesses and/or citizens through the need to comply with regulation. The SCM identifies Information Obligations (IOs), or tasks associated with regulation which require the delivery of information to public authorities or third parties. The IOs can be further subdivided into Data Requirements (DRs). The SCM provides a simplified and consistent method to measure the impact of regulation. It is used across several Member States and is part of the EU's tool kit for assessing administrative costs imposed by EU legislation[134].

Standard Cost Model:

Administrative burden = Time*Price*Quantity (amount x frequency)

Time: The time spent by the citizen or the employee in the enterprises to comply with an IO

Price: The standard cost to apply to the time spent according to the level of the employee who performs the IO (Information Obligation).

Quantity: The number of IOs to perform per year and their frequency (e.g. monthly, yearly)

Objectives, scope and sources for the SCM

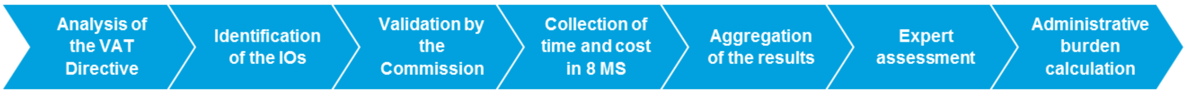
Summary of the SCM approach

The SCM first identifies the Information Obligations (IOs) resulting from the EU VAT legislation a 'typical' EU business (defined by the European Commission as ideal type and normally efficient[135])

[134] See Impact Assessment Guidelines, annex 10: Assessing administrative costs imposed by EU legislation, p.46
[135] See the European Commission's SCM guidelines at http://ec.europa.eu/smart-regulation/guidelines/tool_53_en.htm

engaged in cross-border e-Commerce has to comply with. It then estimates the costs related to these IOs. Figure 16 below outlines the steps in the analysis.

Figure 16: Process for measuring the administrative burden



- The VAT Directive (2006/112/EC Directive) was consulted to identify the IOs businesses engaged in cross-border B2C e-Commerce must comply with. A list was compiled and validated by the European Commission. The list is presented in detail in the following section.
- Interviews were conducted with businesses across twelve Member States. A total of 51 businesses were interviewed, including large, medium and small, as well as micro businesses, engaged in cross-border B2C e-Commerce across a variety of retail sectors (including TBE services. Businesses were asked how much time they spend on each IOs and whether there were additional costs incurred (for example outsourcing costs.
- The results from the interviews were aggregated to represent a "typical" EU company.
- Results were critically assessed by Deloitte VAT experts who have worked across multiple EU markets. These experts reviewed the information provided and the extent to which the businesses sampled could be regarded as representative. These experts also provided input into the assumptions used in the calculations, including the frequency of VAT obligations (based on the requirements across Member States), the number of states in which firms are registered and the typical costs associated with outsourcing these obligations.
- The burden of a 'typical' business engaged in cross-border B2C e-Commerce was estimated.

Data and assumptions

Data for the exercise came from a variety of sources:

- Real data from business interviews;
- Commission's official guidelines and standardised data (for hourly costs);
- Expert assessments;
- Third party sources.

Data from interviews

Data on IOs came from interviews with real businesses engaged in cross-border B2C e-Commerce in twelve Member States, carried out as part of the activities of Lot 1 and Lot 3. These Member States were selected among the members of the Fiscalis group on compliance that agreed to participate an in cooperation with the Commission. Businesses were identified and contacted using a variety of channels, such as the Deloitte network, business representative organisations (both at EU and national level), and chambers of commerce. The following countries and enterprises were included:

- Austria: 1 business;
- Belgium: 3 businesses;
- Denmark: 8 businesses;
- France: 3 businesses;
- Germany: 3 businesses;
- Hungary: 2 businesses;

- Ireland: 7 businesses;
- Italy: 5 businesses;
- Luxembourg: 4 businesses;
- Poland:
- Sweden: 2 businesses;
- United Kingdom: 13 businesses.
- Non-EU businesses: 3 businesses

The sample included micro (4), small (2), medium (4) and large (13) businesses, active in 7 business sectors (with clothing and accessories being the most frequent).

It should be noted that the sample cannot be considered statistically representative of the variety of businesses engaged in B2C cross-border e-Commerce, nor statistical representativeness is requested by the SCM methodology.

Secondary sources

Data on hourly earnings is provided by Eurostat[136]. Specifically, hourly rates for the category ISCO 2, i.e. for management accounts, were used, as they make up the personnel responsible for VAT-related procedures in businesses. Management accountants are classified under the code 2411 in the International Standard Classification of Occupations elaborated by the ILO.

Data on the number of businesses engaged in cross-border B2C e-Commerce was obtained from Eurostat and Enterprise and Industry 2013 SBA Fact Sheets.

Information Obligations (IOs) used for the analysis

The table below provides the overview of the IOs used in the SCM. The relevant IOs were identified through the current literature and interviews with Deloitte's tax practitioners. In addition, the list of IOs was checked by both national tax and Customs authorities and the businesses interviewed. The table also indicates which IOs were relevant for each of the Options covered by the assessment.

Table 141– Information Obligations used in the Standard Cost Model for each of the Policy Options

IO #	Type of obligation	Description	Comments/notes
IO1	VAT registration	IO1 consists of the one-off registration for VAT purposes in another Member State than the Member State where the business is established. This includes all tasks necessary to complete the registration such as communication with the relevant authorities and the provision of evidence of taxable activities. By contrast, the waiting time is not included in the calculation.	
IO2	Identification of customer status – B2B	IO2 consists of the identification for each transaction of the status of the customer, *i.e.* whether the customer is a business or a consumer.	Part of the 'business as usual' operations – no specific costs attached

[136] See: http://ec.europa.eu/eurostat/web/products-datasets/-/earn_ses_hourly . The most recent figures date back to 2010, but given the economic crisis, figures are considered still quite accurate by the Commission's services consulted on the topic. Updated hourly earnings should be elaborated by Eurostat by the end of 2015,

IO #	Type of obligation	Description	Comments/notes
	or B2C		
IO3	Identification of Member State of consumption	IO3 consists of the identification for each transaction of the Member State of consumption.	Part of the 'business as usual' operations – no specific costs attached
IO4	Identification of correct VAT rate	IO4 consists of the identification for each transaction of the correct VAT rate that applies to the transaction.	Part of the 'business as usual' operations – no specific costs attached
IO5	Invoicing (incl. charging VAT	IO5 consists of the invoicing for each transaction in accordance with either the business' home country rules or the rules of the Member State of consumption.	Part of the 'business as usual' operations – no specific costs attached
IO6a	VAT declaration /returns Re domestic VAT	IO6a consists of the periodical submission of the domestic VAT return.	
IO6b	VAT declaration /returns Re MOSS	IO6b consists of the quarterly submission of the MOSS VAT return in the business' Member State of identification.	
IO7	Import declaration (incl. VAT)	IO7 applies to the import of goods. It consists of the submission for each transaction of the import declaration.	Does not apply to businesses in our exercise - dropped
IO8a	VAT payment Re domestic return	IO8a consists of the periodic (generally monthly) payment of the VAT related to the business' domestic VAT return.	
IO8b	VAT payment Re MOSS	IO8b consists of the quarterly payment of the VAT related to the business' MOSS VAT return.	
IO8c	VAT payment Re import	IO8a consists of the periodic payment of the VAT related to the business' imports of goods	Does not apply to businesses in our exercise – dropped
IO9	Storage of invoices	IO9 consists of the storage of invoices in accordance with the obligation to store invoices for 10 years. It also includes the cooperation with audits and inspection by the relevant public authorities.	
IO10	Storage of import declarations	IO10 consists of the storage of import declarations in accordance with the obligation to store them for 10 years. It also includes the cooperation with audits and inspection by the relevant public authorities.	Does not apply to businesses in our exercise – dropped
IO11	Changes or cancelling of VAT registration	IO11 consists of the one-off cancellation or change of registration for VAT purposes in another Member State than the Member State where the business is established. This includes all tasks necessary to complete the cancellation or change such as	

IO #	Type of obligation	Description	Comments/notes
		communication with the relevant authorities. By contrast, the waiting time is not included in the calculation.	

Source: Deloitte analysis based on VAT Directive 2006/112/EC

Calculation of the administrative burden

Information from these interviews was merged to create a ‘typical’ EU business engaged in cross-border B2C e-Commerce. This was done by averaging the costs of each IO across businesses interviewed in each Member State, and then averaging these figures across Member States. The formula below denotes this process mathematically:

$$Average\ cost = \frac{1}{N}\sum_{N}(Time_N * \ Wage_N\ )$$

where N is the number of businesses in the sample per each Member State (and then the number of Member States).

Figure 17 represents a simplified diagram of how inputs into the SCM are used to calculate total administrative costs. Information on price per action is obtained from the business interviews, while information on total number of actions comes from third-party sources and expert assessments. Similar calculations are performed for each IO and the results are aggregated together.

Figure 17 – Basic SCM calculation

Data on the number of companies engaged in cross-border B2C e-Commerce in Europe was obtained from Eurostat and the Enterprise and Industry 2013 SBA Fact Sheets. The number is estimated at 248 581[137]. This figure includes large companies and SMEs, but does not include micro-businesses. Micro-businesses engaged in cross-border e-Commerce have been estimated in 1 042 071 (see section 2.2.3 and Annex 5). The distance-selling thresholds mean that these firms are unlikely to be required to register for VAT; however, even those countries that supply data on the incidence of micro-businesses selling cross-border do not have data on the share of turnover coming from cross-border sales, so the probability of these businesses being registered is likely to be quite low.

The number of Member States in which a ‘typical’ EU business is registered was estimated using a combination of information from the business interviews and expert assessments. Information from the business interviews proved quite heterogeneous: the average of 6 registrations per businesses trading goods seemed excessively high. This was likely a consequence of the sample not being

[137] For more details on the number of businesses engaged in e-Commerce in Europe, please see section 3.2.

representative and skewed towards large enterprises. As secondary data was not available[138], these numbers were cross-checked using expert assessments. Input was given by Deloitte tax experts based on their direct experience on supporting businesses with VAT registrations in other Member States and other VAT obligations, as well as chambers of commerce and the businesses associations, based on the experiences reported by their members. The experts agreed that the largest companies are often registered in all 28 Member States. However, the majority of businesses tend to focus trade on neighbouring countries and thus have a limited number of registrations in other Member States - three on average. As large businesses form only a minor of businesses engaged in cross-border e-Commerce, and the purpose of this study is to reflect the cost of a 'typical' EU business, the number of Member States in which businesses register was set at three. Following a similar process, the average number of Member States a 'typical' EU business has sales was estimated in five. This figure was then raised to up 15 for those businesses not using the MOSS, to reflect the fact that large businesses (with VAT registrations already in place in many countries) are not likely to use such simplification measure.

A number of additional information points and assumptions were also required for the model.

- For those IOs that incur outsourcing costs (such as IO1, IO6a and IO11), it was assumed that half of the businesses use advisors, while the remaining half complies with the requirements in-house. This assumption was made based on results from our business interviews and expert assessment.
- For IO11, it was assumed also that only half of the businesses engaged in cross-border B2C e-Commerce undergo a change or cancellation of VAT number. These assumptions were based on inputs from interviews, as well as on expert judgement.

As mentioned above, and consistently with the SCM methodology, we used expert judgement to support our analysis and inform the assumptions necessary to apply the SCM when data from primary sources and literature were insufficient or not applicable. We involved VAT experts, e-Commerce experts and IT experts in order to validate the assumptions of our analysis, based on the competencies needed to address the different points.

The results from the SCM were cross-checked using expert judgement findings from existing literature, including recent studies carried out for the European Commission, DG TAXUD, on VAT-related topics[139]. It should be noted, however, that figures from existing studies are not necessarily directly comparable, as other studies may be measuring different things and using different approaches.

[138] During our fieldwork and interviews, we asked all interlocutors about information on this issue. Apparently, no organisations collects data on this.
[139] The full list of references used is provided in Annex A

Administrative burden facing ‘typical’ EU businesses engaged in cross-border e-Commerce

In this section we present the detailed SCM tables used to estimate the administrative costs faced by EU businesses under the different Policy Options.

Option 1: Status Quo

Businesses trading goods

Table 142 – SCM for a ‘typical’ EU businesses trading goods, Option1

IO#	Administrative tasks		No. companies	Frequency (per country)	Time per IO (FTE days)	Days per country per year	Annual in-house cost per firm per country (EUR)	External Fees (EUR)	Total annual cost per firm per country (EUR)	Annual cost per firm (3 MSs) (EUR)	TOTAL
1	VAT registration (incl for MOSS)	In house	124 290	once in 10 years	2.7	0.3	61		61	184	22 813 720
		Outsourced	124 290	once in 10 years	0.8	0.1	17	2 000	217	652	81 082 444
		Average							**139**	**418**	**103 896 164**
2	Identification of customer status – B2B or B2C	N/A									
3	Identification of Member State of consumption	N/A									
4	Identification of correct VAT rate	N/A									
5	Invoicing (incl. charging VAT)	N/A									
6a	VAT declaration/returns - Domestic VAT return	In house	124 290	8 times per year	1.7	13.8	3 091		3 091	9 272	1 152 430 736
		Outsourced	124 290	8 times per year	2.1	17.1	3 836	800	10 236	30 708	3 816 689 578
		Average							**6 663**	**19 990**	**4 969 120 314**
6b	VAT declaration/returns - MOSS return		10 000	4 times per year	0.1	0.5	112		112	112	1 123 500
7	Import declaration (incl VAT)	N/A									
8a	VAT payment - Re domestic return		248 581	8 times per year	0.1	0.6	128		128	385	95 753 289
8b	VAT payment - Re MOSS		10 000	4 times per year	0.0	0.1	21		21	21	214 000

IO#	Administrative tasks		No. companies	Frequency (per country)	Time per IO (FTE days)	Days per country per year	Annual in-house cost per firm per country (EUR)	External Fees (EUR)	Total annual cost per firm per country (EUR)	Annual cost per firm (3 MSs) (EUR)	TOTAL
8c	VAT payment - Re import	N/A									
9	Storage of invoices		248 581	monthly	0.3	4.0	897		897	2,692	669 076 110
10	Storage of import declarations	N/A									
11	Changes or cancelling of VAT registration	In house	62 145	once in 10 years	1.7	0.2	38		38	115	7 151 574
		Outsourced	62 145	once in 10 years	0.1	0.0	2	1,000	102	305	18 942 782
		Average							**70**	**210**	
	Total								**7 865**	**23 595**	**5 865 277 734**

Source: Deloitte analysis

Businesses trading TBE services

Table 143 – SCM for a 'typical' EU businesses trading TBE services and using the MOSS, Option1

IO#	Administrative tasks		No of companies	Frequency	Time per IO (Full time employee days)	Days per year	Annual in-house cost per firm per country (EUR)	External fees (EUR)	Annual cost per firm per country (EUR)	Annual cost per firm (5 Member States) (EUR)	TOTAL (EUR)
1	VAT registration (MOSS registration)	In house	5 302	Once in 10 years	1.16	0.12	19.80		19.80	19.80	104 953.09
		Outsourced	5 302	Once in 10 years	0.19	0.02	3.21	300	33.21	33.21	176 079.42
		Total									281 032.51
2	Identification of customer status – B2B or B2C	N/A									
3	Identification of MS of consumption	N/A									
4	Identification of correct VAT rate	N/A									
5	Invoicing (incl. charging VAT)	N/A									

IO#	Administrative tasks		No of companies	Frequency	Time per IO (Full time employee days)	Days per year	Annual in-house cost per firm per country (EUR)	External fees (EUR)	Annual cost per firm per country (EUR)	Annual cost per firm (5 Member States) (EUR)	TOTAL (EUR)
6a	VAT declaration/returns - Domestic VAT return	N/A									
6b	VAT declaration/returns - MOSS return	In house	5 302	Quarterly	2.05	8.20	1 404.64		1 404.64	1 404.64	7 447 414.54
		Outsourced	5 302	Quarterly	0.38	0.50	256.80	650	2 856.80	2 856.80	15 146 753.60
		Total									22 594 168.14
7	Import declaration (incl VAT)	N/A									
8b	VAT payment - Re MOSS return		10 604	Quarterly	0.02	0.09	14.67		14.67	14.67	155 606.13
8c	VAT payment - Re Imports	N/A									
9	Storage of invoices	N/A									
10	Storage of import declarations	N/A									
11	Changes or cancelling of VAT registration	N/A									

Source: Deloitte analysis

Table 144 – SCM for a 'typical' EU businesses trading TBE services and not using the MOSS, Option1

IO#	Administrative tasks		No of companies	Frequency	Time per IO (FTE days)	Days per year	Annual in-house cost per firm per country (EUR)	External fees (EUR)	Annual cost per firm per country (EUR)	Annual cost per firm (8 Member States) (EUR)	TOTAL (EUR)
1	VAT registration	In-house	16 985	Once in 10 years	1,63	0,16	27,82		27,82	222,56	3 780 214,98
		Outsource	16 985	Once in 10 years	0,56	0,06	9,63	1 200	129,63	1 037,04	17 614 279,96
		Total									21 394 494,94
2	Identification of customer status – B2B or B2C	N/A									
3	Identification of MS of consumption	N/A									
4	Identification of correct VAT rate	N/A									
5	Invoicing (incl. charging VAT)	N/A									
6a	VAT declaration/returns - Domestic VAT return	In-house	16 985	8 times per year	2,56	20,50	3 509,60		3 509,60	28 076,80	476 888 659,52
		Outsource	16 985	8 times per year	0,75	6,00	1 027,20	700	6 627,20	53 017,60	900 511 888,64
		Total									1 377 400 548,16
6b	VAT declaration/returns - MOSS return	N/A									
7	Import declaration (incl VAT)	N/A									
8a	VAT payment - Re domestic return		33 970	8 times per year	0,03	0,25	42,80		42,80	342,40	11 631 430,72
8b	VAT payment - Re MOSS return	N/A									
8c	VAT payment - Re Imports	N/A									
9	Storage of invoices	N/A									
10	Storage of import declarations	N/A									
11	Changes or cancelling of VAT registration	In-house	8 493	Once in 10 years	0,13	0,01	2,23		2,23	17,83	151 450,92
		Outsource	8 493	Once in 10 years	0,06	0,01	1,07	500	180,32	1 442,57	3 469 726,44

Source: Deloitte analysis

Option 2: Removal of the distance sales thresholds and the small consignment exemption (No simplification)

Businesses trading goods

Table 145 – SCM for a 'typical' EU businesses trading goods, Option2

IO#	Administrative tasks		No of companies	Frequency	Time per IO (FTE days)	Days per year	Annual in-house cost per firm per country (EUR)	External fees (EUR)	Annual cost per firm per country (EUR)	Annual cost per firm (3 MSs) (EUR)	TOTAL (EUR)
1	VAT registration	In-house	176 394	Once in 10 years	3.57	0.36	61.14		61.18	183.55	32 377 447.59
		Outsource	176 394	Once in 10 years	1.02	0.10	17.45	2 000	652.36	652.36	115 072 973.69
		Total									147 450 421.28
2	Identification of customer status – B2B or B2C	N/A									
3	Identification of MS of consumption	N/A									
4	Identification of correct VAT rate	N/A									
5	Invoicing (incl. charging VAT)	N/A									
6a	VAT declaration/returns - Domestic VAT return	In-house	176 394	8 times per year	2.26	18.05	3 090,70		3 090.70	9 272.09	1 635 540 625.09
		Outsource	176 394	8 times per year	2.80	22.41	3 835,95	800	10 235.95	30707.85	5 416 682 028.29
		Total									7 052 222 653.39
6b	VAT declaration/returns - MOSS return		10 000	4 times per year	0.16	0.66	112,35		112.35	112.35	1 123 500.00
7	Import declaration (incl VAT)	N/A									
8a	VAT payment - Re domestic return		352 788	8 times per year	0.09	0.75	128,40		128.40	385.20	135 893 976.12
8b	VAT payment - Re MOSS return		10 000	8 times per year	0.03	0.13	21,40		21.40	21.40	214 000.00
8c	VAT payment - Re Imports	N/A									
9	Storage of invoices		352 788	1 time per year	0.44	0.44	897.20		897.20	2 691.59	949 559 158.14
10	Storage of import declarations	N/A									
11	Changes or cancelling of VAT registration	In-house	88 197	Once in 10 years	2.24	0.22	38.36		38.36	11.,08	10 149 581.34
		Outsource	88 197	Once in 10 years	0.09	0.01	1.61	1 000	101.61	304.82	26 883 776.18

IO#	Administrative tasks		No of companies	Frequency	Time per IO (FTE days)	Days per year	Annual in-house cost per firm per country (EUR)	External fees (EUR)	Annual cost per firm per country (EUR)	Annual cost per firm (3 MSs) (EUR)	TOTAL (EUR)
		Total									37 033 357.52

Source: Deloitte analysis

Businesses trading TBE services

Same as under Option1

Option 3: Option 2 but with the introduction of a common VAT threshold for EU sales of both goods and services (EUR 5000 or EUR 10 000)

Businesses trading goods

Common VAT threshold at EUR 5 000

Table 146 – SCM for a 'typical' EU businesses trading goods, threshold of EUR 5 000, Option 3

IO#	Administrative tasks		No of companies	Frequency	Time per IO (Full time employee days)	Days per year	Annual in-house cost per firm per country (€)	External fees (€)	Annual cost per firm per country (€)	Annual cost per firm (3 Member States) (€)	TOTAL (€)
1	VAT registration	In-house	65 763	Once in 10 years	3,57	0,36	61,1839375		61,18	183,55	12 070 826,07
		Outsource	65 763	Once in 10 years	1,02	0,10	17,454375	2 000	540,20	1 620,61	106 575 270,42
		Total									118 646 096,49
2	Identification of customer status – B2B or B2C	N/A									
3	Identification of MS of consumption	N/A									
4	Identification of correct VAT rate	N/A									

IO#	Administrative tasks		No of companies	Frequency	Time per IO (Full time employee days)	Days per year	Annual in-house cost per firm per country (€)	External fees (€)	Annual cost per firm per country (€)	Annual cost per firm (3 Member States) (€)	TOTAL (€)
5	Invoicing (incl. charging VAT)	N/A									
6a	VAT declaration/returns - Domestic VAT return	In-house	65 763	8 times per year	2.26	18.05	3 090.70		3 090.70	9 272.09	609 755 489.81
		Outsource	65 763	8 times per year	2.80	22.41	3 835.95	800	25428.27	76 284.82	5 016 680 576.19
		Total									5 626 436 066.00
6b	VAT declaration/returns - MOSS return										
7	Import declaration (incl VAT)	N/A									
8a	VAT payment - Re domestic return		131 525	8 times per year	0.09	0.75	128.40		128.40	385.20	50 663 430.00
8b	VAT payment - Re MOSS return										
8c	VAT payment - Re Imports	N/A									
9	Storage of invoices		131 525	1 time per year	0.44	0.44	897.20	0	897.20	2 691.59	354 010 717.13
10	Storage of import declarations	N/A									
11	Changes or cancelling of VAT registration	In-house	65 763	Once in 10 years	2.24	0.22	38.36	0	38.36	115.08	7 567 849,86
		Outsource	65 763	Once in 10 years	0.09	0.01	1.61	1 000	126.20	378.61	24 898 511,13
		Total									32 466 360,98

Source: Deloitte analysis

Common VAT threshold at EUR 10 000

Table 147 – SCM for a 'typical' EU businesses trading goods, threshold of EUR 5 000, Option3

IO#	Administrative tasks		No of companies	Frequency	Time per IO (FTE days)	Days per year	Annual in-house cost per firm per country (EUR)	External fees (EUR)	Annual cost per firm per country (EUR)	Annual cost per firm (3 MSs) (EUR)	TOTAL (EUR)

IO#	Administrative tasks		No of companies	Frequency	Time per IO (FTE days)	Days per year	Annual in-house cost per firm per country (EUR)	External fees (EUR)	Annual cost per firm per country (EUR)	Annual cost per firm (3 MSs) (EUR)	TOTAL (EUR)
1	VAT registration	In-house	139 922	Once in 10 years	3.57	0.36	61.18	0	61.18	183.55	25 682 856.86
		Outsource	139 922	Once in 10 years	1.02	0.10	17.45	2 000	217.45	652.36	91 279 669.40
		Total									116 962 526.26
2	Identification of customer status – B2B or B2C	N/A									
3	Identification of MS of consumption	N/A									
4	Identification of correct VAT rate	N/A									
5	Invoicing (incl. charging VAT)	N/A									
6a	VAT declaration/returns - Domestic VAT return	In-house	139 922	8 times per year	2.26	18.05	3 090.70	0	3 090.70	9 272.09	1 297 364 644.01
		Outsource	139 922	8 times per year	2.80	22.41	3 835.95	800	10 235.95	30 707.85	4 296 690 429.79
		Total									5 594 055 073.80
6b	VAT declaration/returns - MOSS return	N/A									
7	Import declaration (incl VAT)	N/A									
8a	VAT payment - Re domestic return		279 843	8 times per year	0.09	0.75	128.40	0	128.40	385.20	107 795 573.68
8b	VAT payment - Re MOSS return	N/A									
8c	VAT payment - Re Imports	N/A									
9	Storage of invoices		279 843	1 time per year	0.44	0.44	897.20	0	897.20	2 691.59	753 221 571.06
10	Storage of import declarations	N/A									
11	Changes or cancelling of VAT registration	In-house	69 961	Once in 10 years	2.24	0.22	38.36	0	38.36	115.08	8 050 981.91
		Outsource	69 961	Once in 10 years	0.09	0.01	1.61	1 000	101.61	304.82	21 325 095.92
		Total									29 376 077.83

Source: Deloitte analysis

Businesses trading TBE services

Same as under Option1

Option 4: Option 3 plus Single Electronic Mechanism

Businesses trading goods

Common VAT threshold at EUR 5 000

Table 148 – SCM for a 'typical' EU businesses trading goods, above the threshold of EUR 5 000 and in the SEM, Option4

IO#	Administrative tasks		No of companies	Frequency	Time per IO (FTE days)	Days per year	Annual in-house cost per firm per country (EUR)	External fees (EUR)	Annual cost per firm per country (EUR)	Annual cost per firm (EUR)	TOTAL (EUR)
1	VAT registration (SEM registration)	In-house	123 593	Once in 10 years	1.16	0.12	19.79	0	19.80	19.80	2 446 524.17
		Outsource	123 593	Once in 10 years	0.19	0.02	3.21	300	33.21	33.21	4 104 524.76
		Total									6 551 048.93
2	Identification of customer status – B2B or B2C	N/A									
3	Identification of MS of consumption	N/A									
4	Identification of correct VAT rate	N/A									
5	Invoicing (incl. charging VAT)	N/A									
6b	VAT declaration/returns - SEM return	In-house	123 593	4 times per year	2.05	8.20	125.02	0	125.02	1404.64	173 604 032.47
		Outsource	123 593	4 times per year	0.38	1.50	22.86	800	2 622.86	2 622.86	324 166 696.20
		Total									497 770 728.67
7	Import declaration (incl VAT)	N/A									
8a	VAT payment - Re domestic return	N/A									
8b	VAT payment - Re SEM return		247 186	4 times per year	0.02	0.09	0.65	0	0.65	14.67	3 627 279.07
8c	VAT payment - Re Imports	N/A									
9	Storage of invoices	N/A									

IO#	Administrative tasks		No of companies	Frequency	Time per IO (FTE days)	Days per year	Annual in-house cost per firm per country (EUR)	External fees (EUR)	Annual cost per firm per country (EUR)	Annual cost per firm (EUR)	TOTAL (EUR)
10	Storage of import declarations	N/A									

Source: Deloitte analysis

Table 149 – SCM for a 'typical' EU businesses trading goods, above the threshold of EUR 5 000 and outside the SEM, Option4

IO#	Administrative tasks		No of companies	Frequency	Time per IO (FTE days)	Days per year	Annual in-house cost per firm per country (EUR)	External fees (EUR)	Annual cost per firm per country (EUR)	Annual cost per firm (4 MSs) (EUR)	TOTAL (EUR)
1	VAT registration	In-house	78 853	Once in 10 years	3.57	0.36	61.18	0	61.18	244.74	19 298 060.72
		Outsource	78 853	Once in 10 years	1.02	0.10	17.45	2 000	217.45	869.82	68 587 408.80
		Total									87 885 469.53
2	Identification of customer status – B2B or B2C	N/A									
3	Identification of MS of consumption	N/A									
4	Identification of correct VAT rate	N/A									
5	Invoicing (incl. charging VAT)	N/A									
6a	VAT declaration/returns - Domestic VAT return	In-house	78 853	8 times per year	2.26	18.05	3 090.70	0	3 090.70	12 362.78	974 837 877.83
		Outsource	78 853	8 times per year	1.02	8.16	3 835.95	800	10 235.95	40 943.80	3 228 526 844.46
		Total									4 203 364 722.29
6b	VAT declaration/returns - MOSS return	N/A									
7	Import declaration (incl VAT)	N/A									
8a	VAT payment - Re domestic return		157 705	8 times per year	0.09	0.75	128.40	0	128.40	513.60	80 997 434.89
8b	VAT payment - Re MOSS return	N/A									
8c	VAT payment - Re Imports	N/A									
9	Storage of invoices		157 705	Yearly	0.44	0.44	74.77	0	74.77	299.07	47 164 131.36
10	Storage of import declarations	N/A									

11	Changes or cancelling of VAT registration	In-house	39 426	Once in 10 years	2.24	0.22	38.36	0	38.36	153.44	6 049 495.92
		Outsource	39 426	Once in 10 years	0.09	0.01	1.61	1 000	101.61	406.42	16 023 645.58
		Total									22 073 141.50

Source: Deloitte analysis

Common VAT threshold at EUR 10 000

Table 150 – SCM for a 'typical' EU businesses trading goods, above the threshold of EUR 10 000 and in the SEM, Option4

IO#	Administrative tasks		No of companies	Frequency	Time per IO (FTE days)	Days per year	Annual in-house cost per firm per country (EUR)	External fees (EUR)	Annual cost per firm per country (EUR)	Annual cost per firm (1 Member States) (EUR)	TOTAL (EUR)
1	VAT registration (SEM registration)	In-house	61 069	Once in 10 years	1.16	0.12	19.79	0	19.80	19.80	1 208 856.44
		Outsource	61 069	Once in 10 years	0.19	0.02	3.21	300	33.21	33.21	2 028 094.08
		Total									3 236 950.52
2	Identification of customer status – B2B or B2C	N/A									
3	Identification of MS of consumption	N/A									
4	Identification of correct VAT rate	N/A									
5	Invoicing (incl. charging VAT)	N/A									
6b	VAT declaration/returns - SEM return	In-house	61 069	Quarterly	2.05	8.20	253.01	0	253.01	1404.64	85 779 799.60
		Outsource	61 069	Quarterly	0.38	1.50	46.26	650	2 646.26	2 646.26	161 603 620.20
		Total									247 383 419.80
7	Import declaration (incl VAT)	N/A									
8a	VAT payment - Re domestic return	N/A									
8b	VAT payment - Re MOSS return		122 138	Quarterly	0.02	0.09	1.32	0	1.32	14.67	1 792 281.36
8c	VAT payment - Re Imports	N/A									
9	Storage of invoices	N/A									
10	Storage of import declarations	N/A									

Source: Deloitte analysis

Table 151 – SCM for a 'typical' EU businesses trading goods, above the threshold of EUR 10 000 and outside the SEM, Option4

IO#	Administrative tasks		No of companies	Frequency	Time per IO (FTE days)	Days per year	Annual in-house cost per firm per country (EUR)	External fees (EUR)	Annual cost per firm per country (EUR)	Annual cost per firm (4 MSs) (EUR)	TOTAL (EUR)
1	VAT registration	In-house	78 853	Once in 10 years	3.57	0.36	61.18	0	61.18	244.74	19 298 060.72
		Outsourced	78 853	Once in 10 years	1.02	0.10	17.45	2 000	217.45	869.82	68 587 408.80
		Total									87 885 469.53
2	Identification of customer status – B2B or B2C	N/A									
3	Identification of MS of consumption	N/A									
4	Identification of correct VAT rate	N/A									
5	Invoicing (incl. charging VAT)	N/A									
6a	VAT declaration/returns - Domestic VAT return	In-house	78 853	8 times per year	2.26	18.05	3 090.70	0	3 090.70	12 362.78	974 837 877.83
		Outsourced	78 853	8 times per year	2.80	22.41	3 835.95	800	10 235.95	40 943.80	3 228 526 844.46
		Total									4 203 364 722.29
7	Import declaration (incl VAT)	N/A									
8a	VAT payment - Re domestic return		157 705	8 times per year	0.44	3.49	128.40	0	128.40	513.60	80 997 434.89
8b	VAT payment - Re MOSS return	N/A									
8c	VAT payment - Re Imports	N/A									
9	Storage of invoices		157 705	Yearly	0.44	0.44	74.77	0	74.77	299.07	47 164 131.36
10	Storage of import declarations	N/A									
11	Changes or cancelling of VAT registration	In-house	39 426	Once in 10 years	2.24	0.22	38.36	0	38.36	153.44	6 049 495.92
		Outsourced	39 426	Once in 10 years	0.09	0.01	1.61	1 000	101.61	406.42	16 023 645.58
		Total									22 073 141.50

Source: Deloitte analysis

Businesses trading TBE services

Same as under Option1

Option 5: Option 4 plus amendments to the Single Electronic Mechanism (home country legislation and home country control)

Businesses trading goods

Common VAT threshold at EUR 5 000

Table 152 – SCM for a 'typical' EU businesses trading goods, above the threshold of EUR 5 000 and in the SEM, Option 5

IO#	Administrative tasks	Frequency		Tariff (EU)	Wage cost per 1 company - 1 year	Tot. WAGE costs	External Fees (€)	No. companies	No. MSs	TOTAL
1	VAT registration (domestic registration)	Once every 10 years	INSOURCE	32.1	278	2 075 195		74 594	1	2 075 195.34
		Once every 10 years	OUTSOURCE	32.1	96	718 337	1200	74 594	1	9 669 574.85
1	VAT registration (SEM registration)	Once every 10 years	INSOURCE	32.1	198	1 476 581		74 594	1	1 476 581.30
		Once every 10 years	OUTSOURCE	32.1	32	239 446	300	74 594	1	2 477 255.12
2	Identification of customer status – B2B or B2C			N/A						
3	Identification of MS of consumption			N/A						
4	Identification of correct VAT rate			N/A						
5	Invoicing (incl. charging VAT)			N/A						
6a	VAT declaration/returns - Domestic VAT return	Bi-monthly	INSOURCE	32.1	433	193 950 949		74 594	1	193 950 949.37
		Bi-monthly	OUTSOURCE	32.1	64	28 733 474	800	74 594	1	386 782 993.98
6b	VAT declaration/returns - SEM return	Quarterly	INSOURCE	32.1	176	15 451 068		74 594	1	52 388 705.51

IO#	Administrative tasks	Frequency		Tariff (EU)	Wage cost per 1 company - 1 year	Tot. WAGE costs	External Fees (€)	No. companies	No. MSs	TOTAL
		Quarterly	OUTSOURCE	32.1	32	2 824 800	400	74 594	1	122 174 640.00
7	Import declaration (incl VAT)			N/A						
8a	VAT payment - Re domestic return	Bi-annually		32.1	5	337 407		149 187	1	**0,00**
8b	VAT payment - Re SEM	Quarterly		32.1	3	161 417		149 187	1	**1 596 304.11**
9	Storage of invoices			N/A						
10	Storage of import declarations			N/A						
11	Changes or cancelling of VAT registration (domestic)	Once every 10 years	INSOURCE	32.1	22	24 521		37 297	1	83 140.84
		Once every 10 years	OUTSOURCE	32.1	0	0	500	37 297	1	1 864 841.25
11	Changes or cancelling of VAT registration (domestic)			N/A						
				N/A						

Source: Deloitte analysis

Table 153 – SCM for a 'typical' EU businesses trading goods, above the threshold of EUR 5 000 and outside of the SEM, Option 5

IO#	Administrative tasks	Frequency		Tariff (EU)	Wage cost per 1 company - 1 year	Tot. WAGE costs	External Fees (€)	No. companies	No. MSs	TOTAL
1	VAT registration (domestic registration)	Once every 10 years	INSOURCE	32.1	278	2 075 195		74 594	1	2 075 195.34
		Once every 10 years	OUTSOURCE	32.1	96	718 337	1200	74 594	1	9 669 574.85
1	VAT registration (SEM registration)	Once every 10 years	INSOURCE	32.1	198	1 476 581		74 594	1	1 476 581.30
		Once every 10 years	OUTSOURCE	32.1	32	239 446	300	74 594	1	2 477 255.12
2	Identification of customer status – B2B or B2C			N/A						
3	Identification of MS of consumption			N/A						
4	Identification of correct VAT rate			N/A						

IO#	Administrative tasks	Frequency		Tariff (EU)	Wage cost per 1 company - 1 year	Tot. WAGE costs	External Fees (€)	No. companies	No. MSs	TOTAL
5	Invoicing (incl. charging VAT)			N/A						
6a	VAT declaration/returns - Domestic VAT return	Bi-monthly	INSOURCE	32.1	433	193 950 949		74 594	1	193 950 949.37
		Bi-monthly	OUTSOURCE	32.1	64	28 733 474	800	74 594	1	386 782 993.98
6b	VAT declaration/returns - SEM return	Quarterly	INSOURCE	32.1	176	15 451 068		74 594	1	52 388 705.51
		Quarterly	OUTSOURCE	32.1	32	2 824 800	400	74 594	1	122 174 640.00
7	Import declaration (incl VAT)			N/A						
8a	VAT payment - Re domestic return	Bi-monthly		32.1	5	337 407		149 187	1	**0,00**
8b	VAT payment - Re SEM	Quarterly		32.1	3	161 417		149 187	1	**1 596 304.11**
9	Storage of invoices			N/A						
10	Storage of import declarations			N/A						
11	Changes or cancelling of VAT registration (domestic)	Once every 10 years	INSOURCE	32.1	22	24 521		37 297	1	83 140.84
		Once every 10 years	OUTSOURCE	32.1	0	0	500	37 297	1	1 864 841.25
11	Changes or cancelling of VAT registration (domestic)			N/A						

Source: Deloitte analysis

Common VAT threshold at EUR 10 000

Table 154 – SCM for a 'typical' EU businesses trading goods, above the threshold of EUR 5 000 and in the SEM, Option 5

IO#	Administrative tasks	Frequency		Tariff (EU)	Wage cost per 1 company - 1 year	Tot. WAGE costs	External Fees (€)	No. companies	No. MSs	TOTAL
1	VAT registration (domestic registration)	Once every 10 years	INSOURCE	32.1	278	2 075 195		74 594	1	2 075 195.34
		Once every 10 years	OUTSOURCE	32.1	96	718 337	1200	74 594	1	9 669 574.85
1	VAT registration (SEM registration)	Once every 10 years	INSOURCE	32.1	198	1 476 581		74 594	1	1 476 581.30

IO#	Administrative tasks	Frequency		Tariff (EU)	Wage cost per 1 company - 1 year	Tot. WAGE costs	External Fees (€)	No. companies	No. MSs	TOTAL
		Once every 10 years	OUTSOURCE	32.1	32	239 446	300	74 594	1	2 477 255.12
2	Identification of customer status – B2B or B2C			N/A						
3	Identification of MS of consumption			N/A						
4	Identification of correct VAT rate			N/A						
5	Invoicing (incl. charging VAT)			N/A						
6a	VAT declaration/returns - Domestic VAT return	Bi-monthly	INSOURCE	32.1	433	193 950 949		74 594	1	193 950 949.37
		Bi-monthly	OUTSOURCE	32.1	64	28 733 474	800	74 594	1	386 782 993.98
6b	VAT declaration/returns - SEM return	Quarterly	INSOURCE	32.1	176	15 451 068		74 594	1	52 388 705.51
		Quarterly	OUTSOURCE	32.1	32	2 824 800	400	74 594	1	122 174 640.00
7	Import declaration (incl VAT)			N/A						
8a	VAT payment - Re domestic return	Bi-monthly		32.1	5	337 407		149 187	1	**0,00**
8b	VAT payment - Re SEM	Quarterly		32.1	3	161 417		149 187	1	**1 596 304.11**
9	Storage of invoices			N/A						
10	Storage of import declarations			N/A						
11	Changes or cancelling of VAT registration (domestic)	Once every 10 years	INSOURCE	32.1	22	24 521		37 297	1	83 140.84
		Once every 10 years	OUTSOURCE	32.1	0	0	500	37 297	1	1 864 841.25

Source: Deloitte analysis

Table 155 – SCM for a 'typical' EU businesses trading goods, above the threshold of EUR 5 000 and outside of the SEM, Option 5

IO#	Administrative tasks	Frequency		Tariff (EU)	Wage cost per 1 company - 1 year	Tot. WAGE costs	External Fees (€)	No. companies	No. MSs	TOTAL

IO#	Administrative tasks	Frequency		Tariff (EU)	Wage cost per 1 company - 1 year	Tot. WAGE costs	External Fees (€)	No. companies	No. MSs	TOTAL
1	VAT registration (domestic registration)	Once every 10 years	INSOURCE	32.1	278	2 075 195		74 594	1	2 075 195.34
		Once every 10 years	OUTSOURCE	32.1	96	718 337	1200	74 594	1	9 669 574.85
1	VAT registration (SEM registration)	Once every 10 years	INSOURCE	32.1	198	1 476 581		74 594	1	1 476 581.30
		Once every 10 years	OUTSOURCE	32.1	32	239 446	300	74 594	1	2 477 255.12
2	Identification of customer status – B2B or B2C			N/A						
3	Identification of MS of consumption			N/A						
4	Identification of correct VAT rate			N/A						
5	Invoicing (incl. charging VAT)			N/A						
6a	VAT declaration/returns - Domestic VAT return	Bi-monthly	INSOURCE	32.1	433	193 950 949		74 594	1	193 950 949.37
		Bi-monthly	OUTSOURCE	32.1	64	28 733 474	800	74 594	1	386 782 993.98
6b	VAT declaration/returns - SEM return	Quarterly	INSOURCE	32.1	176	15 451 068		74 594	1	52 388 705.51
		Quarterly	OUTSOURCE	32.1	32	2 824 800	400	74 594	1	122 174 640.00
7	Import declaration (incl VAT)			N/A						
8a	VAT payment - Re domestic return	Bi-monthly		32.1	5	337 407		149 187	1	**0,00**
8b	VAT payment - Re SEM	Quarterly		32.1	3	161 417		149 187	1	**1 596 304.11**
9	Storage of invoices			N/A						
10	Storage of import declarations			N/A						
11	Changes or cancelling of VAT registration (domestic)	Once every 10 years	INSOURCE	32.1	22	24 521		37 297	1	83 140.84
		Once every 10 years	OUTSOURCE	32.1	0	0	500	37 297	1	1 864 841.25
11	Changes or cancelling of VAT registration (domestic)			N/A						
				N/A						

Businesses trading TBE services

Same as under Option1

Option 6: Option 4 plus fully harmonised EU rules for Single Electronic Mechanism

Businesses trading goods

Common VAT threshold at EUR 5 000

Table 156 – SCM for a 'typical' EU businesses trading goods, above the threshold of EUR 5 000 and in the SEM, Option 6

IO#	Administrative tasks	Frequency		Tariff (EU)	Wage cost per 1 company - 1 year	Tot. WAGE costs	External Fees (€)	No. companies	No. MSs	TOTAL
1	VAT registration (domestic registration)	Once every 10 years	INSOURCE	32.1	278	2 075 195		74 594	1	2 075 195.34
		Once every 10 years	OUTSOURCE	32.1	96	718 337	1200	74 594	1	9 669 574.85
1	VAT registration (SEM registration)	Once every 10 years	INSOURCE	32.1	198	1 476 581		74 594	1	1 476 581.30
		Once every 10 years	OUTSOURCE	32.1	32	239 446	300	74 594	1	2 477 255.12
2	Identification of customer status – B2B or B2C			N/A						
3	Identification of MS of consumption			N/A						
4	Identification of correct VAT rate			N/A						
5	Invoicing (incl. charging VAT)			N/A						
6a	VAT declaration/returns - Domestic VAT return	Bi-monthly	INSOURCE	32.1	433	193 950 949		74 594	1	193 950 949.37
		Bi-monthly	OUTSOURCE	32.1	64	28 733 474	800	74 594	1	386 782 993.98
6b	VAT declaration/returns - SEM return	Quarterly	INSOURCE	32.1	176	15 451 068		74 594	1	52 388 705.51
		Quarterly	OUTSOURCE	32.1	32	2 824 800	400	74 594	1	122 174 640.00
7	Import declaration (incl VAT)			N/A						

IO#	Administrative tasks	Frequency		Tariff (EU)	Wage cost per 1 company - 1 year	Tot. WAGE costs	External Fees (€)	No. companies	No. MSs	TOTAL
8a	VAT payment - Re domestic return	Bi-monthly		32.1	5	337 407		149 187	1	**0,00**
8b	VAT payment - Re SEM	Quarterly		32.1	3	161 417		149 187	1	**1 596 304.11**
9	Storage of invoices			N/A						
10	Storage of import declarations			N/A						
11	Changes or cancelling of VAT registration (domestic)	Once every 10 years	INSOURCE	32.1	22	24 521		37 297	1	83 140.84
		Once every 10 years	OUTSOURCE	32.1	0	0	500	37 297	1	1 864 841.25
11	Changes or cancelling of VAT registration (domestic)			N/A						
				N/A						

Source: Deloitte analysis

Table 157 – SCM for a 'typical' EU businesses trading goods, above the threshold of EUR 5 000 and outside of the SEM, Option 6

IO#	Administrative tasks	Frequency		Tariff (EU)	Wage cost per 1 company - 1 year	Tot. WAGE costs	External Fees (€)	No. companies	No. MSs	TOTAL
1	VAT registration (domestic registration)	Once every 10 years	INSOURCE	32.1	278	2 075 195		74 594	1	2 075 195.34
		Once every 10 years	OUTSOURCE	32.1	96	718 337	1200	74 594	1	9 669 574.85
1	VAT registration (SEM registration)	Once every 10 years	INSOURCE	32.1	198	1 476 581		74 594	1	1 476 581.30
		Once every 10 years	OUTSOURCE	32.1	32	239 446	300	74 594	1	2 477 255.12
2	Identification of customer status – B2B or B2C			N/A						
3	Identification of MS of consumption			N/A						
4	Identification of correct VAT rate			N/A						
5	Invoicing (incl. charging VAT)			N/A						
6a	VAT declaration/returns - Domestic VAT return	Bi-monthly	INSOURCE	32.1	433	193 950 949		74 594	1	193 950 949.37

IO#	Administrative tasks	Frequency		Tariff (EU)	Wage cost per 1 company - 1 year	Tot. WAGE costs	External Fees (€)	No. companies	No. MSs	TOTAL
		Bi-monthly	OUTSOURCE	32.1	64	28 733 474	800	74 594	1	386 782 993.98
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		Quarterly	OUTSOURCE	32.1	32	2 824 800	400	74 594	1	122 174 640.00
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8a	VAT payment - Re domestic return	Bi-monthly		32.1	5	337 407		149 187	1	**0,00**
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11	Changes or cancelling of VAT registration (domestic)	Once every 10 years	INSOURCE	32.1	22	24 521		37 297	1	83 140.84
		Once every 10 years	OUTSOURCE	32.1	0	0	500	37 297	1	1 864 841.25
11	Changes or cancelling of VAT registration (domestic)			N/A						

Source: Deloitte analysis

Common VAT threshold at EUR 10 000

Table 158 – SCM for a 'typical' EU businesses trading goods, above the threshold of EUR 10 000 and in the SEM, Option 6

IO#	Administrative tasks	Frequency		Tariff (EU)	Wage cost per 1 company - 1 year	Tot. WAGE costs	External Fees (€)	No. companies	No. MSs	TOTAL
1	VAT registration (domestic registration)	Once every 10 years	INSOURCE	32.1	278	2 075 195		74 594	1	2 075 195.34
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		Quarterly	OUTSOURCE	32.1	32	2 824 800	400	74 594	1	122 174 640.00
7	Import declaration (incl VAT)			N/A						
8a	VAT payment - Re domestic return	Bi-monthly		32.1	5	337 407		149 187	1	**0,00**
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		Once every 10 years	OUTSOURCE	32.1	0	0	500	37 297	1	1 864 841.25

Source: Deloitte analysis

Table 159 – SCM for a 'typical' EU businesses trading goods, above the threshold of EUR 10 000 and outside of the SEM, Option 6

IO#	Administrative tasks	Frequency		Tariff (EU)	Wage cost per 1 company - 1 year	Tot. WAGE costs	External Fees (€)	No. companies	No. MSs	TOTAL
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IO#	Administrative tasks	Frequency		Tariff (EU)	Wage cost per 1 company - 1 year	Tot. WAGE costs	External Fees (€)	No. companies	No. MSs	TOTAL
		Once every 10 years	OUTSOURCE	32.1	32	239 446	300	74 594	1	2 477 255.12
2	Identification of customer status – B2B or B2C			N/A						
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5	Invoicing (incl. charging VAT)			N/A						
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		Quarterly	OUTSOURCE	32.1	32	2 824 800	400	74 594	1	122 174 640.00
7	Import declaration (incl VAT)			N/A						
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8b	VAT payment - Re SEM	Quarterly		32.1	3	161 417		149 187	1	**1 596 304.11**
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		Once every 10 years	OUTSOURCE	32.1	0	0	500	37 297	1	1 864 841.25
11	Changes or cancelling of VAT registration (domestic)			N/A						
				N/A						

Annex 6: CGE model

This annex describes the scope, the data strategy and the modelling approach of the CGE model used for the analysis.

Introduction

The objective of Lot 2 is to understand the costs, benefits, opportunities and risks in respect of the Options for the modernisation of the VAT aspects of cross-border e-Commerce. This includes an analysis of the economic impacts of the proposed Options on the EU. The primary methodological tool for this analysis will be a Computable General Equilibrium (CGE) model of the economy of the European Union.

This model is used to accomplish the following objectives, encompassing parts of both Lot 1 and Lot 2:

- To estimate the impact of administrative barriers to trade on retail prices, e-Commerce volumes and cross-border sales volumes. This analysis will also be used to identify the implications for European competitiveness and productivity (Lot 1, Task 3);
- To develop scenarios for the growth of cross-border e-Commerce within the EU (Lot 1, Task 4);
- To estimate the impact of the proposed Policy Options on e-Commerce volumes, cross-border e-Commerce volumes, and the wider economy (Lot 2, task 4).

This appendix describes:

- The scope and outputs of the CGE model;
- The development of the methodology;
- The data strategy used.

Scope of the CGE model

The primary objective of the CGE model is to assess the impacts on e-Commerce, cross-border trade and the wider economy of the current administrative barriers to e-Commerce and the Policy Options for modernisation. This model is be used in tandem with the Standard Cost Model designed to assess the impact of VAT policy on the costs facing firms. Based on the estimated impact on firms' administrative costs and the costs of cross-border e-Commerce, the CGE model is used to estimate the resulting impact on e-Commerce volumes and trade and the implications of the policy for the single market.

This technical note sets out in more detail the scenarios incorporated into the CGE model and the outputs calculated as part of the model.

Scenarios for the modernisation of VAT treatment

The scenarios analysed in the CGE model focus on the administrative costs associated with cross-border e-Commerce VAT compliance. The scenarios include:

- **Option1):** The status quo; the impact of the current administrative burden is discussed in the Lot 1 report.
- **Option2):** Removal of small consignment exemption and distance selling thresholds;
- **Option3):** Replacement of small consignment and distance selling thresholds with a cross-border B2C sales threshold (e.g. 5000 EUR, 10 000 EUR);
- **Option4:)** Option2 plus the Single Electronic Mechanism, structured as the existing Mini One Stop Shop system;

In order to estimate the impact of these scenarios, the model incorporates three channels through which the Policy Options may affect businesses and the wider economy.

- **Impact on firms' fixed administrative costs:** Administrative costs affect both the firm's production and the firm's pricing decision. On the production side, administrative costs can be viewed as a fixed cost, i.e. an overhead cost the firm faces regardless of the level of output produced. To model this fixed cost element, a fixed cost can be incorporated into the production function in order to capture the effect on the production decision of firms. The assumption behind the fixed cost element, as discussed in the literature review, is that firms tend to use a proportion of their labour force for administrative tasks, which could have otherwise been used in the production process. A reduction of these costs as a result of a policy change means firms no longer require these unproductive workers and so the same level of output can be produced with less labour, increasing productivity and the value-added in the sector.

  The current level of the administrative burden on firms and the impact of the proposed policy changes on this burden will be estimated using the Standard Cost Model.

- **Impact on firms' variable administrative costs:** fixed costs would not be expected to affect firms' pricing decisions, which will instead depend on the variable costs of production. Therefore a variable cost element will also be incorporated into the model, which will reflect any administrative costs incurred on a per-transaction basis. This includes the costs of making any VAT or Customs declarations, which are borne by couriers or postal operators but assumed to be passed on to businesses. This variable cost will introduce a wedge between the price paid by consumers for online goods and services and the price received by firms, effectively acting as an additional charge on online sales. The model will include the flexibility to set different variable administrative costs facing EU and non-EU firms, reflecting the fact that the costs associated with intra-EU trade and non-EU trade may vary across the Policy Options.

- **Supply of cross-border e-Commerce:** Lastly, changes to the policy governing cross-border e-Commerce in the EU may also affect businesses' market entry decisions. In particular, the elimination of the registration thresholds may mean that smaller businesses choose to cease trading cross-border rather than incur the administrative costs. This is reflected in the CGE model by a reduction in businesses' willingness to sell cross-border, with firms instead preferring to sell their goods domestically.

The impact of the Policy Options are estimated based on the effect that the proposed changes will have on the fixed and variable costs and on the supply of e-Commerce. These effects are calculated based on the output of the Standard Cost Model, previous research on the VAT revenues at stake conducted by the Commission and research on VAT compliance. The inputs and data sources are discussed in more detail in section 3.

Outputs of the CGE model

There are a number of macroeconomic and e-Commerce specific outputs that come directly from the model. The EU-wide outputs that the model calculates directly include the following:

- Total value of e-Commerce;
- Value of intra-EU cross-border e-Commerce;
- Value of non-EU cross-border e-Commerce;
- GDP by sector;
- Output by sector;
- Employment by sector;
- Wages by sector;
- Prices;
- Household consumption and incomes;

Due to the complexity surrounding the development of a multi-region CGE model and constraints on data availability, a number of simplifying assumptions are made in the CGE model. These assumptions, their impact and the steps taken to mitigate the effects are described below.

- **Geographic scope:** For tractability, the model treats the EU as a single region based on macroeconomic data aggregated from across the EU-27[140]. The direct outputs from the model are therefore at the EU-level.
- **Treatment of e-Commerce:** The model distinguishes between two sales channels, online and offline. It is assumed that consumers' choice of whether to buy online or offline depends

[140] Data on Croatia is not currently included in Supply and Use tables for the EU; the impacts calculated for the EU-27 will therefore be scaled up to take account of this.

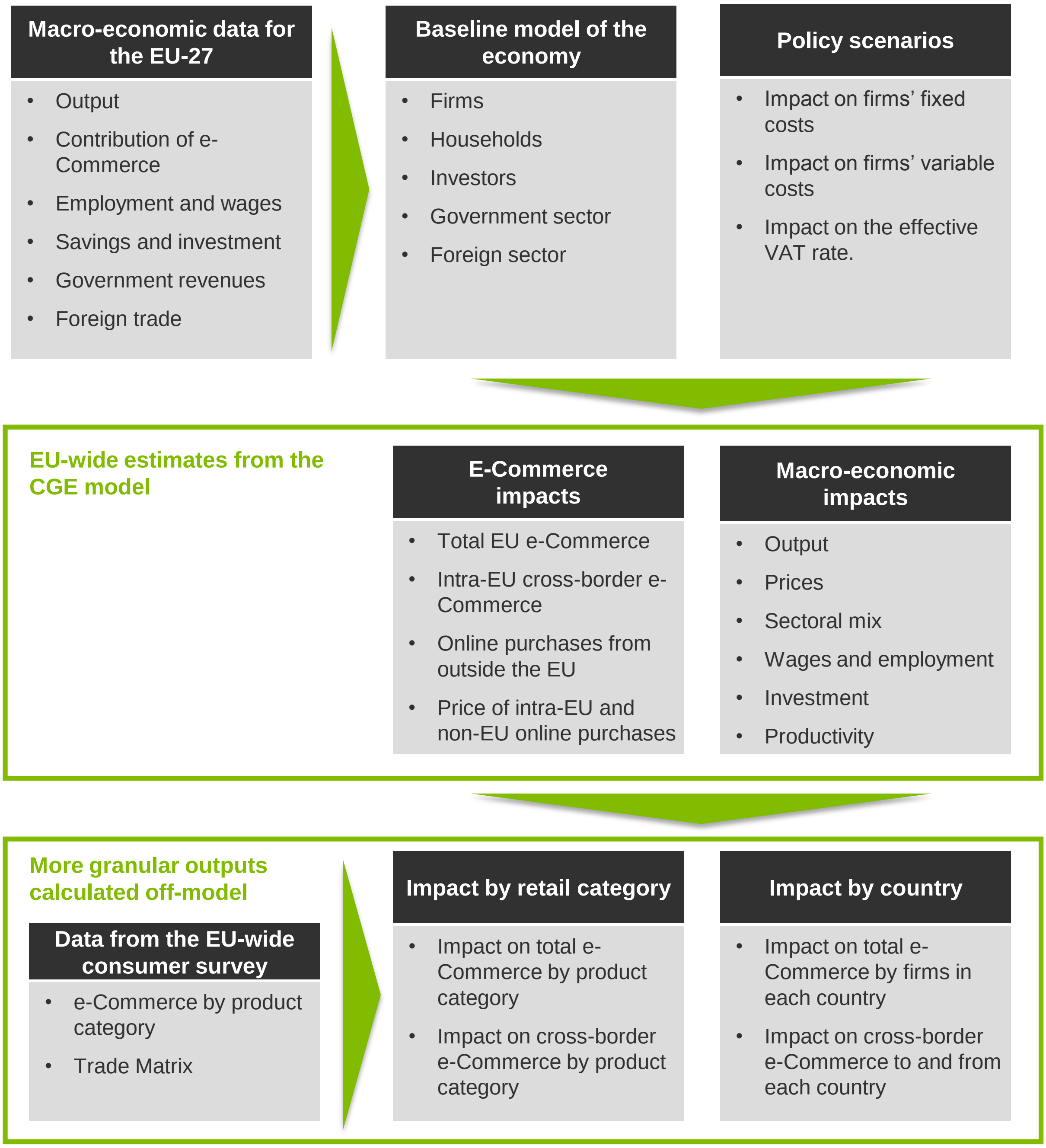
on the relative price of online and offline goods and services and their own innate preferences[141]. For firms, it is assumed that the cost of producing goods and services does not depend on whether they are sold online or offline, but firms may face differential administrative and/or VAT costs by selling through different channels.

Within the online retail sector, the model distinguishes between goods and services that are purchased from domestic (same-country) suppliers, cross-border e-Commerce within the EU, and online imports from non-EU states. The administrative costs associated with each of these categories may change differentially based on the proposed Policy Options and this will be captured within the model, for example through a change in the relative costs of intra-EU and non-EU online purchases.

- **Sectors:** The outputs of the model reflect two sectors: the retail sector (within which goods and services may be sold either online and offline) and a single aggregate non-retail sector (in which there is no B2C e-Commerce). The impact on output, employment, wages, prices and demand for capital goods are calculated for each of these sectors.

The diagram below provides an overview of the scope and outputs of the CGE model and the additional outputs that will be calculated.

[141] Consumer's preferences for shopping online versus offline will determine how readily they switch between different channels based on changes in relative prices. This willingness to switch could reflect a number of factors including: the availability of products online vs offline, the convenience of online vs offline shopping or a preference for choosing goods in person.



Data strategy

The CGE model draws on three main sources of data:

- **Macro-economic data for the EU-27:** The majority of the data required for the baseline CGE model can be found in a social accounting matrix (SAM); this is a square matrix that represents the various transactions made between commodities, factors and institutions taking place in an economy. This matrix is constructed using supply and use tables and national accounts data from Eurostat[142], from 2011;

- **E-Commerce data:** In addition to this macroeconomic data, the baseline CGE model requires data on the split of online and offline trade and on domestic, intra-EU and non-EU e-Commerce. This data is obtained from Eurostat and from the consumer survey conducted as part of Lot 1;
- **Data on the administrative burden:** The information required for the scenario analysis comes from the outputs of the Standard Cost Model. This data includes the administrative burden associated with the different Policy Options and estimates of the impact of changing the VAT threshold.

In addition to this data, the model requires some assumptions to be made about consumer preferences over domestic purchases and imports and over online and offline purchases. These assumptions are based on a review of the academic literature and on consultation with experts. Sensitivity analysis is conducted on key variables, such as elasticities[143], administrative cost, and compliance levels (i.e. VAT collection rates), to check the robustness of the results of the model to changes in these assumptions; where necessary, a range of estimates will be reported so as to provide an upper and lower bound on the estimated impacts.

Macro-economic data

The primary source of data used for the development of the core CGE model is found in a Social Accounting Matrix for the EU. This matrix accounts for flows of income expenditure between different actors in the economy – firms, households, the government and the foreign sector – and is based on the principle that one agent's income must be another another's expenditure. The Social Accounting Matrix therefore contains the following information:

- Production activity by sector;
- Demand for intermediate inputs by sector (the Input-Output table);
- Payments to capital and labour by sector;
- Final consumption expenditure by sector;
- Capital formation and inventory investment by sector;
- Imports and outputs by sector;
- Taxes and subsidies by sector and by revenue base;
- Direct taxation and transfers by domestic actors;
- Payments made/received by domestic actors to/from the rest of the world;
- Domestic actors' net savings and the net savings from the rest of the world;

Construction of the EU Social Accounting Matrix

At present, a Social Accounting Matrix for the EU is not available and so its construction is a key task for the development of the CGE model. The information required to construct the matrix can be found in Supply and Use tables for the EU-27 and in National Accounts data for each of the Member States.

[142] Supply and Use data is not available for Croatia; the estimates will therefore be adjusted upwards based on Croatia's estimated contribution to EU GDP and its contribution to e-Commerce (from the consumer survey).
[143] See equations in the quantity section of Annex 1.

Both have been made publicly available by Eurostat, albeit with the Supply and Use tables only being updated to 2011.[144]

An important characteristic of the Social Accounting Matrix is that it is 'balanced' – i.e. for every actor, institution and activity, total income received must equal to total expenditure made (inclusive of savings). This requires a certain level of consistency and completeness in the data sources that is not always possible due to a lack of sufficient detail, measurement accuracy, or differences in data collection/collation methodology. The following is a general data reconciliation strategy to ensure consistency of the data sources used to complete the Social Accounting Matrix:

- Where possible, data points from the Supply and Use tables are used without further assumptions or reconciliation[145];
- Where the Supply and Use tables have gaps in data points required, National Accounts data is used;
- Where National Accounts data is lacking in sufficient granularity, suitable assumptions are made to estimate the data points required[146];
- Where for the same data point the Supply and Use tables are significantly different from National Accounts data, suitable assumptions are made using information from both sources to estimate a single data point[147]. If the differences are small, Supply and Use table data is used;
- As a last resort, if the Social Accounting Matrix is complete but does not balance, an estimation procedure involving re-weighting of the data in the matrix will be conducted.

Figure 18 illustrates the basic structure of the Social Accounting Matrix as well as the sources for each data point required.[148] Columns represent expenditures/outlays made, while rows represent incomes received. For example, reading down from the Households column and across to the Commodities row represents household final consumption expenditure on goods and services. Table 160 describes the primary data inconsistencies encountered and the specific data reconciliation strategy used to correct for these inconsistencies.

[144] Due to the latest Supply and Use tables being updated only to 2011, Croatia is not included in the tables and so only an EU-27 aggregate can be calculated.
[145] The tables have been constructed by Eurostat with a high level of consistency (i.e. total supply of a good or service is equal to total use/demand) and in most cases a significant level of granularity.
[146] National Accounts data tables in Eurostat often do not provide data points in sufficiently granular detail.
[147] Due to differences in definitions or data collection methodologies, the Supply and Use tables and National Accounts data do not always report the same value for the same data point.
[148] Implied data points are calculated residually after filling the SAM with all other data points.

Figure 18: Basic structure of the Social Accounting Matrix

Social Accounting Matrix	**Activities**	**Commodities**	**Labour factor**	**Capital factor**	**Net taxes on production**	**Net indirect taxes**	**Households**	**Government**	**Rest of the World**	**Savings-investment**
Activities		Output								
Commodities	Intermediate consumption (Derived from Input Output table)						Household final consumption expenditure	Government final consumption expenditure	Exports	Gross Capital Formation
Labour factor	Payments to capital									
Capital factor	Payments to labour									
Net taxes on production	Net taxes on production									
Net indirect taxes		Net Indirect taxes on products (i.e. VAT receipts and other taxes)								
Households			Total payments to capital	Total payments to labour				Payments from government to households (i.e. Social Benefits and other transfers)	Net payments from ROW to households	
Government					Net taxes on production	Taxes less subsidies on products (i.e. VAT receipts and other taxes on products)	Total direct taxes paid by households			
Rest of the World		Imports						Net payments from government to ROW		Net foreign savings
Savings-investment							Net Household Savings	Net Government Savings		

National Accounts data

Supply and Use tables

Mix of National accounts data and Supply and Use tables

Implied data points

Table 160 – Data reconciliation

Data point	Data inconsistency/challenge	Data reconciliation strategy
Payments to/from Rest of World	***National Accounts data:*** Provides payments to/from Rest of World ***Supply and Use tables:*** Provides no data on payments to/from Rest of World	National Accounts data used.
Final consumption expenditure at market prices by households, government and gross capital formation	***National Accounts data relative to Supply and Use tables:*** Reports slightly higher final consumption expenditure for households and government. Reports even higher gross capital formation Reports slightly higher total final consumption expenditure.	Supply and Use tables used in conjunction with an assumed actor disaggregation of mixed income to compensate for the differences.
Direct taxation and transfers	***National Accounts data:*** Reports total tax on income and wealth; Reports current transfers; Reports social contributions; Reports social benefits. ***Supply and Use tables:*** Provides no data on direct taxation and transfers	National Accounts data used.
Indirect taxes: VAT by sector	***National Accounts data:*** Reports total VAT but not by sector or by actor. ***Supply and Use tables:*** Reports taxes less subsidies on products paid in final consumption by households, government and gross capital formation. However, does not report by sector	VAT receipts in National Accounts data used as total VAT in SAM. Assumed to be contained completely within taxes less subsidies on final consumption products reported in Supply and Use Tables. After netting out VAT from taxes less subsidies, assumed that remainder is other net taxes on products. VAT and other net taxes disaggregated by sector and by agent using suitable assumptions.
Payments to capital: Gross operating surplus, mixed income	***National Accounts data:*** Provides both gross operating surplus and mixed income but not by sector. ***Supply and Use tables:*** Provides gross operating surplus by sector but records no mixed income.	Mixed income calculated by subtracting Supply and Use tables data from National Accounts data. Gross operating surplus reported by Supply and Use tables used in conjunction with an assumed sector disaggregation of mixed income as payments to capital.

Data on e-Commerce

In order to account for the specific impacts on e-Commerce, data is required on the following:

- The share of consumer expenditure in the retail sector that is online versus offline;
- The share of online expenditure that is spent on domestic goods and services, on intra-EU goods and services and on non-EU goods and services;
- The allocation of e-Commerce spending by product category; and
- The value of e-Commerce spending by country of origin and country of destination (the trade matrix).

The majority of this data has been obtained from the consumer survey conducted across 25 EU Member States as part of the Lot 1 analysis. This survey asked 1,000 consumers in each of the markets surveyed about the value and volume of e-Commerce purchases of goods and services; the products purchased; and the country from which the product was purchased. The results of this survey were used to estimate the total value of e-Commerce purchases in the EU and the split of these purchases between domestic, intra-EU and non-EU transactions.

To account for the markets that were not surveyed – Luxembourg, Malta and Cyprus – a number of additional sources were used:

- Existing survey estimates from Civic Consulting were used to estimate the total value of e-Commerce and the value of cross-border e-Commerce in these markets[149];
- Averages from other 25 Member States were used to allocate online spending among product categories;
- Estimates from the JRC trade matrix were used to construct the trade matrix[150].

The estimates of the total value of EU trade will be compared against data from the EU Supply and Use tables on consumer expenditure on the retail sector in order to estimate the share of expenditure that is online. Within online trade, the survey provides estimates of the split between domestic, intra-EU and non-EU trade.

The more granular data required to calculate the impact by retail category and by country is also sourced from the consumer survey.

Data on administrative costs and VAT payments

The other key input to the CGE model is data on the administrative costs associated with the VAT treatment of e-Commerce. This will cover three areas:

- Fixed administrative costs associated with VAT compliance in regard to cross-border e-Commerce;
- Variable administrative costs associated with VAT compliance in regard to cross-border e-Commerce;
- Potential changes in businesses' trading and market entry decisions.

[149] Civic Consulting (2011) "Consumer market study on the functioning of e-Commerce"
[150] European Commission Joint Research Centre (JRC) , "The Drivers and Impediments for Cross-border e-Commerce in the EU", 2013

The first two items are obtained from the outputs of the Standard Cost Model, described in the Inception Report. These estimates are based on fieldwork interviews conducted across 10 Member States. This is used to estimate both the total fixed administrative costs incurred by EU firms in connection to cross-border e-Commerce and any variable costs incurred on each transaction. These costs are then be compared to the total costs of production (from the EU Supply and Use tables) in order to estimate the burden that these costs represent for firms.

The Standard Cost Model is also used to estimate the impact of the proposed Policy Options on firms' fixed and variable administrative costs. The estimated change in cost is then inputted into the CGE model in order to assess the impacts on e-Commerce.

The impact on businesses' supply decision is estimated based on data on administrative costs relative to revenues for businesses of different sizes, described in Section 2.2.1 of this report. Given the uncertainty surrounding this effect, sensitivity analysis is included.

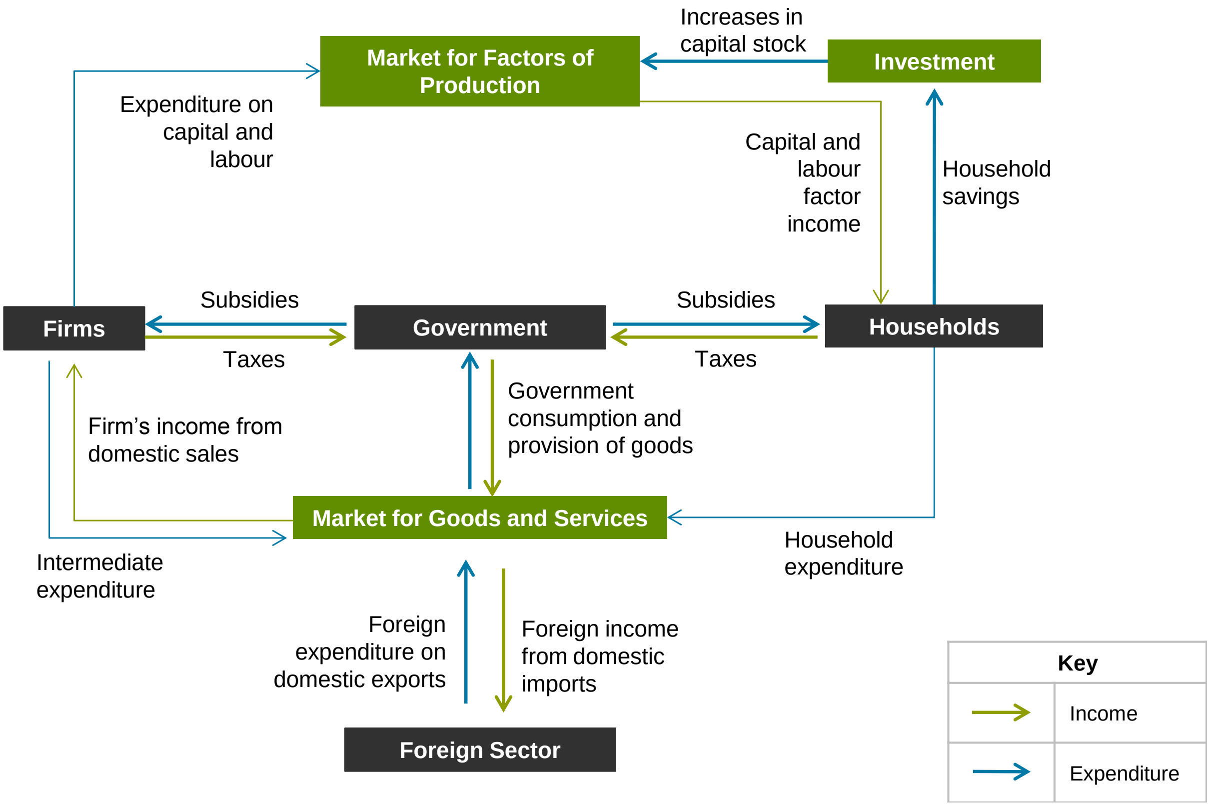
Modelling approach

Overview of the CGE model

A CGE model is a multi-sector model based on a set of equations describing the behaviour of the key actors in the economy of the EU – households, firms, the government and the foreign sector – and how their interactions affect the markets for factors of production, goods and services, and savings and investment. By considering the reaction of these actors simultaneously, the model evaluates the aggregate impacts – direct and indirect – of a change in tax policy.

The CGE model is based on the circular flow of income, which describes the various inter-linkages in the economy and how they determine the equilibrium in key markets. This is shown below.

Figure 19 – Circular Flow of Income



The interactions between households, firms, the government and the foreign sector determine equilibrium demand, supply and prices in each sector. This equilibrium is based on the principle that one agent's expenditure is another agent's income and therefore all spending throughout the economy is accounted for. Prices are determined by the fact that the markets for goods and services and for factors of production (labour and capital) must clear.

The behaviour of each segment of the economy and how it will be modelled is described in more detail below.

Households

Households own the factors of production - skilled labour, unskilled labour, and capital - which they supply to firms for their use in the production process. Income from these factors, net of any taxes paid or social benefits received, may either be spent on goods and services or saved. It is assumed that households save a constant fraction of their net income, determined by their marginal propensity to save. The remainder is allocated to consumption, with consumption across sectors based on fixed shares.

Within the retail sectors (i.e., those sectors in which there is some B2C e-Commerce activity), households are assumed to have preferences over buying online versus offline and over buying domestic, EU and non-EU goods. These preferences are modelled in the form of a nested CES consumption function, which takes the form:

$$Q_i = \left(\sum_j \delta_j \, D_j^{\frac{\sigma-1}{\sigma}} \right)^{\frac{\sigma}{\sigma-1}}$$

where δ_j represents the initial allocation of spending across the different types of products D_j (where $\sum \delta_j = 1$, and the product types may be online/offline goods or domestic/EU/non-EU goods) and σ represents consumers' willingness to substitute between different types of goods or channels of purchase. Assuming that consumers optimise their consumption given the prices they face, the demand for domestic, EU and non-EU goods, online and offline, can then be expressed as a function of relative prices and aggregate household incomes.

Firms

As discussed above, the economy will be split into a single "non e-Commerce sector" that will include those sectors that do not contribute to B2C e-Commerce and a number of retail sectors that may engage in B2C e-Commerce.

Within each sector, firm production is assumed to be a Cobb-Douglas function of the factors of production: labour and capital. The Cobb-Douglas coefficients will be calculated based on data from Eurostat supply and use tables, which detail payments to capital and labour. It is assumed that firms face a competitive market and therefore that demand for labour and capital in each sector will be such that their price is equal to their marginal productivity. Intermediate inputs do not directly enter into the production function; instead demand for intermediate goods is determined based on Input-Output coefficients.

In the non-retail sector, goods produced may either be exported or sold domestically accordingly to a constant elasticity of transformation (CET) function that defines firms' preferences based on the differential between domestic price and the world export price.

In the retail sector, firms will additionally be able to sell either online or offline, as well as selling either domestically or internationally. It is assumed that this does not alter the cost of production, but that there may be different administrative costs or VAT payments associated with different distributional channels. The modelling of these costs is discussed in more detail below.

Government

The government receives tax revenues from households and firms which it uses to provide public goods for the use of households and firms and purchase goods and services for government consumption. Data on government spending will be aggregated from National Accounts data in Eurostat. Aggregate data on government revenues by source, i.e. indirect tax payments can also be used to estimate an actual VAT rate for the retail sector. Alternatively, and as a way of corroborating these estimates, an actual VAT rate for the retail sector can be calculated based on VAT rates in each country, weighted by each country's share of total EU retail trade.

Foreign Sector

The model will treat the EU as a single economy and represent the interactions between the EU and the rest of the world through a number of channels:

- Consumers may purchase EU goods (whether domestic or intra-EU) or non-EU imports. These imports may be purchased either online or offline;
- Firms may consume EU and non-EU intermediate inputs;
- Firms can either produce goods for EU or non-EU consumption.

The world price of imports and exports will be treated as an exogenous numeraire in the model and it will be assumed that the proposed policy changes do not have an impact on world prices faced by firms.

Modelling the behaviour and production functions of non-EU firms is beyond the scope of the model. Rather, it will be assumed that imports to the EU through different channels (i.e., online vs offline) may incur differential tariffs and administrative costs. This will not affect world trade prices, but may affect the final price faced by EU consumers and the volume of e-Commerce purchases from non-EU suppliers.

Equilibrium of the model

The interactions between these agents determine equilibrium output, factor demands, consumption and prices in each sector. This equilibrium is based on the principle that one agent's expenditure is another agent's income and therefore all spending throughout the economy is accounted for. Prices are determined by the fact that markets must clear:

- **Market for goods and services:** demand from the government and domestic and foreign consumers and firms must equal supply from firms and imports in each sector. As noted above, world import and export prices are assumed to be exogenous and are therefore fixed in the model; however, domestic prices may adjust relative to their initial numeraire value of 1.
- **Market for factors of production:** In equilibrium, total demand for labour and capital must equal supply. It is assumed that prices for labour and capital are determined competitively, and therefore the costs of labour and capital depend on the marginal productivity of these factors.
  In the baseline model, the supply of capital in each sector is given by the capital accumulation equation, whereby capital in each period is the sum of the previous period's capital net of depreciation and new investment in capital goods. To simplify the analysis, unemployment will not be modelled; it will therefore be assumed that the total demand for labour across sectors must equal labour demand. This approach will still be able to account for movement of labour between sectors.
- **Savings and Investment:** The level of domestic investment in the EU must equal the level of savings, net of any savings that are invested internationally. Within the EU, the total value of investment is allocated across sectors based on exogenous parameterised shares. This parameter determines investment in capital by sector of destination; purchases of capital goods by sector of origin are given by a capital coefficients matrix based on I-O tables.

The behaviour of firms, households, the government and the foreign sector is fully specified by the system of equations that make up the CGE model, along with a set of closure rules that ensure that markets clear. Solving this system of equations simultaneously yields an equilibrium for the economy of the EU.

The parameters of these equations are calibrated so as to ensure that the baseline solution to this system of equations matches the current data on the economy. These parameters are either calculated directly based on EU national accounts and supply and use data or are based on academic estimates.

Dynamics of the CGE Model

The CGE model is used to estimate the behaviour of the economy over an eleven-year period. In the baseline case, in which there is no change in policy, the dynamics enter into the model in two ways:

- **Exogenous growth:** the model incorporates exogenous increases in productivity over time, represented through an increase in the level of output generated by a fixed amount of inputs (labour, capital and intermediate goods). These productivity improvements lead to increased output in each sector and increased earnings from labour and capital, driving further growth in the economy;
- **Capital accumulation:** in addition to these exogenous productivity gains, the economy of the EU will also grow as a result of capital accumulation as investment increases the capital stock available for use in the economy. Within each sector, the capital stock in period *t+1* is assumed to be the capital stock in period *t* minus depreciation plus purchases of capital goods.

The model can separately account for trends in e-Commerce in the EU and a potential shift towards a greater share of trade occurring online. These dynamics are captured through a change in consumer preferences over online versus online purchases of goods and services, which in turn affects the parameters δ and σ described above. An increase in δ represents a shift in consumers' innate preferences towards e-Commerce; an increase in σ represents an increase in the extent to which consumers will switch between online and offline.

As well as capturing baseline economic growth and changes in preferences, the model will also be used to estimate the dynamic response of consumer behaviour and the wider economy to a change in policy governing cross-border e-Commerce. In order to estimate the dynamic impacts resulting from a change in policy, the model reflects the fact that some variables take longer to adjust to a policy change than others. For example, demand for labour is widely recognised to adjust more quickly than demand for capital. This is incorporated in the model via an adjustment cost related to the capital stock. It is assumed that new investment is subject to an adjustment cost of capital additional to the initial cost of investment; this enters into the capital adjustment equation and can be interpreted as installation costs or learning and training costs.

Modelling of the proposed Policy Options

As discussed in section 2 there are three channels through which the proposed Policy Options may affect the model:

- A reduced in fixed administrative costs;
- A reduction in variable administrative costs; and
- A change in the supply of e-Commerce.

Fixed administrative costs: The fixed cost channel assumes that within the retail sector a fixed amount of labour LO is required for administrative tasks, over and above the labour used in productive activities. LO will enter the model through the following production function equation:

$$X_i = a_i^d K_i^\alpha (L - LO)_i^{1-\alpha}$$

Where X is output, a is the level of exogenous technological progress, K is the capital stock and L is the labour force, with the subscript i indicating the sector.

The production function will determine how each sector allocates capital and labour to be used to produce output X. A reduction in fixed administrative costs is assumed to reduce the number of man-hours spent on unproductive administrative tasks, thereby reducing overhead labour LO. This will in turn increase the average productivity of labour in the economy and increase the value-added for firms, generating increases in output and cross-border e-Commerce. On the other hand, the fact that less labour is required for administrative tasks may put downward pressure on wages and employment in the short term.

Variable administrative costs: A change in variable administrative costs, that is, any administrative costs incurred on a per-transaction or per-consignment basis will enter the model through a change in the price received by EU firms from the sale of goods and services online and across borders. This is represented in the equation below through the parameter c^n that represents the costs per unit of selling online within the EU. This administrative cost will create a wedge between the price P_i^{EUn} paid by consumers (for online imports within the EU) and the price P_i^{EUx} received by firms (a weighted average of the online and offline prices).

$$P_i^{EUx} = \frac{(1 - c^n)P_i^{EUn}.N_i + P_i^{EUf}.F_i}{EU_i}$$

A similar representation will be used to capture how changes in policy affect the costs of trade for non-EU suppliers. The production function and pricing decisions of non-EU firms will not be modelled. Instead, it will be assumed that non-EU firms sell their product at a world price, which may be subject to a mark-up within the EU as a result of Customs tariffs or administrative costs that are passed on to the consumer. The Standard Cost model will estimate the impact of the proposed policy changes on the administrative costs for non-EU sellers, c^{mn}, which will affect the price of online non-EU imports as shown in the equation below:

$$P_i^{mn} = pw_i^m(1 + t_i^m)(1 + c^{mn})R$$

P_i^{mn} is the price of online imports from outside the EU, pw_i^m is the world import price (treated as a numeraire), *R* is the world interest rate and t_i^m and c^{mn} are respectively the effective tariff rate on online imports and the additional costs associated with online imports relative to offline.

Supply of cross-border e-Commerce: Lastly, changes to the policy governing cross-border e-Commerce in the EU may also affect businesses' market entry decisions. In particular, the elimination of the registration thresholds may mean that smaller businesses choose to cease trading cross-border rather than incur the administrative costs. This is reflected in the CGE model by a reduction in businesses' willingness to sell cross-border, with firms instead preferring to sell their goods domestically.

KP-07-16-051-EN-N

Publications Office

doi:10.2778/56145
ISBN 978-92-79-63795-7