



VAT in the Digital Age

FINAL REPORT

VOLUME 3

SINGLE PLACE OF VAT REGISTRATION AND IMPORT ONE STOP SHOP

ECONOMISTI ASSOCIATI



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Submitted in March 2022.

Specific Contract No 07 implementing Framework Contract No TAXUD/2019/CC/150

**FOR THE
EUROPEAN COMMISSION**

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EUROPEAN COMMISSION

VAT in the digital age

Final Report

Volume 3
Single Place of VAT Registration and
Import One-Stop Shop

Directorate-General for Taxation and Customs Union

2022

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Luxembourg: Publications Office of the European Union, 2022

ISBN 978-92-76-54683-2
doi: 10.2778/158274

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Abbreviations and acronyms

B2B	Business-to-Business
B2C	Business-to-Consumer
B2G	Business-to-Government
DG TAXUD	Directorate General for Taxation and Customs Union
DRR	Digital Reporting Requirement
EC	European Commission
EDI	Electronic Data Interchange
EMCS	Excise Movement and Control System
EU	European Union
GDP	Gross Domestic Product
IA	Impact Assessment
ICA	Intra-Community Acquisition
ICS	Intra-Community Supply
IOSS	Import One-Stop Shop
IT	Information Technology
MNCs	Multinational Companies
MOSS	Mini One-Stop Shop
MS	Member States
OECD	Organization for Economic Co-operation and Development
OSS	One-Stop Shop
SME	Small and Medium-sized Enterprise(s)
TBE	Telecommunications, Broadcasting and Electronic Services
ToR	Terms of Reference
VAT	Value-Added Tax

Abstract

This part of the study focused on progress towards a Single Place of VAT registration in the EU (i.e. the minimisation of situations where businesses are obliged to VAT register in more than one Member State) and improvements to the Import One-Stop Shop (IOSS) regime. The study examined the continued existence of situations requiring multiple VAT registrations after the introduction of the e-commerce VAT package on 1 July 2021. This both defined new rules and introduced two new mechanisms – the One-Stop Shop (EU and non-EU) and the IOSS – that allow businesses to avoid additional registrations by declaring and paying VAT incurred on certain types of transactions in Member States where they are not established. The examination led to an impact assessment exercise, including a problem definition, scoping out of objectives and policy options and an assessment of the likely impacts of these. The study found that certain types of transactions – especially in the quickly growing e-commerce sector – still require multiple VAT registrations, increasing administrative and compliance costs, contributing to fraud/non-compliance and distorting trade in the Single Market. Several policy options offer the potential to address these issues, including measures to increase the scope and use of the OSS and IOSS as well as to enhance the implementation of the existing reverse-charge mechanism.

Résumé

Cette partie de l'étude s'est concentrée sur les progrès réalisés en vue de la création d'un lieu unique d'enregistrement à la TVA dans l'UE (c'est-à-dire la réduction au minimum des situations où les entreprises sont obligées de s'enregistrer à la TVA dans plus d'un État membre) et sur les améliorations apportées au guichet unique d'importation (IOSS). L'étude s'est penchée sur la persistance des situations nécessitant des enregistrements multiples à la TVA après l'introduction du "paquet TVA" sur le commerce électronique au 1er juillet 2021. Celui-ci a défini de nouvelles règles et introduit deux nouveaux mécanismes – le guichet unique et l'IOSS – qui permettent aux entreprises d'éviter des enregistrements supplémentaires en déclarant et en payant la TVA encourue sur certains types de transactions dans les États membres où elles ne sont pas établies. Cet examen a inclus une analyse d'impact, comprenant une définition du problème, une délimitation des objectifs et des options stratégiques ainsi qu'une évaluation des impacts probables de ceux-ci. L'étude a révélé que certains types de transactions – en particulier dans le secteur du commerce électronique, qui connaît une croissance rapide – nécessitent toujours de multiples enregistrements à la TVA, ce qui augmente les coûts administratifs et de mise en conformité, contribue à la fraude en matière de non-conformité et fausse les échanges au sein du marché unique européen. Plusieurs options stratégiques offrent la possibilité de s'attaquer à ces problèmes, notamment des mesures visant à accroître le champ d'application et l'utilisation du guichet unique et de l'IOSS ainsi qu'à améliorer la mise en œuvre du mécanisme d'autoliquidation TVA existant.

Zusammenfassung

Dieser Teil der Studie befasste sich mit den Fortschritten auf dem Weg zu einem einzigen Ort der MwSt-Registrierung in der EU (d. h. der Minimierung von Situationen, in denen Unternehmen gezwungen sind, sich in mehr als einem Mitgliedstaat für MwSt-Zwecke registrieren zu lassen) und den Verbesserungen bezüglich des Import-One-Stop-Shop (IOSS, dt: einzige Anlaufstelle für den Import von Waren). In der Studie wurde untersucht, ob es auch nach der Einführung des Mehrwertsteuerpakets für den elektronischen Handel am 1. Juli 2021 noch Situationen gibt, in denen

Mehrfachregistrierungen für die Mehrwertsteuer erforderlich sind. Mit dem Mehrwertsteuerpaket wurden sowohl neue Regeln festgelegt als auch zwei neue Mechanismen – der One-Stop-Shop und der IOSS – eingeführt, die es Unternehmen ermöglichen, zusätzliche Registrierungen zu vermeiden, indem sie die für bestimmte Arten von Umsätzen in Mitgliedstaaten, in denen sie nicht ansässig sind, anfallende Mehrwertsteuer erklären und abführen. Die Untersuchung führte zu einer Folgenabschätzung, die eine Problemdefinition, die Festlegung von Zielen und politischen Optionen sowie eine Bewertung der wahrscheinlichen Auswirkungen dieser Optionen umfasste. Die Studie ergab, dass für bestimmte Arten von Umsätzen – insbesondere im schnell wachsenden elektronischen Handel – nach wie vor mehrere MwSt-Registrierungen erforderlich sind, was die Verwaltungs- und Befolgungskosten erhöht, zu Betrug und Nichteinhaltung der Vorschriften beiträgt und den Handel im Binnenmarkt verzerrt. Mehrere politische Optionen boten die Möglichkeit, diese Probleme zu lösen, darunter Maßnahmen zur Ausweitung des Anwendungsbereichs und der Nutzung des OSS und des IOSS sowie zur Verbesserung der Umsetzung des bestehenden Reverse-Charge-Verfahrens.

1. INTRODUCTION

1.1. Purpose of the Assignment

This Draft Final Report (the Report) was prepared within the framework of the study on **VAT in the Digital Age**.¹ It is submitted to the European Commission, Directorate General for Taxation and Customs Union (DG TAXUD), by a grouping of consulting firms and research institutions led by Economisti Associati Srl and including Oxford Research AB, the Center for Social and Economic Research (CASE), Wavestone S.A., Mazars N.V., Hedeos société d'avocats, Desmeyere Services and Università di Urbino. The Report was prepared based on the indications provided in the Terms of Reference for the Assignment, supplemented by the Technical Proposal.

The Report covers three distinct but interrelated areas of VAT policy:

- 1) **Digital Reporting Requirements (DRRs)** (in Volume 1);
- 2) **The VAT Treatment of the Platform Economy** (in Volume 2); and
- 3) **The Single Place of VAT Registration and Import One-Stop Shop (IOSS)** (in the present Volume).

The above volumes are then complemented by Volume 4, providing a summary of the consultation activities.

The purpose of the Report is two-fold: (i) **to assess the current situation** with regard to the three domains listed above; and (ii) **to assess the impacts of a number of possible policy initiatives in these areas**. The Report is then intended to feed into the preparation of an Impact Assessment (IA) by the European Commission to accompany possible legislative and/or non-legislative initiatives.

A draft version of this Report was discussed with the Client at the Final Meeting on 13 October 2021; its findings have also been presented to the members of the VAT Expert Group, to the Group on the Future of VAT, and to selected stakeholders at a Fiscalis Event on 27-29 October 2021. The Report has been revised to take account of the feedback received. The Study will be completed by a final version of Volume 4, due in Spring 2022, which will include the synopsis report of the Public Consultation.

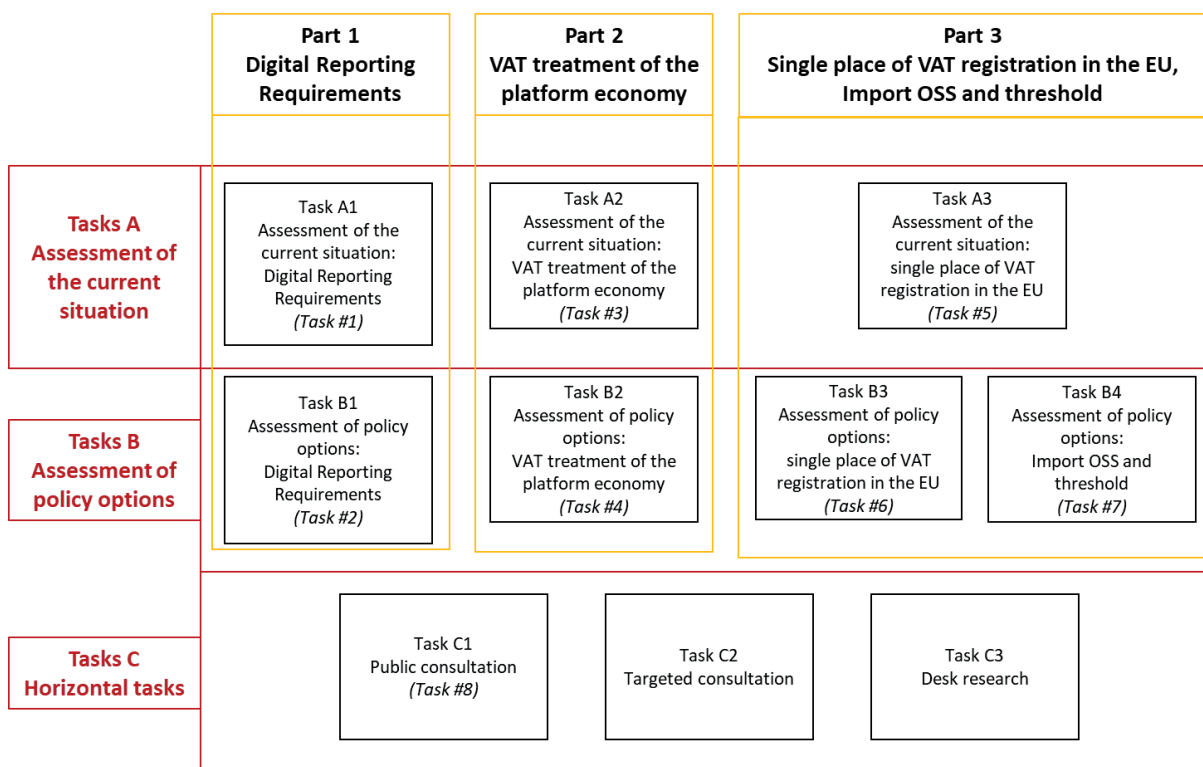
1.2. Recap of the tasks and methodology

As mentioned above, the Assignment requires an **assessment of the current situation** and the **likely impacts of a number of policy options** with regard to three topics related to VAT, and evolving technologies, digitalisation and innovative business models, i.e. DRRs, the platform economy, and the Single Place of VAT registration and the IOSS. To consistently complete the tasks required by the Terms of Reference, a matrix approach, per topic and per type of task, has been followed, as represented in Figure 1 below. The columns identify the various Parts of the Study, while the rows identify the three types of tasks, namely:

- 1) Tasks A, i.e. the **assessment of the current situation**;
- 2) Tasks B, i.e. the **assessment of the policy options and their impacts**; and
- 3) Tasks C, i.e. **the horizontal tasks for data collection and retrieval of information**.

¹ Based on the contract No. TAXUD/2020/DE/317 signed on October 2020.

Figure 1. Overview of the services requested



Note. In brackets: task numbering as per the Terms of Reference. Source. Authors' own elaboration.

The findings from Tasks A have been compiled in a policy-oriented '**problem definition**', in which the problems, together with their drivers and consequences, have been identified and assessed, whenever possible also providing a quantitative estimation of their magnitude. This section also includes a problem tree through which the causal relations between problems, drivers and consequences are graphically depicted.

Subsequently, the **policy objectives** of the initiatives are presented, together with a list of **policy options** to reach them (including those discarded at an early stage). The policy options have been defined in agreement with the Client and considering the feedback received from the Group on the Future of VAT and the VAT Expert Group, including their joint Sub-group 'VAT aspects of the platform economy'. This is then followed by the **analysis of the impacts** generated by the retained policy options (Tasks B).

The methodologies used for the various tasks are tailored to the issues at hand, and involved the use of techniques, analyses and data processing targeted to each Part of the Study. This goes especially for Tasks A, while a more closely-knit approach has been used for the identification of the relevant impacts and the comparison of options carried out within Tasks B. More details on the methodology employed are provided in each Volume.

Finally, given the nature of the Assignment, data collection and information retrieval activities have been carried out horizontally across the three tasks, in particular the public and targeted consultations (see Volume 4).

1.3. Structure of Volume 3 – Single Place of VAT registration in the EU and Import One-Stop Shop

Volume 3 is structured as follows:

- Part A includes the findings from the assessment of the current situation, and namely:
 - In Chapter 2, the assessment of situations still requiring VAT registration for non-established taxable persons;
- Part B presents the results of the analysis of possible interventions, and namely the problem definition (in Chapter 3), the definition of policy objectives and options (in Chapter 4), and the analysis of impacts and comparison of options (in Chapter 5).

PART A
ASSESSMENT OF THE CURRENT
SITUATION

2. ASSESSMENT OF THE SITUATIONS STILL REQUIRING VAT REGISTRATION FOR NON-ESTABLISHED TAXABLE PERSONS

One of the drivers of recent proposals in the field of VAT is the **concept of a Single Place of VAT registration in the EU**. In brief, the Single Place of VAT registration means that the situations where businesses are obliged to VAT register in more than one Member State should be minimised, regardless of their operations and supply chains. Reducing the scope of such situations formed part of the rationale for changes that were recently introduced with the e-commerce VAT package on 1 July 2021.

In addition to a number of important simplifications, for EU-established businesses, the new e-commerce rules reduced the intra-EU distance-selling threshold for the application of the destination principle to a single combined EU threshold of EUR 10 000 to distance sales of goods and/or telecommunications, broadcasting and electronic (TBE) services and ended the import VAT exemption for goods valued at up to EUR 22. Other things being equal, these changes could have increased VAT registration obligations. However, they are offset by the **introduction of two new compliance mechanisms, – the One-Stop Shop (OSS) and the IOSS** – which allow businesses to avoid multiple VAT registrations for certain B2C transactions.²

Despite these new mechanisms, there remain numerous situations – adding up to a significant volume of transactions and affecting many stakeholders – that oblige businesses to obtain and hold more than one VAT registration. The purpose of this chapter is to explore these remaining transactions and to estimate their magnitude. Before going into the specific transactions, it is necessary to explain some of these new rules.

2.1. New rules introduced with the e-commerce VAT Package from 1 July 2021

Until 1 July 2021, according to Article 34 of the VAT Directive, a supplier selling goods to consumers (B2C) in other EU Member States charged VAT in his own country if the total value of his sales to the consumer's country within the respective calendar year fell below the threshold set by that country and had not exceeded that threshold in the previous calendar year.³ Each Member State was able to define the threshold for supplies made to customers in their country (destination country) by choosing between the maximum EUR 100 000 threshold set by the Directive and a lower threshold of EUR 35 000.⁴ If the sales of the supplier were above the national threshold, the supplier needed to register and pay VAT in the Member State of destination.⁵

From 1 July 2021, the **country-based thresholds disappeared**, and VAT became due in the country of the consumer, subject to an **EU-wide turnover threshold of just EUR 10 000** for intra-EU distance sales of goods (and/or cross-border supplies of TBE services) to all EU countries (the threshold is applicable to EU established businesses only). If distance sales of goods and supplies of TBE services are under the threshold, sellers who are only established in one Member State can continue to charge and pay the VAT in the Member State where the goods are located at the time of dispatch. Once

² For B2B transactions, the reverse charge mechanism under Article 194 of the VAT Directive also allows non-established businesses to avoid multiple registrations in many cases, even if its application and use vary by Member State.

³ However, Article 34 of the VAT Directive did not apply to supplies of excise goods, second-hand goods, works of art, collectors' items, antiques, or second-hand means of transport.

⁴ Only three Member States applied the maximum threshold of EUR 100 000 (Germany, Luxembourg and the Netherlands). The majority of Member States applied the minimum threshold of EUR 35 000 or the local currency equivalent.

⁵ Suppliers could also opt to ignore the thresholds and account for VAT in the Member State of destination from the first euro of sales – subject to the conditions in Article 34(4) of the VAT Directive being respected. This required the supplier to have a VAT registration number in the Member State of destination.

the threshold is exceeded, for intra-EU distance sales of goods, VAT has to be paid in the Member State of destination of the goods, and for supplies of TBE services VAT has to be paid in the Member State of establishment of the consumer.

Where the threshold does not apply, the **OSS Union scheme** can be used to declare and pay the VAT due on all such supplies. Rather than registering for foreign VAT and completing multiple VAT declarations in Member States where suppliers are making supplies, *they may **opt to complete one OSS declaration** that will list all their pan-EU sales*, in addition to completing their regular domestic VAT return. The seller then remits the VAT due in each Member State in a single payment to the tax authority of his country of establishment, which then forwards the taxes collected to the appropriate Member States.

However, there are certain types of B2C supplies of goods which, even though they may have a cross-border aspect, do not fall within the definition of intra-EU distance sales of goods. These include goods that are physically supplied in the Member State of destination, i.e. domestically, such as supplies with installation and assembly. These supplies of goods are not covered by the OSS, meaning that a non-established supplier still needs to be registered for VAT in all of the Member States where he is carrying out such supplies.

With regard to services, since 1 July 2003 for non-EU-established suppliers and from 1 January 2015, for EU-established suppliers of TBE services, they could avoid VAT registration in the Member State of the customer by using the Mini One-Stop Shop (MOSS), while the **OSS Union and non-Union schemes cover, from 1 July 2021, all cross-border B2C services**. For EU-established businesses established in only one Member State, the EUR 10 000 turnover threshold applies to both TBE services and intra-EU distance sales. For non-EU-established businesses, there is no threshold; VAT is always due in the country of establishment (residence) of the customer for TBE services, or the destination country for distance supplies of goods for example and can be declared through the non-Union scheme for services and the Union scheme for distance supplies of goods.

Another important change introduced on 1 July 2021 was the **abolition of the low-value goods import VAT exemption for commercial goods**.⁶ Previously, Article 23 of Council Directive 2009/132/EC of 19 October 2009 provided that goods of a total value not exceeding EUR 10 shall be exempt of import VAT, but Member States could (and in most cases did) apply a VAT exemption for imported goods up to a value of EUR 22. This exemption threshold has been removed, meaning that all distance sales of imported goods are subject to VAT in the Member State of consumption from the first cent. To simplify compliance and enforcement, the **IOSS** was introduced. This allows suppliers, selling goods in consignments of an intrinsic value not exceeding EUR 150, which are transported or dispatched from a third country or territory by or on behalf of the supplier (or a deemed supplier under Article 14a(1) of the VAT Directive – explained below) to a consumer in a Member State, and which are not subject to excise duties (and also excluding means of transport), to collect VAT on those distance sales of imported goods into the EU from the customer and to declare and pay that VAT via the IOSS. This avoids the potential VAT registration obligation of the supplier/deemed supplier in each Member State of destination of the goods. The threshold of EUR 150 is the value up to which goods benefit from a relief from customs duty, meaning that only VAT is due on these consignments.⁷

The final significant change from 1 July 2021 is that **electronic interfaces** that facilitate certain supplies of goods by an underlying (actual) supplier became, for VAT purposes, the **deemed supplier** of these sales. This is the case in two situations only: (i) an

⁶ Throughout the study, the term low-value consignments is only used with reference to commercially made supplies, rather than C2C shipments.

⁷ Article 23 of Council Regulation (EC) No 1186/2009 of 16 November 2009 setting up a Community system of reliefs from customs duty, OJ L 324, 10.12.2009.

electronic interface (established within or outside of the EU) facilitates the distance sale of goods B2C *imported into the EU from a third country or territory* (not exceeding a value of EUR 150) to a destination in the EU and (ii) an electronic interface that facilitates the B2C supply of goods *within the EU* if the underlying supplier is not established in the EU – regardless of the place of establishment of the electronic interface, or the value of the supply (Article 14a of the VAT Directive). The electronic interface is 'deemed' to purchase the goods from the underlying supplier in the first instance, with this transaction (the B2B supply of goods) being either outside the scope of the EU VAT system or exempt from VAT. The electronic interface is then subsequently deemed to sell the goods to the customers – making the electronic interface liable to report on and pay the VAT on the second deemed supply. The purpose is to reduce VAT avoidance and evasion by the underlying suppliers, which was previously identified as an important problem⁸. As any other business, the electronic interfaces will be able to use the OSS Union scheme and IOSS, depending on the circumstances and the relevant conditions, to declare the VAT due on these sales.

The rest of this section explores the remaining situations where, from 1 July 2021, non-established taxable persons still have to VAT register in Member States where they are carrying out taxable transactions. The analysis is based on extensive desk research, discussion with internal experts, and the targeted consultation.

2.2. Typology

This section presents a typology of the situations that still require VAT registration of non-established taxable persons from 1 July 2021, thereby providing a framework for describing these situations and assessing their magnitude. Taking the relevant VAT rules into account, the typology has been formulated based on two dimensions:

- 1) Whether the transaction involves **goods** or **services**.
- 2) Whether the customer is a **taxable person (B2B)** or a **non-taxable person (B2C)**⁹.

Based on these aspects, and others that vary for each transaction (such as whether the transaction is classed as domestic, intra-EU, or export/import to/from a third country/territory), **six main types of transactions** are identified in Table 1 below. For all of these, VAT registration by non-established businesses in the country in which the supply takes place is still required despite the introduction of the OSS and IOSS regimes on 1 July 2021.

⁸ European Court of Auditors, Special report No 19/2017: Import procedures: shortcomings in the legal framework and an ineffective implementation impact the financial interests of the EU.

⁹ Note that for the purposes of this section, B2C also includes Business-to-government (B2G) supplies of goods and services, i.e. where the customer is a government body.

Table 1. Typology of transactions that require taxable persons to VAT register in Member States in which they are not established

			Transactions requiring <u>VAT registration for non-established businesses</u> from 1 July 2021
B2B	GOODS	Domestic supplies B2B where the reverse charge does not apply	<ul style="list-style-type: none"> • Domestic B2B supplies where the reverse charge does not apply (Member State and/or transaction specific), including: local supplies of goods after import; supplies of fuel; supplies of goods with installation or assembly; supplies of goods previously rented or leased in the Member State of taxation.
		ICA/ICS in/from a Member State where the business is not established	<ul style="list-style-type: none"> • Intra-Community acquisitions/supplies (ICAs/ICSs) in/from a Member State where the business is not established, including: <ul style="list-style-type: none"> – Transfer of own goods cross-border (NB: only where Quick Fix – Article 17a does not apply). – Chain transactions, where three or more businesses are involved in successive supplies of the same goods, where one party makes an ICA/ICS in/from a Member State where it is not established (NB: only where the triangulation simplification (Article 141/197) does not apply). – B2B2C sales of goods first acquired in a Member State where the supplier is not established, including but not limited to drop-shipping (i.e. sales that involve a web shop first acquiring goods in a Member State where it is not established).
		Exports from a Member State where the business is not established	<ul style="list-style-type: none"> • Exports to a third country/territory from a Member State where the exporter is not established (to declare the exempt export) and transit or other forms of relief do not apply.
	SERVICES	Domestic supplies of services where the reverse charge does not apply	<ul style="list-style-type: none"> • B2B supplies of services under Articles 47-48, 53, 55-57 if Article 194 does not apply (Member State and/or transaction specific), including: services connected with immovable property; passenger transport services; services in respect of admission to cultural, artistic, sporting, scientific, educational, entertainment or similar events, such as fairs and exhibitions, and of ancillary services related to the admission; restaurant and catering services; short-term hiring of means of transport.
B2C	GOODS	Domestic supply	<ul style="list-style-type: none"> • Domestic B2C supplies of goods made by suppliers not established in the Member State of taxation, including: supplies with installation and assembly; supplies of goods made on board means of transport; supplies of gas, electricity, heat or cooling energy; supplies of goods on a weekly market by a vendor; supplies of goods made by vendor when participating in an exhibition, trade fair or similar event. <i>Exceptionally, domestic supplies of goods where the goods are physically located in the same Member State as the customer, can be declared using the Union OSS scheme, but only if an electronic interface becomes the deemed supplier.</i>
		Distance sales of <u>imported goods by the supplier from a third country/territory</u>	<ul style="list-style-type: none"> • B2C Distance sales of imported goods by the supplier from a third country/territory with an intrinsic value exceeding €150, or products subject to excise duties, or means of transport.

Source. Authors' own elaboration

2.3. Transactions that require VAT registration by non-established taxable persons

This section describes the B2B transactions not covered by the reverse charge mechanism (see explanation in Box 1) and the B2C transactions that are not covered by the OSS and IOSS, and therefore require non-established taxable persons to VAT register in the Member State where the VAT is due, or where a VAT-exempt transaction needs to be declared. These remaining transactions are listed in order of significance, starting with the type of transactions that are most widespread.

The **analysis is structured in terms of a text box for each type of transaction**. Each box describes the type of transaction, followed by insights gathered from the targeted consultation on their scale, as indicated by a specific scoring system. This assigns each type of transaction a score **from 1-3**, based on two factors: **(i) prevalence (i.e. how widespread the type of transaction is)**, and **(ii) its weight in terms of economic importance** – as evidenced by a mix of qualitative and quantitative data from the targeted consultation. A rating of 3 denotes that a type of transaction is both widespread among businesses and represents a significant share of turnover for the businesses concerned; 2 denotes that the transactions are only prevalent in specific market segments; and 1 denotes transactions that are marginal both in terms of prevalence and weight. The text boxes conclude by providing a number of typical examples for each type of transaction, with a view to capturing the diversity of affected market segments and businesses.

Box 1. Reverse charge mechanism

The reverse charge mechanism reduces the obligation for non-established suppliers to VAT register in the country in which the VAT is due by shifting the liability to account for VAT on the supply from the supplier to the customer. In practice, it means that a customer, who is generally a taxable person, and where he has the full right to deduct input VAT, never pays VAT as he declares and deducts it in the same VAT return, eliminating any cash flow effects.

Optional reverse charge for non-established suppliers (Article 194). This optional reverse charge provides that, where supplies subject to VAT are made in a Member State by a non-established supplier, the liability to account for the VAT due is transferred to the VAT identified customer, relieving the non-established supplier from a VAT registration requirement in the Member State of the supply. Allowing the application of this reverse charge is optional for Member States and is regulated by national rules, leading to considerable variations in the manner in which this article is applied between Member States.

When it comes to supplies of *goods* B2B, Article 194 is applied in the majority of Member States but is subject to various conditions. Some Member States apply the reverse charge to all types of supplies of goods, including France, Poland and Belgium. Others only apply the reverse charge to supplies of goods with installation and other specific items, including Austria, Denmark and Germany. Others do not apply the regime at all, including Greece, Luxembourg and Slovenia. If the reverse charge is applied, then the non-established supplier does not have to register for VAT in the country of supply, ie where the VAT is due. However, in accordance with Article 256, VAT registration by the *customer* is in practice required, if the customer is not already VAT registered in the country of supply, in order to account for the VAT. Member States may require that the customer is, in addition to being identified is also established in the country of supply, this is the case in, for example, Belgium, Italy and Poland.

When it comes to supplies of *services* B2B (not otherwise subject to a reverse charge mechanism, e.g. Article 196), the position is similar: most Member States do apply the reverse charge mechanism under Article 194, but some only for certain services. For example, Austria, Denmark and Germany generally apply the reverse charge to services but exclude admissions to fairs, exhibitions and conferences. In Hungary, the reverse charge for services only applies to passenger transport, cultural services, rental of vehicles and catering services. In Latvia, Slovenia and Sweden, the reverse charge only applies to

construction/services connected to real estate. The reverse charge for services also requires the customer (who will account for the reverse charge) to be VAT registered in the country of supply, and in some Member States that the customer is in addition *established* in the country of supply.

Mandatory reverse charge (Articles 195-198, 200). The reverse charge mechanism has to be applied to the following specific transactions, provided that the supplier is not established in the Member State of taxation:

- supplies of natural gas through a natural gas system or connected network and supplies of electricity, heat or cooling energy through a heating or cooling network, the reverse charge applies if the customer is VAT registered in the Member State of taxation (Article 195)
- those B2B services for which the place of supply is the Member State of establishment of the customer, the reverse charge applies (Article 196); as per Article 214(1)(d), the taxable person receiving such services, if not registered, must be identified by means of an individual number.
- a triangular transaction carried out in accordance with the conditions in Article 141 (Article 197)
- specific transactions in investment gold (Article 198)¹⁰
- ICAs¹¹ (Article 200) (regardless as to whether the person making the acquisition is established or not).

Optional reverse charge for specific transactions (Articles 199, 199a¹²). The reverse charge mechanism may also be applied by Member States in specific situations to *tackle fraud* corresponding to Articles 199 and 199a of the VAT Directive. These mainly relate to immovable property such as goods and services provided in the construction sector, waste sector, and sectors impacted by greenhouse gas emissions. But these provisions may also be applied to goods such as mobile phones, game consoles, tablet PCs and laptops.

2.3.1. Remaining transaction 1: Intra-Community acquisition/supply in/from a Member State where the business is not established

The results of the targeted consultation confirmed that the remaining problems related to VAT registration of non-established businesses overwhelmingly concern ICA/ICS of goods in/from a Member State where the business is not established – the second category in Table 1 above. Non-established businesses are required to VAT register in Member States where they make ICAs to account for the VAT there¹³ or for the purposes of reporting and fraud avoidance¹⁴. Non-established businesses are also required to VAT register in Member States from where they make ICSs to declare the exempt ICS. There are three situations where ICAs and ICSs in and from Member States where the business is not established are especially prevalent, namely **transfer of own goods cross-border, chain transactions** and **B2B2C sales of goods first acquired in a Member State where the supplier is not established**. These are described below in Box 2 to Box 4.

¹⁰ In this case, the reverse charge mechanism applies when the customer is a taxable person who is not a member of a regulated gold bullion market, even when established in the Member State of taxation.

¹¹ As noted above, for the sake of simplicity, in this report, intra-Community acquisitions are included within the “reverse charge” term.

¹² Article 199a was inserted in the VAT Directive by Council Directive 2010/23/EU. Latest amendment in Council Directive (EU) 2018/1695.

¹³ According to Article 200 of the VAT Directive, “VAT shall be payable by any person making a taxable intra-Community acquisition of goods”.

¹⁴ The obligation to register for intra-Community acquisitions is covered in Article 214(1)(b) and (c) of the VAT Directive. Article 140(c) may exempt the acquisition in certain circumstances.

Box 2. Transfer of own goods cross-border

Description

This concerns the transfer of own goods cross-border to a Member State where the owner is not established (excluding call-off stocks). For VAT purposes, the transfer is treated as a supply and self-sale (intra-EU acquisition). Even though the deemed supply (intra-EU supply) is VAT exempt, the owner is required to VAT register in the destination country for the purposes of reporting the acquisition and fraud avoidance. Such transfers may take place for several reasons, including the transfer of own stock, either by the owner or on behalf of the owner by an intermediary such as an electronic interface, for the purpose of storage and sale (both B2B and B2C), or the transfer of own material or equipment cross-border according to business needs – which is not returned to the Member State of departure or remains in the other Member State for more than 24 months.

Degree of magnitude: 3 – widespread, representing significant parts of business turnover

These types of transfers are widespread. Indeed, nearly 60% of the 27 businesses with an opinion on this topic stated that they have had to VAT register in a Member State where they were not established due to a transfer of own goods cross-border. Several stakeholders also expressed that this type of transaction is the most significant in terms of transactions that require them to VAT register in countries where they are not established. As for the value of these transactions, most stakeholders were not able to provide figures, partly because they are internal, but many stakeholders cited that it is substantial. The six businesses that were able to provide figures reported that these transactions represent on average 10% of their turnover.

Example 1: Transfer of own stock of goods cross-border to be stored and sold

An online supplier of electronic goods with both private and business customers moves his stock to be stored and sold in a Member State where he is not established in order to be closer to his customers. According to Article 21 and Article 214(1)(b) and (c) of the VAT Directive, a taxable person who transfers a stock of his own goods, to be stored in a Member State in which he is not established, will be required to VAT register in that country, unless this transfer falls under the call-off stock arrangements provided for in Article 17a of the VAT Directive (or where the exceptions in Article 17(2) apply). Both the transfer of the goods (i.e. the subsequent acquisition) and the following local supply trigger a VAT registration requirement. If the customer is a business, the following local supply may be subject to the reverse charge depending on how the Member State of the customer applies Article 194.

Example 2: Transfer of stock of goods cross-border by an electronic interface on behalf of the owner

Another example of a similar transaction relates to suppliers using electronic interfaces to sell goods in countries where they are not established. The electronic interface may hold suppliers' goods in fulfilment centres across the EU. When goods are moved between Member States by the electronic interface, the owner of the goods (i.e. the underlying supplier) will have to VAT register in every Member State to which the stock of goods is moved.

Both examples above were cited by stakeholders as by far the most important transactions that are not covered by the OSS and require VAT registration by non-established suppliers. One of the reasons that these transactions are so widespread is that they affect a great number of sectors, and businesses that operate in the B2B and B2C segments or both. Businesses concerned range from multinational companies (MNCs) selling to consumers in several Member States through their own websites, to small businesses using electronic interfaces (e.g. Amazon) to expand their businesses online.

Example 3: Transfer of own material or equipment cross-border

For a corporate group moving raw material or equipment between subsidiaries in different Member States (whilst retaining ownership of those goods), each subsidiary must VAT register in the country of destination for each such transaction (unless Article 17a or the exceptions in Article 17.2 apply). This type of transaction mainly relates to manufacturing companies. However, evidence of its prevalence is still patchy and needs to be investigated further before drawing a conclusion. The evidence suggests that these transactions are relatively minor, but that they nonetheless oblige some manufacturers to obtain additional VAT registrations. Moreover, some interviewed companies described developing value chains in a certain way specifically to avoid these transactions, compromising VAT neutrality.

Box 3. Chain transactions

Description

This involves the successive supply of the same goods by three or more businesses. For example, company A sells goods located in Member State 1 to company B in Member State 2, who sells the same goods to company C in Member State 2, who sells the same goods to company D in Member State 3. The goods are transported directly by company A from Member State 1 to company D in Member State 3. Since only one transport takes place, only one supply in the chain can be considered as the VAT-exempt ICS, where the acquirer is required to account for VAT in the Member State of destination on a reverse charge basis (ICA) – this is the supply from A to B. The supply from B to C is deemed to be made in Member State 3 (Member State 2 VAT cannot be charged since the goods are at no stage located there) because under Article 31, where goods are not dispatched or transported, the place of supply is the place where the goods are located at the time when the supply takes place. B has made an ICA of goods in Member State 3 and onward supply to C (who is not registered in Member State 3), B must register for VAT in Member State 3 to account for acquisition VAT. C must also register in Member State 3 for the supply to D unless the goods are covered by the reverse charge (Article 194).

A VAT registration requirement can also arise where the chain transaction is purely domestic and includes two or more successive sales of the same goods in the same Member State, if one or more of the taxable persons intervening in the chain of supplies is not established in the Member State where the transaction takes place.

VAT registration requirements related to chain transactions may arise due to both ICAs in Member States where the business is not established, and ICSs from Member States where the business is not established, the latter 'merely' to declare the exempt transaction.

Degree of magnitude: 3 – widespread, representing significant parts of businesses' turnovers

Chain transactions are highly prevalent in several value chains, for instance in commodity trading, and for certain manufacturing businesses, including chemical, oil and gas, and some retail businesses. More than a third of the 27 businesses interviewed on this topic (37%) stated that they have had to VAT register in a country where they are not established due to their involvement in chain transactions. Of these businesses, chain transactions were often the only or the main transaction that they cited in this context. Quantitative figures on the value of chain transactions were scarce, but stakeholders expressed that they make up fairly substantial parts of their turnover.

Example 1: Commodity trading

Chain transactions are particularly common in commodity trading, where commodities are sold between persons and between Member States without being transported between the middlemen in the chain. Commonly traded commodities include metal, energy, livestock and meat, and agricultural products. The example provided in the description could concern any of these.

Example 2: Retail

A retail company established in Ireland orders goods to sell to their customers from a distributor based in Spain. The distributor does not have the goods in question, so it turns to a wholesaler, also established in Spain. The wholesaler does not have the goods in question either but turns to a manufacturer established in Italy and orders the goods from him. These are shipped directly from the manufacturer in Italy to the retail company in Ireland. There are three transactions between the four parties, the transaction between the manufacturer (IT) and the wholesaler (ES) may be considered as a VAT-exempt ICS, where the wholesaler accounts for VAT in the destination country (Ireland) on a reverse charge basis (ICA). The supply from the wholesaler (ES) to the distributor (ES) is deemed to be made in Ireland (Spanish VAT not being applicable since the goods are at no stage located there). Since the wholesaler has made an ICA of goods in Ireland and an onward supply to the Spanish distributor, the wholesaler must register for VAT in Ireland to account for acquisition VAT, charge Irish VAT to the distributor ES who in turn would charge Irish VAT to the Irish retail company¹⁵.

¹⁵ Subject to the application in Ireland of Article 194.

Box 4. B2B2C supply of goods first acquired in a Member State where the supplier is not established

Description

An e-commerce business sells goods online but does not keep the goods sold in stock; instead, it purchases these from businesses in other Member States (where the e-commerce business is not established), then sends the goods directly to the customer in a third Member State. The e-commerce business is required to VAT register for the initial B2B ICA in the Member State of the customer, and to account for VAT on the supply to the customer in that Member State.

Alternatively, the e-commerce business registers for VAT in the Member State of the supplier and then makes a distance sale from that Member State to the Member State of destination of the supply.

Importantly, the last leg of such a transaction could also involve a sale to a business customer rather than a consumer. In such a case, it should be possible for the e-commerce business to avoid VAT registration for the ICA by availing itself of the simplification for triangular transactions, as defined in Article 141 of the VAT Directive. The VAT-identified business customer can then account for the last leg using the reverse charge as an ICA.

Degree of magnitude: 2 – prevalent in specific market segments

This type of transaction, although mostly limited to the drop shipping business model, is likely to increase in prevalence as part of the overall growth of the e-commerce sector.

Example 1: Drop shipping

An online fashion company in Sweden sells an article of clothing through its online store to a consumer in Denmark (intra-EU distance sale) but the company in Sweden buys the good from a business in Germany, where he is not registered (ICS of goods). The good is directly sent to the customer (from Germany to Denmark). The company established in Sweden must register in Denmark for the ICA and local sale of the good.

2.3.2. Remaining transaction 2: Domestic B2B supplies of goods where the reverse charge does not apply

The second most problematic transactions with regard to VAT registration requirements are B2B supplies of goods that are classed as domestic and where the reverse charge does not apply (see Box 1).

Box 5. Domestic supply of goods B2B where the reverse charge does not apply

Description

Domestic supplies of goods B2B by a non-established supplier where neither the mandatory nor the optional reverse charge applies (see Box 1). These may include transactions by non-established suppliers such as the local supply of goods after import, supplies of fuel, supplies of goods with installation or assembly, supplies of goods previously rented or leased in the Member State of taxation, and supplies of goods that have been processed in a Member State other than the Member State of dispatch and where the goods do not return to the Member State of dispatch after processing. Importantly, the supplies not covered by the optional reverse charge, under Article 194, vary between Member States.

Degree of magnitude: 2 – prevalent in specific market segments

As indicated above, these types of transactions are quite diverse, and on the whole widespread; the large majority of the 27 businesses interviewed on this topic (57%) stated that they have had to VAT register in a Member State where they were not established due to supplying goods B2B domestically in that Member State. Local supplies of goods after import are prevalent across different sectors, while the other types of transactions are mostly carried out by businesses in specific market segments, as illustrated by the examples below.

Example 1: Import followed by a local supply

A business imports goods from a third country in a Member State where it is not established, the goods are subsequently sold on to a business in the Member State of importation. This domestic supply triggers VAT registration by the non-established supplier in the Member State of importation, unless Article 194 applies. This type of transaction appears to be fairly widespread but not representing a large part of businesses' operations, and is typically only carried out by MNCs. In most Member States (15), Article 194 removes the requirement to VAT register for the onward domestic supply after importation. Where Article 194 applies to the onward domestic supply, import VAT would need then to be recovered by the non-established importer via the refund mechanisms. In France, however, as the reverse charge mechanism for the declaration of import VAT is, from 1 January 2022 obligatory, the importation triggers an automatic VAT registration obligation, regardless of the VAT treatment of the onward domestic supply (ie application of article 194 or otherwise).

Example 2: Fuel cards (also a B2C issue)

A fuel card is a specific type of card (which can also be dematerialised) that is used for dealing with expenses related to a vehicle, such as the purchase of fuel, road tolls, vehicle servicing, and others. Unlike credit cards – whereby the card functions as a form of payment – fuel cards generally play only a legitimisation function, with the fuel card issuer (under the standard buy/sell model) buying the fuel from the petrol station and selling it to the card holder. This triggers a VAT registration requirement for a fuel card issuer (operating under the standard buy/sell model or acting as a commissionaire) in every Member State where its cards are acquired and used, since they are technically supplying fuel in those countries and are required to pay and declare VAT on those domestic supplies. Fuel cards are widely used, particularly within the trucking industry, in 2019 the European fuel card market was valued at EUR 221 billion.¹⁶ This can also be considered a kind of chain transaction as described in Box 3.

Example 3: Supply of goods with installation or assembly

A Croatian business that supplies and installs a machine for his Slovenian business customer is required to VAT register in Slovenia, since Slovenia does not apply Article 194 in this situation. This type of transaction is marginal, typically carried out by companies operating in border regions, and the obligation for the non-established supplier to VAT register is in most Member States alleviated by Article 194 – only five Member States do not apply Article 194 in this case (CY, GR, LU, LV and SI).

Example 4: Supply of goods previously rented or leased abroad

If a business rents out a machine to a business in a Member State where the supplier is not established, and the business customer then decides to purchase the hired machine, the supplier is obliged to VAT register in the Member State of the customer to pay and declare local VAT, unless Article 194 applies. This situation appears rare, and the majority of Member States (15) applies Article 194 to all domestic supplies of goods carried out by non-established suppliers.

Example 5: Supply of goods that have been processed in a Member State other than the Member State of dispatch and not returned to the Member State of dispatch

A business dispatches goods to a business in another Member State to have them processed. If the goods are not returned to the Member State of dispatch (the Member State of the supplier) after they have been processed, but rather supplied to a business customer either in the Member State where they were processed or to a customer in another Member State, the supplier is obliged to VAT register and pay and declare VAT in the Member State where the goods were processed, unless Article 194 applies. Also important to note is that the ICA by the supplier in a Member State where it is not established will also trigger a VAT registration requirement, as per Box 2 above. While the study was unable to determine the prevalence of such transactions with any certainty, it was not identified as a major concern by any interviewees in the targeted consultation.

2.3.3. Remaining transaction 3: Domestic B2C supplies of goods made by suppliers not established in the Member State of taxation

After B2B transactions with goods, the most widespread type of transaction that requires VAT registration by non-established businesses is the domestic supply of B2C goods. The OSS Union scheme does not cover domestic supplies of goods and so the new rules will still require non-established suppliers to VAT register in all Member States where

¹⁶See market analysis at: <https://upei.org/library/download/1230/945/17?method=view>.

they are carrying out such types of supplies. The only exception is where an electronic interface becomes a deemed supplier for the sale of goods it facilitates within the EU made by an underlying supplier who is not established in the EU. In this case, the deemed supplier (electronic interface) can declare the domestic sales through the Union scheme.

Box 6. Domestic supplies of B2C goods

Description

Domestic supplies of B2C goods made by suppliers not established in the Member State of taxation. These supplies often refer to the sale to consumers after goods have been transferred cross-border to be stored in warehouses or fulfilment centres (related to examples 1 and 2 in Box 2). Since such sales are classed as domestic (the goods being located in the Member State of destination at the time that they are supplied), the OSS for distance-sales cannot be used.

Other transactions falling under this category include supplies with installation and assembly; supplies of goods made on board means of transport; supplies of gas, electricity, heat or cooling energy; supplies of goods on a weekly market by a vendor established in another country; supplies of goods made by a vendor when participating in an exhibition, trade fair or similar event in a Member State in which the taxable person is not established.

Degree of magnitude: 2 – prevalent in specific market segments

As indicated above, these types of transactions are quite diverse. The sale of goods from warehouses or fulfilment centres by non-established suppliers is widespread (as also noted in Box 2). The supply of electric vehicle charging (electricity – a supply of goods) is also widespread and growing in importance. In contrast, the other types of transactions mentioned appear marginal; for example, supplies by non-established suppliers with installation and assembly are generally limited to companies operating near borders (or where the goods installed are very specialised) – these were not highlighted as particularly important by stakeholders.

Overall, domestic supplies of B2C goods made by suppliers not established in the Member State of taxation are fairly significant: two of the sub-types are widespread, albeit only in specific market segments (i.e. businesses that sell B2C goods that they store in Member States where they are not established, and the electric vehicle charging industry). These alone merit a score of 2, whereas the rest appear marginal, e.g. supplies with installation and assembly. This was exemplified by one stakeholder – an Italian business federation in a border region. The federation stated that some local firms previously supplied the B2C market in France, mainly in construction, installation (heating cooling, electricity, plumbing etc.), and doors and windows. However, the number of companies involved was very few – in the 'crisis years' (2014-15) around 10 to 15 companies per year, generating about EUR 10 million in turnover. These dwindled to none after this period due to the saturated construction market and post-Covid energy efficiency incentives.

About 25% of the 27 businesses interviewed on this topic stated that they have had to VAT register in a country where they were not established due to domestic supplies of B2C goods. Only two businesses were able to estimate the value of these types of transactions, inference on the value they represent is therefore not appropriate. Interestingly, they provided hugely different figures, one of them citing that those domestic supplies of B2C goods make up 50% of their turnover, while the other cited 0.11% – both of these relate to transfers of own stock of goods cross-border followed by a local supply. These figures are likely much higher for SMEs and micro-businesses, such as merchants selling their own goods through electronic interfaces.

Example 1: Transfer of own stock of goods cross-border followed by a local supply

A small EU-established business selling mobile phone accessories on an online marketplace (electronic interface) to customers across the EU. The seller has a particularly large customer base in France (where he is not established), so as to be closer to his customers the seller decides to store his stock of goods in a warehouse in France. When his French customers buy his goods, these are classed as domestic sales, French VAT should be charged, and the seller will need a French VAT registration number since the OSS cannot be used. However, as the transfer of the goods to the warehouse also requires the supplier to be VAT registered due to the acquisition in France, the supplier should in this case already be VAT registered in France.

This type of transaction is widespread and concerns a wide range of different businesses, from MNCs selling to consumers in several Member States through their own websites, to small businesses using the likes of electronic interfaces such as Amazon to expand online.

Example 2: Electric vehicle charging industry

Electric vehicle charging is commonly provided by Mobility Service Providers that offer access to charging stations across a network of charging stations across the EU. When a customer charges his vehicle in a Member State other than the Member State of establishment of the Mobility Service Provider, this technically means that the provider is supplying electricity in that Member State, triggering a VAT registration (and payment) obligation for the non-established provider. This type of transaction is widespread within the (quickly growing) electric vehicle charging industry.¹⁷

Example 3: Supply of goods with installation and assembly

A plumber established in Strasbourg, France, near to the German border installing a washing machine for his private customer in Kehl, Germany, needs to VAT register there to charge his customer German VAT. It was unclear from the targeted consultation how prevalent such transactions are, or the extent to which the registration requirement prevents businesses in border regions from operating in neighbouring Member States. Anecdotal evidence suggests that these transactions are rare – for example, one interviewee noted 10-15 companies active in this way in a large border province in Western Europe – however this may be at least partly a consequence of the registration requirement itself.

2.3.4. Remaining transaction 4: B2C distance sales of goods dispatched from a third country/territory with an intrinsic value exceeding EUR 150 or products subject to excise duties

Since the IOSS only applies to goods imported into the EU in consignments of an intrinsic value not exceeding EUR 150 and also given the fact that the IOSS does not cover goods subject to excise duties¹⁸, (and means of transport) non-established suppliers of such imported goods are required to VAT register in the Member State of importation (if the supplier is the importer).

Box 7. B2C distance sales of goods dispatched from a third country/territory with an intrinsic value exceeding EUR 150 or products subject to excise duties

Description

B2C distance sales of goods dispatched from a third country/territory with an intrinsic value exceeding EUR 150, or products subject to excise duties. These cannot be declared through the IOSS but require the supplier to VAT register in the Member State of destination to pay VAT on the supply of the imported goods¹⁹ (if the supplier is the importer, as opposed to the customer).

Degree of magnitude: 2 – prevalent in specific market segments

These transactions are prevalent in particular in e-commerce. Distance sales from third countries/territories of goods worth more than EUR 150 and goods subject to excise duties imported from third countries/territories make up around 10-20% of the total value of e-commerce distance sales into the EU, as suggested by the targeted consultation (see Section 5.4.1 for more detail). In terms of the businesses affected, these transactions involve mainly non-EU retailers, but also EU-established businesses that sell goods from third countries directly to consumers in the EU. The targeted consultation showed that most EU businesses with operations in third countries import and stock goods in the EU before selling them to customers, meaning that the latter type of transaction described is relatively rare. However, growing e-commerce and just-in-time business models could lead to it becoming more important in the future, especially when the EU established business is selling to customers in a Member State where the supplier is not established / registered.

¹⁷ As per the VAT Committee Guidelines resulting from the meeting of 19 April 2021, electricity for the purpose of charging an electric vehicle is a supply of goods made at the location of the charging terminal in line with Article 39 of the VAT Directive.

¹⁸ These are the goods covered by EU-harmonised excise duty provisions, as per Council Directive 2008/118/EC.

¹⁹ This is due to the interaction of Article 201 and Article 32 2nd paragraph.

Example 1: e-commerce company established outside the EU selling goods shipped from outside the EU, to EU customers

An American fashion retailer selling a designer article of clothing worth EUR 250 through its website to a Swedish customer. The US company could avoid VAT registering in Sweden by letting the customer be the 'importer'; the customer would then pay VAT to Swedish customs when he/she collects the item. However, if the US company VAT registers in Sweden, it is able to collect VAT directly from the consumer and pay it, thus providing a smoother customer experience. Many companies take this path so as to avoid delays and administrative hassle for their customers.

Example 2: EU-established business importing goods from a third country to a Member State where he is not established where he supplies them directly to his customer

A Danish homeware business selling exclusive china worth EUR 500 through its own website which ships the goods from Japan directly to its customer in Spain, will have to VAT register in Spain to charge local VAT. This situation is, as reported by stakeholders, fairly rare, as normally the Danish business would import the goods to Denmark first and then supply the goods from there to its customers (which is a distance sale that can be declared using the Union OSS for goods already in the EU at the time of the order).

2.3.5. Remaining transaction 5: Export from a Member State where the exporter is not established

Another type of transaction that requires VAT registration by non-established businesses relates to exports to a third country/territory, category three in the typology. Despite the export being exempt it needs to be declared in a local VAT return.

Box 8. Export from a Member State where the exporter is not established

Description

An exporter to a third country/territory from a Member State in which he is not established has to VAT register to declare the exempt supply of goods dispatched or transported to a destination outside the EU (export) (Article 214(1)(a) and Article 32(1)).

Degree of magnitude: 1 – marginal

It is difficult to assess how widespread this type of transaction is. It was only mentioned specifically by one stakeholder, hence it seems reasonable to assume that it is marginal, but further investigation will be done to determine the magnitude of this type of transaction.

Example 1: Manufacturer of hand-crafted furniture

A broker from Luxembourg buys a piece of hand-crafted furniture in France and resells it to a customer in Singapore. The broker effects the exportation in his own name from France. The broker has to VAT register in France to declare the exempt export to Singapore and recover the French VAT on the purchase.

2.3.6. Remaining transaction 6: Domestic supplies of B2B services where the reverse charge does not apply

Domestic supplies of certain B2B services where the reverse charge (Article 194) does not apply is the fourth category in the typology. As explained below, these only involve businesses operating in specific – and relatively marginal – market segments.

Box 9. Domestic supplies of B2B services where the reverse charge does not apply

Description

Domestic supplies of certain B2B services, where the reverse charge (Article 194) does not apply (see Box 1). The supplying business will have to VAT register in the country where the service is

performed (deemed to be supplied) to charge local VAT and declare it in a local VAT return. The services falling under this type depend on national legislation but may include: services connected with immovable property; passenger transport services; services in respect of admission to cultural, artistic, sporting, scientific, educational, entertainment or similar events, such as fairs and exhibitions, and of ancillary services related to admission; restaurant and catering services; short term hiring of means of transport.

Degree of magnitude: 1 – marginal

The majority of Member States apply Article 194 for the supply of services by non-established suppliers (see Box 1), rendering the situations where VAT registration is required for the above-mentioned services marginal. However, not all Member States apply Article 194 in these situations, with exceptions for the admission to events particularly widespread. Overall, the transactions are rare but may be significant for the concerned companies, such as event organisers or caterers supplying their services to businesses in Member States where they are not established. Very few stakeholders mentioned these transactions as particular problems, but this is likely to relate at least partly to the difficulty in reaching these very specific market segments.

Example 1: Passenger transport services

A French established yachting business providing luxury skippered boat charters to business customers throughout the EU. Passenger transport is taxed in the Member State where the transport takes place, hence, if the skippered boat sails in Greece (eg between Corfu and Santorini), where Article 194 does not apply, the French business would have to VAT register there.

Example 2: Admission to events

A conference organised by a German company in Austria for Austrian business participants. The conference organiser is required to VAT register in Austria since Austrian VAT must be charged on the admission fee and admission to conferences is not covered by Article 194 in Austria. For virtual events, the place of supply – as per the amendments to the VAT Directive agreed to by the Council on 7 December 2021 – is proposed to be the place of establishment of the customer.

Example 3: Catering services

A Finnish company which provides, as a supply of catering, food and drink for a business conference in Sweden needs to VAT register in Sweden since Swedish VAT must be charged and Sweden does not apply Article 194 in this situation.

As previously mentioned, these transactions are rare but may represent significant parts of specific types of companies' operations, in particular those that operate in border regions in countries where Article 194 is not applied.

Finally, **a seller who does not wish to sign up to the OSS Union or non-Union schemes or the IOSS has to VAT register** in the Member States in which VAT is due and in which he is not established in cases where the use of one of the schemes would eliminate that requirement. Similarly, a seller may be excluded from using the schemes e.g. if he no longer meets the conditions necessary to be able to use the special scheme or if he persistently fails to comply with the rules relating to the special scheme).²⁰

Table 2 sums up the remaining transactions for which non-established businesses are required to VAT register and their degree of magnitude. These mainly concern the *supply and acquisition of goods B2B*. In particular, ICAs/ICSs in/from Member States where businesses are not established – particularly including transfers of own goods cross-border and chain transactions – and situations of domestic supplies of goods B2B where the reverse charge does not apply. These affect various stakeholders ranging from MNCs selling to consumers in several Member States through their own websites, to small businesses using electronic interfaces to expand online, to manufacturing and production businesses involved in chain transactions, to commodity

²⁰ Cf. Articles 363 (non-Union scheme), 369e (Union scheme), 369r (IOSS) of the amended VAT Directive.

traders, to entire industries (such as the fuel card industry) – in other words, they are widespread.

Domestic B2C supplies of goods made by suppliers not established in the Member State of taxation, and B2C distance sales of goods imported by the supplier from a third country/territory with an intrinsic value exceeding EUR 150 or products subject to excise duties are also fairly widespread, but only in specific market segments. Businesses concerned include retailers keeping stock in Member States where they are not established to make local sales to their customers in that Member State, electric vehicle charging suppliers, and third country e-commerce suppliers selling higher-value (with an intrinsic value above 150 Euro) or excise goods to EU consumers.

Exports from a Member State where the business is not established and domestic supplies of B2B services not covered by the reverse charge appear to be marginal.

Table 2. Summary of transactions that require VAT registration by non-established businesses and their degree of magnitude

#	Transaction	Degree of magnitude
1	ICA/ICS in/from a Member State where the business is not established, including:	
	a. Transfer of own goods cross-border	3 – widespread, representing significant parts of business turnover
	b. Chain transactions	3 – widespread, representing significant parts of business turnover
	c. B2B2C sales of goods first acquired in a Member State where the supplier is not established	2 – prevalent in specific market segments
2	Domestic supplies of goods B2B where the reverse charge does not apply	2 – prevalent in specific market segments
3	Domestic supplies of B2C goods	2 – prevalent in specific market segments
4	B2C distance sales of goods imported by the supplier from a third country/territory with an intrinsic value exceeding EUR 150 or products subject to excise duties	2 – prevalent in specific market segments
5	Exports from a Member State where the business is not established	1 – marginal
6	Domestic supplies of certain B2B services where the reverse charge does not apply	1 – marginal

Source. Authors' own elaboration

PART B
ANALYSIS OF POSSIBLE
INTERVENTIONS

3. PROBLEM DEFINITION

3.1. Introduction

The purpose of this section is to determine whether there are sufficiently serious and persistent problems with the current situation to merit further EU action with regard to a Single Place of VAT registration and the IOSS. This involves identifying any problems, and examining their magnitude, drivers and consequences for different stakeholders, which in turn provides the foundation for the policy objectives and options to be assessed in the rest of the analysis of impacts. **The analysis is in line with the version presented in the interim report, and has been subject only to minor refinements** based on further analysis, e.g. to reflect additional insight on the magnitude of certain issues or the views of stakeholders.

Before detailing the analysis, it is **important to define the 'current situation' under review**. This is characterised by the rules and related OSS and IOSS mechanisms described at the beginning of Section 2 and the behaviour of authorities, businesses, and consumers within that framework. Conceptually, the situation is unusual for an analysis of impacts, because the relevant rules and mechanisms only came into force during the course of the study, on 1 July 2021. This means that some aspects of the assessment, such as on the impacts of the OSS and IOSS, are necessarily based on stakeholders' projections and are thus subject to more uncertainty and margin of error than usual.

There are also other limitations to the evidence base related to the scarcity of representative, quantitative data on issues of interest, particularly the volumes of certain types of transactions. This is due to the specificity of these transactions and the fact that they do not correspond to the categories used in the large-scale datasets maintained by national authorities. The shortcomings described have been mitigated to a certain extent by triangulating between desk-research sources and insight from the many stakeholders engaged as part of the large-scale targeted consultation.

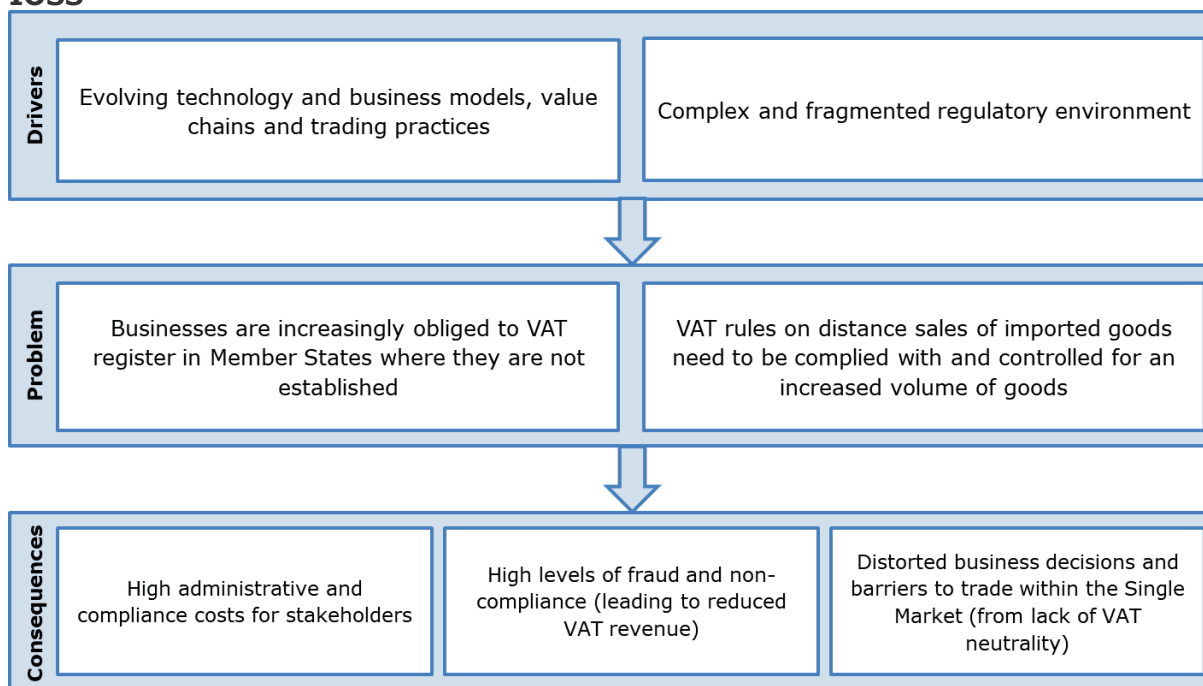
Moving onto the analysis, the Better Regulation Toolbox suggests using a '**problem tree**' to 'depict graphically the relations between drivers, problems and their consequences'.²¹ The problem tree is shown in Figure 2 and briefly outlined below.

- **The drivers or 'root causes' of the problems.** The first of these – evolving technology and business models, value chains and trading practices – is unrelated to the VAT framework per se but rather refers to external developments that have implications for the suitability of that framework. In particular, the explosion in e-commerce has led to exponential increases in cross-border trade and distance sales of imported goods into the Single Market. The second driver – complex and fragmented regulatory environment – is about the VAT framework itself and refers to issues faced by businesses operating in multiple Member States.
- **Problems.** The drivers combine to generate two problems. Firstly, businesses are often obliged to VAT register in Member States where they are not established. Secondly, the increase in distance sales of imported goods into the Single Market, creating more situations for compliance by businesses and controls by national authorities.
- **Consequences.** To differing degrees, the problem leads to important consequences, including increased administrative and compliance costs, barriers to trade within the Single Market and distorted business decisions (e.g. as businesses arrange their operations to avoid VAT registration obligations), non-

²¹ Better Regulation Toolbox, Tool #14, 'How to analyse problems', accompanying Commission Staff Working Document, Better Regulation Guidelines, SWD(2017)350, Brussels, 7.7.2017.

compliance and fraud (the latter particularly in relation to distance sales of imported goods).

Figure 2. Problem tree for the Single Place of VAT registration in the EU and IOSS



Source. Authors' own elaboration

The rest of this section presents the problem drivers, the associated problems and their consequences in turn.

3.2. Problem drivers

3.2.1. Evolving technology and business models, value chains and trading practices

Technological change, mainly in the form of digitalisation, is over time reducing the importance of physical distance and removing many of the barriers for businesses to span their operations and sales across borders.

Much of this story is about the explosion in e-commerce. This was already noted in the IA for the e-Commerce VAT Package,²² which pointed to exponential growth in the years leading up to 2014. While the pace of growth of e-commerce has slowed somewhat, it is still significant, increasing by 14% between 2018 and 2019 and by 10% between 2019 and 2020, from EUR 690 bn to EUR 757 bn across the EU. A similar increase (of 12%, to EUR 848 bn) has been forecast for 2021, reflecting the migration of part of the economy online despite the economic crisis associated with the pandemic.²³ There are some differences in degree between Member States, notably that e-commerce is much more important in western / northern Europe. But the overall trends are clear and global.

²² Commission Staff Working Document Impact Assessment accompanying the document 'Proposal for a Council Directive, a Council Implementing Regulation and a Council Regulation on Modernising VAT for cross-border B2C e-Commerce, SWD(2016) 379 final.

²³ 2021 European Ecommerce Report, <https://ecommerce-europe.eu/wp-content/uploads/2021/09/2021-European-E-commerce-Report-LIGHT-VERSION.pdf>.

While this has not translated into an increase in the share of intra-EU over total distance sales (see discussion in Section 3.4 below), *imported* distance sales are large and growing. Over a fifth (21%) of EU consumers had made a recent distance sale from outside the EU according to a recent survey for Eurostat, with much higher figures seen in certain Member States (e.g. 32% in the Netherlands).²⁴ This is due to the growing ease with which consumers can order goods from foreign distance sellers directly, rather than purchasing them only via EU retailers, who would previously have imported such goods in their own name, and in bulk.

Digitalisation is also profoundly affecting logistics, and thus value chains, in a way that increasingly takes goods over borders or involves businesses that are not established in the Member State where the supply takes place. This is reflected in many of the types of transactions presented in Section 3.3.1 below. For example, large online marketplaces / electronic interfaces allow sellers based in any Member State (or indeed from outside the EU) to reach customers throughout the EU with their goods. Rather than letting sellers store their goods in the Member States where they are established, some electronic interfaces decide on the location that minimises delivery time to likely customers. This often involves moving goods across EU borders before a sale is actually made and ownership transferred to a customer. Similar dynamics were also found to be prevalent in diverse sectors such as electrical vehicle charging (when customers from one Member State charge their vehicle in another), and commodities trading, whereby goods change owners – sometimes between owners based in different Member States – without physically moving.

The upshot is that transactions that may previously have been marginal for VAT purposes are becoming more prevalent. Combined with the complex and diversely applied VAT rules described in the next subsections, the result is that a growing number and proportion of transactions are becoming problematic. These current trends are important context for the assessment of the dynamic baseline scenario, as discussed further in Sections 5.3.1 and 5.4.1.

3.2.2. Complex and fragmented regulatory environment

The VAT Directive provides the rules for determining in which Member State the VAT on a transaction is due, and the person liable to pay and report on it. These rules are extremely complex and depend on numerous factors, which differ according to the type of transaction, where suppliers and customers are based, and the Member States involved.

The complexity increases **when the taxable person carrying out a supply is not established** in the Member State where the tax is due. To pay and declare VAT, businesses generally are required to obtain a VAT registration number in the Member State of taxation, resulting in administrative costs for businesses involved in cross-border trade. To avoid businesses having to obtain multiple VAT registration numbers, the VAT Directive provides for the OSS, IOSS, and the reverse charge mechanisms. These mechanisms (described further below) alleviate some of the complexities related to VAT registration by non-established suppliers, however, the mechanisms themselves also entail complex rules regarding their use.

In order to illustrate the complexity, it is useful to describe the steps for **determining where VAT is due and who should pay and report on it for a given transaction**. Starting with the former, for the supply of *goods*, the 'destination principle' generally applies, meaning that VAT is due in the Member State of the destination of the goods. However, as explained in Section 2.1, there are exceptions to this, which depend on the type of transaction. For instance, if distance sales of goods and supplies of TBE services are under the EUR 10 000 threshold, sellers who are only established in one Member

²⁴ E-commerce statistics for individuals, Eurostat 2021: <https://ec.europa.eu/eurostat/statistics-explained/pdfscache/46776.pdf>

State can continue to charge and pay VAT in the Member State of dispatch. For the supply of *services*, the place of taxation depends on the nature of the service supplied as well as the status of the customer receiving the service, whether the customer is a business or a private consumer. The supply of B2B services is in principle taxed in the Member State of establishment of the customer, while B2C services are taxed in the Member State of the supplier. However, there are also exceptions to these rules, notably in relation to the supply of services connected with immovable property; passenger transport; services relating to cultural, artistic, sporting, scientific, educational, entertainment and similar events; restaurant and catering services; short-term hiring of means of transport; and TBE services.

Once the place of taxation has been determined, the second step is to **determine which party to the transaction is liable to pay the VAT**. According to Article 193 of the VAT Directive, VAT is payable by any taxable person making a taxable supply ('the supplier') of goods or services, unless it is payable by another person. The exceptions are numerous and include situations where the customer is liable to account for the VAT, as is the case for ICAs, and notably, in cases where the supplier is not established in the Member State of taxation and the reverse charge applies. For some goods and services, the reverse charge is mandatory when the supplier is not established in the Member State of taxation (Articles 195-198), but for others, the reverse charge is optionally applied by Member States (Article 194). As described in Box 1, the optional application of Article 194 leads to substantial variation in the manner in which this article is applied between Member States. While the majority of Member States apply Article 194 in some form, a few Member States do not apply it at all, neither to goods nor services.

VAT registration and reporting obligations depend on which party to a transaction – the seller or the customer (or another person) – is liable to pay the VAT, and whether the VAT is due in the Member State from which the supply is made or of destination. If the VAT should be paid in a Member State where the liable party is not established, the liable party is typically required to VAT register in that Member State in order to pay and declare the tax through a local VAT return. In some instances, a business will be required to VAT register even though there is no VAT due, simply to comply with certain reporting requirements²⁵.

The OSS and IOSS serve to alleviate complexity to a certain extent by allowing non-established suppliers to avoid having to VAT register in the Member State of taxation. Rather than registering for VAT in each Member State of taxation and completing multiple VAT declarations in Member States where VAT is due, they may opt to complete one OSS or IOSS return alongside their regular domestic VAT return that will list all their pan-EU supplies. The seller then, via the OSS remits the VAT due in each Member State to the tax authority of his country of establishment, which forwards the taxes collected to the appropriate countries. The OSS can be used for supplies made within the EU, and the IOSS can be used for distance sales of imported goods from a third country or third territory into the EU. However, as explained in Section 5.1, there are several conditions to be met for using these regimes, and many types of transactions are not covered by the schemes. For instance, the OSS only covers B2C *distance sales* of goods and services, meaning that for B2C *domestic* supplies the OSS cannot be used, nor can it be used for B2B supplies. Exceptionally, the OSS can also be used for domestic supplies of goods by an electronic interface when defined as a deemed supplier. The IOSS may only be used for distance sales of imported goods in consignments valued (intrinsic value) at no more than EUR 150 and that are not subject to excise duties, thus excluding higher value goods and goods subject to excise duties. In addition, suppliers may choose not to use any of these schemes, making the application of the rules and actions less consistent.

²⁵ The situations where a taxable person is obliged to register for VAT purposes are listed in Article 214 of the VAT Directive.

Another crucial source of complexity for businesses involved in supplies in Member States where they are not established is the ability to recover the input VAT incurred in the course of making those supplies in that second Member State. EU businesses cannot recover input VAT incurred in another Member State through their own domestic VAT return. To recover input VAT incurred in a Member State where a business is not VAT registered, it is able to use a specific **VAT refund procedure**²⁶ which allows EU established businesses to recover VAT (subject to conditions) incurred while not VAT registered. However, this procedure sometimes involves long delays before recoverable VAT is paid back, creating cash flow problems and adding another layer of complexity to businesses' cross-border operations with regard to VAT.

Due to the complexity and national discrepancies, which include possible clarification questions from the authorities in the Member State of refund, businesses may find it difficult to use the refund procedure without assistance from tax advisors. Claims for VAT refunds that are not straightforward and require more time for the refunding authorities to review can sometimes give rise to significant delays.²⁷

Indeed, for businesses repeatedly incurring recoverable VAT in specific Member States, maintaining a local VAT registration was often preferable to using the VAT refund mechanism. They explained that local VAT returns typically lead to quicker re-payments than the refund mechanism, reducing the negative impact on cash flow. For example, five of the 28 businesses with an opinion on this topic specifically stated that they will not use the OSS even though their transactions would qualify, simply because they incur input VAT in other Member States and therefore want to keep local VAT registrations for the purpose of claiming back/offsetting deductible input VAT.

3.3. Problems

3.3.1. Businesses are increasingly obliged to VAT register in Member States where they are not established

The rules of the VAT Directive determining the VAT liability (where and who to tax), in tandem with the conditions for which the OSS and IOSS can and cannot be used, lead to a number of situations in which non-established businesses are required to VAT register in the Member State where the tax is due. In some instances, the requirement to VAT register does not even stem from a VAT payment obligation, but rather for the purposes of reporting and fraud avoidance. Changing business practices, particularly growing e-commerce and the use of electronic interfaces, which entail more complex and increasingly cross-border supply chains, further add to the magnitude of the VAT registration issues. As explained below, this is because these practices are especially reliant on transactions for which a VAT registration by non-established businesses is required.

As indicated above, the VAT Directive provides for several mechanisms that businesses may (or may be required to) use to avoid VAT registration where they are not established. **In many situations involving non-established businesses, VAT registration in the Member State of taxation is thus not needed.** Taking into account the rules and mechanisms that entered into force on 1 July 2021, these include the following types of transactions:

- **B2B transactions where the reverse charge mechanism applies.** The reverse charge mechanism reduces the obligation (or the possibility) for non-established suppliers to VAT register in the country of supply by shifting the liability to account for the VAT due from the supplier to the customer. In practice,

²⁶ The refund procedure for EU-established businesses is defined in Directive 2008/9/EC – the former 8th Directive. There is also a refund procedure for non-EU-established businesses, defined in Directive 86/560/EEC (the so-called '13th Directive'), but this is less relevant here.

²⁷ <https://www.avalara.com/vatlive/en/eu-vat-rules/eu-vat-returns/vat-recovery.html>.

it means that a customer, who is a taxable person, and where he has the full right to deduct input VAT, never pays VAT as he declares and deducts it in the same VAT return, eliminating any cash flow effects (see Box 1 for further details of the reverse charge mechanism).

- **Intra-EU supplies of B2C distance sales of goods**, for which the OSS can be used to pay and declare VAT. In this way, there is no obligation for the seller to obtain a VAT registration number in the Member State of destination.
- **Supplies of B2C services**. The OSS covers *all B2C services* supplied by non-established businesses, removing any requirement for VAT registration in the country of the customer.
- **B2C distance sales of goods imported from a third country/territory** valued (intrinsic value) at EUR 150 or below and not subject to excise duties, which are covered by the IOSS, avoiding the potential need for VAT registration of the supplier in all Member States into which the goods are delivered.

However, this leaves **a number of situations where VAT registration for non-established businesses is still required**. These are listed in Box 10 in order of significance (as well as being described in more detail in Chapter 2 above), starting with the type of transactions that appear most widespread. Importantly, some of the most prevalent types of transaction, such as the transfer of own goods cross border and domestic sales of goods B2C and distance sales of imported goods worth more than EUR 150, often take place in the frame of e-commerce, meaning that they have become much more frequent in recent years (and seem set to continue to do so).

Each transaction is scored according to the scale described in Section 2.3, which assigns each type of transaction a score from 1-3, where a rating of 3 denotes that a type of transaction is both widespread among businesses and represents a significant share of turnover for the businesses concerned; 2 denotes that the transactions are only prevalent in specific market segments and/or affect many businesses but only represent small parts of their turnover; and 1 denotes transactions that are marginal both in terms of prevalence and turnover significance. Note that the two types of transactions that received a rating of 1, exports from a Member State where the business is not established, and domestic supplies of B2B services where the reverse charge does not apply, are not listed in the box below since they were found to be marginal.

Box 10. Transactions that require VAT registration by non-established businesses

Transaction #1a: Transfer of own goods cross-border

Degree of magnitude: 3 – widespread, representing significant parts of business turnover

This concerns the transfer of own goods cross-border to a Member State where the owner is not established (excluding consignment or call-off stocks). For VAT purposes, the transfer is treated as a supply from the Member State of departure and a self-supply in the Member State of arrival (ICA), even though the deemed supply (ICS) is VAT exempt. The owner is required to VAT register in the destination country for the purposes of reporting the acquisition and fraud avoidance. Such transfers may take place for several reasons, including the transfer of own stock, either by the owner or on behalf of the owner by an intermediary such as an electronic interface, for the purpose of storage and sale (both B2B and B2C), or the transfer of own material or equipment cross-border according to business needs.

Overall, transfers of own goods cross-border are very important as they are widespread and concern businesses in many types of sectors and business segments. Businesses concerned range from MNCs selling to consumers in several Member States through their own websites, to small businesses using electronic interfaces (e.g. Amazon) to expand online.

Transaction #1b: Chain transactions

Degree of magnitude: 3 – widespread, representing significant parts of business turnover

This involves the successive supply of the same goods by three or more businesses. For example, company A sells goods located in Member State 1 to company B in Member State 2, who sells the same goods to company C in Member State 2, who sells the same goods to company D in Member State 3. The goods are transported directly by company A from Member State 1 to company D in Member State 3. Since only one transport takes place, only one supply in the chain can be considered as the VAT-exempt ICS, where the acquirer is required to account for VAT in the Member State of destination on a reverse charge basis (ICA). B has made an ICA of goods in Member State 3 and onward supply to C (who is not registered in Member State 3), B must register for VAT in Member State 3 to account for acquisition VAT. C must also register in Member State 3 for the supply to D unless the goods are covered by the reverse charge (Article 194).

Chain transactions are highly prevalent in several value chains, for instance in commodity trading, and for manufacturing and production businesses, including chemical, oil and gas, and some retail businesses.

B2B2C sale of goods first acquired in a Member State where the supplier is not established

Degree of magnitude: 2 – widespread, but not representing major parts of businesses' turnovers, except in specific market segments

This type of transaction is concentrated in e-commerce and involves a business that sells goods online that it does not keep in stock. Rather, it purchases the goods from businesses in other Member States where it is not established, then sends the goods directly to a consumer in a third Member State. This practice is likely to increase in prevalence as part of the continued growth in e-commerce.

Domestic supply of goods B2B where the reverse charge does not apply

Degree of magnitude: 2 – widespread, but not representing major parts of businesses' turnovers, except in specific market segments

These may include transactions by non-established suppliers such as the local supply of goods after import, supply of fuel (fuel card market), supply of electricity (vehicle charging), in particular where the customer is not VAT registered in the Member State of the supply, supply of goods with installation or assembly, supply of goods previously rented or leased in the Member State of taxation, and supply of goods that have been processed in a Member State other than the Member State of dispatch and where the goods do not return to the Member State of dispatch after processing. Importantly, the supplies not covered by the optional reverse charge (Article 194) vary between Member States.

These types of transactions are quite diverse, and on the whole widespread. However, each type of transaction on its own has low prevalence and is mostly carried out in specific market sectors, as illustrated by the examples above.

Domestic supplies of B2C goods made by suppliers not established in the Member State of taxation

Degree of magnitude: 2 – prevalent in specific market segments

Domestic supplies of B2C goods made by suppliers not established in the Member State of taxation. These supplies often refer to the sale to consumers after goods have been transferred cross-border to be stored in warehouses or fulfilment centres by an electronic interface. Since such sales are classed as domestic (the goods being located in the Member State of destination at the time that they are supplied), the OSS for distance-sales cannot be used (unless the electronic interface is a deemed supplier for a supplier established outside the EU, in which case the OSS can be used). Other transactions falling under this category include supplies with installation and assembly, and

supplies of gas, electricity, heat or cooling energy in a Member State in which the taxable person is not established.

These types of transactions are quite diverse. The sale of goods from warehouses or fulfilment centres by non-established suppliers is widespread. The supply of electric vehicle charging (electricity) is growing in importance. In contrast, other types of transactions mentioned appear marginal; for example, supplies by non-established suppliers with installation and assembly are generally limited to companies operating near borders (or where the goods installed are very specialised).

B2C distance sales of goods imported by the supplier from a third country/territory with an intrinsic value exceeding EUR 150 or products subject to excise duties

Degree of magnitude: 2 – prevalent in specific market segments

These cannot be declared through the IOSS but require the supplier to VAT register in the Member State of destination to pay VAT on the supply of the imported goods (if the supplier is the importer, as opposed to the customer).

These transactions are prevalent in particular in e-commerce. Distance sales of goods with an intrinsic value exceeding EUR 150 and goods subject to excise duties imported from third countries/territories make up around 20% of e-commerce volume in the EU, as suggested by the targeted consultation. In terms of the businesses affected, these transactions involve mainly non-EU retailers, but also EU-established businesses that import and sell goods from third countries directly to the Member State of the consumer. The targeted consultation showed that the latter is a fairly rare operating model.

Further to the types of transactions, the problem is compounded by the fact that **VAT registration is an all-or-nothing affair**. This means that a business could be required to VAT register due to just a few transactions, even if 99% of its activity is eligible for the OSS.

Similarly, while businesses opting into the OSS must use it for all eligible transactions, some businesses may prefer to continue using local VAT registrations for operational reasons. For example, a typical issue relates to **recovering input VAT** incurred in a Member State where the business is not VAT registered. As indicated above, using the refund procedures to recover input VAT is sometimes complicated, and for a business that incurs considerable input VAT in countries where it is not VAT registered, this can have negative cash flow implications. Such a business may choose not to use the OSS or IOSS facilitation mechanisms but rather VAT register in the Member States of their customers in order to not have to use the refund procedure but instead claim input VAT through their local VAT returns.

3.3.2. VAT rules on distance sales of imported goods need to be complied with and controlled for an increased volume of goods

As explained in Section 3.2.1 above, quickly evolving trade trends mean that distance sales from third countries have been increasing significantly in recent years. Aside from any absolute increase in the volume of imports, this represents a profound change in the structure of consignments. Until the advent of e-commerce, a large proportion of imported goods would have been imported by retailers in the EU, who would then sell them onwards through bricks-and-mortar shops or distance sales (e.g. through a catalogue). Consignments were typically large, limiting the number of customs declarations that needed to be controlled.

E-commerce upends this model, because it makes it very easy for consumers to order goods from third-country suppliers directly. This has led to the atomisation of consignments, which are divided into many individual parcels instead of being declared in bulk. Rather than relying on the VAT-registered retailer to collect and report on VAT, VAT must be collected and accounted for in relation to each consignment. It was with this in mind that Article 23 of Council Directive 2009/132/EC previously allowed Member

States to exempt from import VAT all goods with a value not exceeding EUR 22. The purpose was to keep compliance and enforcement costs manageable despite the large increase in (low value) consignments to be controlled.

However, customs authorities interviewed as part of the targeted consultation pointed out that the volume was overwhelming. One customs authority claimed that the **value of low-value consignments had increased 30-fold since 2015**, with an average stated value of just EUR 7. Anecdotally, this involved parcels piled up at EU points of entry, with the authorities unable to conduct checks on a meaningful proportion.

Since each parcel is worth so little, the **potential revenue recovery on catching individual cases of fraud is miniscule**, making it hard to justify the resources needed for adequate controls. But if controls are not carried out systematically, third-country suppliers have an incentive to under-value consignments. Indeed, systemic undervaluation was an important part of the rationale for scrapping the exemption for parcels valued up to EUR 22 from 1 July 2021.²⁸ This is likely justified from a VAT revenue perspective, though it will lead to a further large increase in the number of consignments subject to VAT, for which compliance must be assured.

3.4. Consequences

This section assesses the consequences of the two problems described above on (1) VAT registration obligations and (2) distance sales of imported goods / the IOSS. The part on each consequence starts with a summary of the magnitude of the consequence (either major, minor or marginal / not applicable), followed by an overview of the issues at stake and how they are likely to evolve in the absence of further action. Importantly, the **consequences as described relate to the situation after the introduction of the OSS and IOSS on 1 July 2021** and accompanying changes to the rules. However, since the data for the study was collected before this date, **the findings are necessarily speculative and subject to a high degree of uncertainty**.

The problem on VAT registration obligations is found to generate one major consequence, namely high administrative and compliance costs. This problem also contributes to a minor extent (alongside other factors) to consequences concerning distorted business decisions and barriers to trade within the Single Market.

As for the problem on distance sales of imported goods, it generates three major consequences, namely high administrative and compliance costs, high fraud and non-compliance (leading to reduced VAT revenue) and unfair competition from (predominantly) non-EU suppliers. The last consequence shown in the problem tree (Figure 2), namely distorted business decisions and barriers to trade within the Single Market, is deemed marginal / not applicable as concerns distance sales of imported goods.

3.4.1. High administrative and compliance costs for stakeholders

Magnitude. This is a 'major' consequence of both the problem on VAT registration obligations and the problem related to distance sales of imported goods.

Overview. The **obligation for businesses to VAT register in Member States where they are not established** is a costly and time-consuming process which can prove significant, especially for SMEs. The heterogeneous national procedures and requirements for VAT registration make them even more burdensome when businesses need to register for VAT in multiple Member States. While businesses may partly outsource such procedures depending on their internal capacity, ongoing compliance

²⁸ This under-valuation was noted among others in the European Court of Auditors, Special report No 19/2017: Import procedures: shortcomings in the legal framework and an ineffective implementation impact the financial interests of the EU.

costs for VAT administration have been estimated to amount to around EUR 20 000 per Member State per year (see analysis in Section 5.2.1 below) for companies engaging in distance sales. In addition to one-off compliance costs, this includes the administration of IT systems, VAT invoicing, reporting, filing and payment. In some Member States, VAT registration also implies additional costs related to administrative requirements such as the translation and notarising of official documents, dealing with authorities in the national language and / or using local representation. Such costs can quickly become substantial for SMEs, which often lack the internal resources and contacts to easily handle such requirements, or the financial capacity to outsource them.

The implementation of the OSS and IOSS from 1 July 2021 should allow some businesses, namely those engaging in distance sales, to avoid having to register for VAT in Member States where they are not established. It should therefore, in principle, **lower the costs associated with VAT registration**. This, however, might mostly apply to businesses which are not yet VAT registered in the Member States of destination of their goods. Many businesses that are already registered for VAT may **choose to keep their registrations instead of cancelling them because local VAT registration provides them with advantages that the OSS does not offer** (such as the ability to recover input VAT through a local VAT return rather than through the more problematic refund procedures). Maybe more importantly, **many businesses may also maintain VAT registrations because they also engage in activities that do not fall within the scope of the OSS** (see Section 2.3). Indeed, this means that the OSS is only potentially useful to a business if it covers *all* activities outside their Member State of establishment.

As regards costs for tax authorities, more than half of administrations interviewed as part of the targeted consultation believe that the implementation of the OSS and IOSS will make it “slightly more burdensome” for their administration (59% out of 27 respondents²⁹). Such concerns mostly referred to initial implementation costs incurred in the run-up to and immediate aftermath of the introduction of the OSS and IOSS, and administrations’ need to adapt their internal systems (especially IT capacity). That said, there is hope that some level of system automation and the gradual disappearance of paperwork (e.g. for dealing with the VAT registrations of non-established businesses) will eventually lead to cost-efficiency savings, although these are generally not foreseen in the short or medium term.

The existing consequences seem likely to persist in the area of **the IOSS and distance sales of imported goods**. Only 26% of business respondents and 42% of business federations and VAT practitioners think it will make VAT compliance-related costs decrease a little or a lot. These statements may however not relate so much to the IOSS itself than to the new rules that entered into force on 1 July 2021, namely the elimination of the VAT exemption for imported goods up to a value of EUR 22 and the ‘deemed-supplier rule’. The former has led to a significant increase in the proportion of consignments for which VAT must be collected and paid, while the latter makes electronic interfaces responsible for the collection of VAT on certain distance sales that they facilitate³⁰.

Thus, while the rules impose new obligations on businesses, namely to deal with VAT administration for a significantly increased volume of consignments, **the IOSS – after**

²⁹ Based on interviews with tax authorities from 27 Member States. The remaining responses were as follows: 11% (3 respondents) think the One-Stop Shop will make it “much more burdensome” for their administration; the same proportions (11%, 3 respondents) believe there will be no noticeable change or that it will make it somewhat less burdensome; 4% (1 respondent) that it will make it much less burdensome; 4% (1 respondent) have expressed no opinion.

³⁰ The distance sales made by EU businesses, as well as the distance sales of imported goods of valued at than EUR 150 or subject to excise duties, are out of scope of the deemed supplier rule.

taking into account any initial set-up costs – makes complying with the rules less burdensome than it would otherwise be.

For tax (and customs) authorities, the **main enforcement cost relates to the need to control a larger volume of parcels compared to the situation before the new rules came into effect**. The IOSS is likely to facilitate this to a certain extent (e.g. by recording relevant information in a systematic and digital way). Moreover, given the previously widespread non-compliance and fraud (see heading on this issue below), improved compliance and / or targeting of controls would essentially 'pay for' any increased enforcement costs by raising additional tax revenue. However, while the fact that enforcement costs will increase is known, interviewed tax and customs authorities were unable to speculate at this early stage as to whether, and to what extent the IOSS would in fact lead to more effective controls. Overall, it seems that the new systems will require some time for adaptation for both businesses and administrations, which will lead to **additional administrative costs in the short term**. However, there is a shared feeling that the simplifications brought about by the OSS (especially regarding the need to VAT register in multiple Member States) and the IOSS, by making compliance and enforcement easier, will eventually lead to **long-term savings**, although it is too early at this stage to tell whether those will be significant or not.

3.4.2. High fraud and non-compliance with VAT rules, leading to reduced VAT revenue

Magnitude. This is a 'major' consequence of the problem related to distance sales of imported goods, but just a 'minor' consequence of the problem on VAT registration obligations.

Overview. With regard to **VAT registration**, the existing problems are generating only minor consequences in terms of fraud and non-compliance. These stem mainly from VAT being due in Member States where sellers are not established, which have made it difficult for national tax authorities to track the VAT obligations of businesses engaged in cross-border activities. Indeed, controlling and auditing such situations requires intense cooperation to share sometimes sensitive information between national fiscal authorities, and subsequently to cross-check and compare the amounts that have been declared, and paid, in different Member States. This limitation applies both to businesses established within and, to an even greater extent, to those established outside the EU.

The removal of national distance-selling thresholds on 1 July 2021 has helped increase VAT compliance by making it easier for tax authorities to check whether the remaining thresholds are exceeded. The centralisation and harmonisation of VAT declarations and payments brought about by the OSS mechanism will further contribute to enhancing administrations' ability to spot such situations. This dynamic led two-thirds of the tax authorities interviewed through the targeted consultation to express an expectation that the OSS will make overall VAT compliance increase a little or a lot (71%). This opinion is slightly less widespread among businesses, business federations and VAT practitioners. This is because the OSS is often seen as a tool to make compliance easier for smaller sellers, while MNCs are either already registered for VAT in multiple Member States or have the capacity to be and remain compliant. Besides, while the new mechanism will make it easier for already-compliant businesses to deal with their VAT obligations, **non-compliant businesses, on the other hand, (whatever the reason for not complying) may remain so**. This is especially true in relation to fraud: many stakeholders made the point that fraudsters are likely to continue their activities and find new ways to escape their VAT obligations.

Non-compliance and fraud are considered much more marked for **distance sales of commercially imported goods in low-value consignments**. Before 1 July 2021, the EUR 22 'small-consignment threshold', combined with low levels of controls, is thought to have triggered widespread undervaluation of parcels imported through distance sales, leading to foregone VAT revenue for EU fiscal authorities, previously estimated at about

EUR 7bn per year.³¹ The increasing volume of parcels that is imported into the EU every year and the limited capacity of customs authorities to control them systematically implies that it is getting easier for sellers to ‘fall between the cracks’; which, in turn, has increased incentives for unscrupulous traders to not comply with their VAT obligations, or to engage in fraud. To give an example, Box 11 provides an extract from a recent case study conducted by the Danish Chamber of Commerce on the subject.

Box 11. Study on Dangerous products and unfair competition from online marketplaces

In April 2020, the Danish Chamber of Commerce released a study³² based on 50 purchases of products (mainly toys) from non-EU sellers on the three large online platforms: Wish, Alibaba and Amazon. Findings have shown that out of the 50 parcels imported into Denmark through distance sales:

- 0 showed a match between the name of the seller on the platform and the sender of the package;
- 46 had a different value written on the package than the price paid; and
- 16 were designated “VAT-guilty” packages, for which no VAT had been paid due to an undervaluation of the package.

In addition, most of the products sold were found to be non-compliant with the EU’s Product Safety rules and EU consumer protection rights.

Fraud and non-compliance in the distance sales of imported goods are undesirable not only due to the lost VAT revenue, but because **they subject EU suppliers to unfair competition**. Since VAT is not paid on these non-compliant goods, EU suppliers face a price disadvantage equal to the prevailing VAT rate for a given transaction. Given the price sensitivity of many consumer goods, and the scale of the non-compliance and fraud, this is judged to be a serious consequence, and one that was routinely emphasised by stakeholders in the targeted consultation. Aggregated upwards to the estimated EUR 7bn of lost VAT revenue, this implies that in the absence of the non-compliance / fraud, EU sellers could see their competitive disadvantage reduced.

The **new rules and introduction of the IOSS seem likely to reduce non-compliance** to a certain extent. The removal of the EUR 22 ‘small-consignment VAT-threshold’ reduces the incentive to under-value parcels (although the incentive will not be completely eliminated, especially below and around the EUR 150 threshold for using the IOSS).

More importantly, **making deemed suppliers in certain circumstances responsible for VAT collection is expected to improve rates of compliance**. This applies especially to large electronic interfaces with a fixed establishment in the EU. Such players attract significant attention from authorities and have the resources to ensure compliance within their value chains. Moreover, if (as expected) uptake of the IOSS is high among these electronic interfaces, then the details of many low-value transactions will be recorded and monitored, making under-valuation more difficult.

In contrast, there are **concerns about smaller sellers that are only established outside the EU**; tax and customs authorities in the EU will continue to have a hard time identifying and taking action against these sellers, and they are more likely to risk non-compliance unless the extent of controls increases significantly. While the deemed supplier rule and IOSS will make it easier for the authorities to target suspicious

³¹ Commission Staff Working Document Impact Assessment accompanying the document ‘Proposal for a Council Directive, a Council Implementing Regulation and a Council Regulation on Modernising VAT for cross-border B2C e-Commerce, SWD(2016) 379 final.

³² <https://www.danskerhverv.dk/politik-og-analyser/e-handel/study-of-unsafe-and-dangerous-products-on-platforms/>

consignments, the outcome also depends on their ability to increase the number of controls, which many interviewees considered doubtful. For this reason, while it is difficult to predict the results based on evidence collected before the new rules and measures are in place, it thus **seems probable that significant fraud and non-compliance will remain.**

3.4.3. Distorted business decisions and trade within the Single Market (from lack of VAT neutrality)

Magnitude. This is a 'minor' consequence of the problem related to VAT registration obligations but (aside from the damage to the level playing field mentioned above) it is marginal / non-applicable to the problem related to distance sales of imported goods / IOSS.

Overview. A key feature of the EU VAT system is the principle of 'neutrality' in the value chain. This means that the VAT situation for similar products should be the same regardless of where and by whom they are produced / supplied within the Single Market. Similarly, as long as VAT is due in the destination country of a transaction, domestic and other EU suppliers should face an equal playing field vis-à-vis VAT. In other words, the VAT rules should not play a major role in business decisions in the value chain, or hinder trade within the Single Market.

When the requirement to have multiple VAT registrations varies depending on how a company organises its value chain, VAT neutrality is compromised. Depending on the cost and / or hassle of dealing with VAT registration, a company could decide to arrange its activities differently *for the sole purpose of avoiding additional registrations*. For example, it might make business sense for a company based in France to store goods likely to be sold to German customers in Germany before making a sale. However, the company may instead keep the goods in France, at greater cost for shipping, because moving them to Germany prior to sale would entail a burdensome VAT registration. More simply, a company may decide not to sell to customers outside its Member State of establishment.

The targeted consultation sought to examine the extent to which VAT registration obligations are leading to such distortions in practice, and to what extent these distortions were set to remain after the new rules and OSS were introduced on 1 July 2021. As examined in Section 5.3.1 below, while most businesses claimed that their decisions were not 'VAT-driven', **SMEs typically have more trouble dealing with complex and expensive compliance processes, making a VAT registration obligation more likely to affect their behaviour.**

Specific and growing market segments are also disproportionately affected, such as SMEs which distance-sell via electronic interfaces. For example, it was reported that some businesses selling through electronic interfaces did not allow their goods to be transported in ways that would trigger VAT obligations in a Member State other than that of their establishment. VAT experts felt that businesses often avoided small-scale operations if registration would be needed. While few businesses mentioned this subject in the interviews, the registration obligation could discourage experimentation with new processes or markets, cutting them off before a business knows whether they would be viable. Moreover, in certain market segments, such as electric vehicle charging, VAT registration obligations seemed to be causing problems, potentially making it difficult to operate across Member States.³³

³³ More specifically, since the supply of electricity is a supply of a good being supplied at the location of the charging terminal, this can create a VAT registration requirement for the Mobility Service Provider if a customer charges in a Member State where the Mobility Service Provider is

It is difficult to determine the scale of the impact. However, recent e-commerce figures are telling. Despite the wider trend of increasing e-commerce, the proportion that is *intra-EU* has been relatively stable, growing from 22.8% in 2018 to just 23.6% in 2019.³⁴ This is reflected in a 2020 consumer survey conducted for Eurostat, which showed that, while 90% of EU consumers had made a recent purchase from a national e-seller, only 30% had done so from other EU sellers. The figure for non-EU sellers was 21%. While there may be some ambiguity in the data – for example if consumers consider national websites for foreign firms as local – it nonetheless shows that intra-EU e-commerce is still minor and has significant room for growth.

That said, the findings from the targeted consultation more often suggested that VAT registration is not a decisive factor in business decisions. For businesses that conducted transactions requiring additional VAT registrations – especially multi-national companies – this was seen as a manageable cost of doing business. Only one multi-national company specifically mentioned arranging its operations so as to comply with VAT rules without having to obtain multiple VAT registrations, implying a highly atypical case. For smaller businesses operating mainly domestically, it seemed that factors such as lacking contacts and language skills (though, as explained above, these are also often needed for VAT registration), and other administrative hurdles, were as or more important barriers than VAT registration obligations.

Overall, it can be said that VAT registration obligations – taking into account the launch of the OSS – are **generating minor distortions and marginally preventing trade within the Single Market**. While many businesses have accommodated themselves to the situation (or are held back by numerous regulatory and non-regulatory factors other than VAT registration requirements), others, particularly smaller businesses, may face barriers in operating more efficiently and / or pursuing new markets.

Finally, as mentioned above, damage to the level playing field is being caused by fraudulent traders who evade VAT by under-valuing imported goods. Aside from this, the problem related to distance sales of imported goods / the IOSS was only found to generate minor distortions. These mainly related to **potential differences in processes between Member States**, which could lead some companies to route their distance sales of imported goods through certain Member States for reasons of VAT-administration rather than practical / logistical expediency, i.e. 'jurisdiction shopping'³⁵. However, it is unclear at this early stage of the IOSS's implementation whether such an issue will materialise in practice.

not established. See VAT Committee Guidelines from the meeting of 19 April 2021 – published December 2021.

³⁴ Ecommerce news, '24% of ecommerce in Europe is cross-border, 4 June 2020: <https://ecommercenews.eu/24-of-ecommerce-in-europe-is-cross-border/>.

³⁵ This does not apply to distance sales of low-value imported goods, which have to be sent directly to a customer in the Member State of final destination when the IOSS is not used (Article 221(4) of the UCC IA – Commission implementing regulation (EU) No 2015/2446).

4. POLICY OBJECTIVES AND OPTIONS

Leading from the analysis of the existing problems, this section outlines the objectives for any future EU action, as well as the policy options that are analysed in depth for the analysis of impacts. The policy objectives and options were developed in discussion with DG TAXUD as well as input from participants in two Fiscalis workshops on VAT in the Digital Age, as well as being informed by the targeted consultation and other strands of research. The rest of this chapter presents each aspect in turn.

4.1. Objectives

The objectives have been elaborated based on input from DG TAXUD. The **general objectives**, common to all of the parts of the Study, are as follows:

- 1) the need to ensure an **effective and fair VAT system**, by fighting against VAT fraud, and especially intra-Community fraud, and by ensuring a fair and effective taxation of the digital economy³⁶;
- 2) the smooth functioning of the **Internal Market**;
- 3) the **simplification and modernisation** of VAT rules to bring them in line with digitalisation and ease compliance with tax obligations;
- 4) the need to enhance **legal certainty** for stakeholders.

The specific objectives contributing to the achievement of the general objectives would be the following:

- 1) **minimise the need for multiple VAT registrations in the EU**;
- 2) **modernise the VAT rules** to minimise administrative burdens related to registration obligations and distance sales of imported goods;
- 3) **simplify and facilitate VAT compliance** while reducing fraud (for the distance sales of imported goods) and maximising VAT revenue;

The first specific objective of minimising the need for multiple VAT registrations in the EU is expected to contribute to: (i) an effective and fair VAT system, by contributing to reduce VAT fraud – the OSS/IOSS and reverse charge mechanisms enable national tax authorities to more easily keep track of VAT obligations of businesses engaged in cross-border activities; and (ii) the smooth functioning of the Internal Market, by reducing barriers to trade; (iii) simplifying and modernising the existing VAT rules and (iv) increasing legal certainty by the introduction of new harmonised legislation.

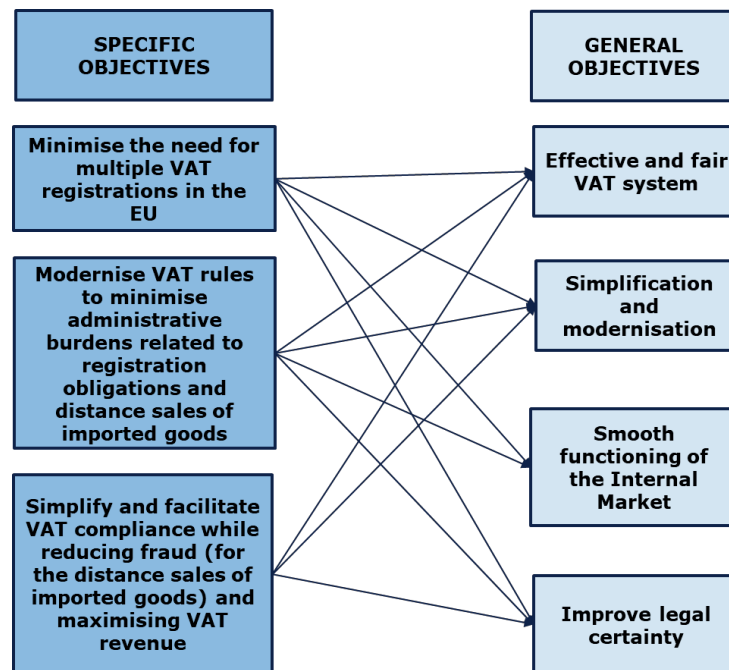
This links to the second specific objective of modernising the rules linked to VAT registration obligations and the distance sales of imported goods, which is also expected to contribute to the smooth functioning of the Internal Market and enhancing legal certainty.

The third specific objective, to simplify and facilitate VAT compliance while reducing fraud and maximising VAT revenue, is expected to contribute to an effective and fair VAT system, and to the smooth functioning of the Internal Market as well as enhancing legal certainty.

The relation between the specific objectives for this part of the Study and the general objectives are depicted in Figure 3 below. The intervention logic in Figure 5 provides a graphical representation of the drivers, problems, specific objectives, and policy options, depicting links between the policy objectives and the problems they address with dotted lines.

³⁶ The formulation of this general objective has been slightly modified. In particular, reference to the digital economy has been complemented to make this objective relevant across the three Parts of the Study.

Figure 3. General and specific objectives – Part 3



Source. Authors' own elaboration

4.2. Refined List of Policy Options

Several options can be envisaged to address the problems and objectives defined above. These rely on using the possibilities of digitalisation –via the OSS and IOSS mechanisms as well as better ways of sharing information between Member States – to achieve a level of harmonisation and procedural streamlining that would previously have been impractical.

Two distinct sets of options are presented, one corresponding to the OSS, and one corresponding to the distance sales of imported goods / IOSS. The options have been developed based on consultation with stakeholders (inter alia two Fiscalis workshops on VAT in the digital age) and discussion with DG TAXUD and aim primarily to reduce the scope of situations triggering multiple VAT registrations for businesses and thereby facilitate compliance. The different options and sub-options are briefly summarised in the table below, with a focus on the types of problematic transactions that would be covered. The ensuing paragraphs provide more detail about how the options would be implemented in practice.

Importantly, the **policy options can be combined to form several distinct, fully fledged policy choices:**

- **Options related to the OSS:** the key parameter is the scope of transactions covered. Option 2 consists of only a narrow intervention that would expand the OSS to domestic supplies of goods B2C by non-established suppliers. Options 3 and 4 both encapsulate Option 2, while furthering the intervention to also cover B2B transactions. This can be done either via the OSS, as per Option 3, or by expanding the scope of the reverse charge mechanism (Option 4). Option 3a can be combined with any of Options 3b, 3c or 4 in order to ensure coverage of all relevant B2B transactions.
- **Options related to the IOSS:** two ways of increasing its scope and / or use have been assessed, namely removing the current EUR 150 threshold for use of the IOSS (IOSS Option 2) and making the IOSS mandatory (IOSS Option 3).

IOSS Option 2 and IOSS Option 3a, 3b or 3c could be pursued on their own or together, and / or be combined with any of the OSS options.

Table 3. Summary of the policy options and transactions covered

Overview	Transactions covered in addition to status quo (numbered as per Table 2)
OSS options	
<p>Option 1 – status quo This would leave in place the VAT system as of 1 July 2021, with only minor refinements (e.g. additional guidance, quick fixes) to improve the implementation and use of the OSS.</p>	N/A
<p>Option 2 – extension of the OSS to domestic B2C supplies of goods This would entail a minor increase in the scope of the OSS to cover domestic B2C supplies of goods <i>NB: forms a necessary part of any final policy choice including Options 3 or 4; can be combined with any IOSS options</i></p>	Domestic supplies of B2C goods (#3)
<p>Option 3 – extension of the OSS to remaining B2C supplies of goods and B2B supplies by non-established persons. To deal with the complexity of B2B transactions, this option is broken down into three sub-options:</p>	
<p>Option 3a would extend the use of the OSS to intra-EU supplies and intra-EU acquisitions of goods, in situations where these relate to the first leg of the B2B2C transactions that are (inter alia) increasingly important in e-commerce, particularly but not only for supplies facilitated by electronic platforms. <i>NB: can be implemented on its own, or combined with one of Option 3b, 3c or 4; can be combined with any IOSS options</i></p>	<p>Transfer of own goods cross-border (when part of a B2B2C transaction or similar B2B2B transaction) (#1a) B2B2C sale of goods first acquired in a MS where the supplier is not established (#1c) Domestic supplies of B2C goods (#3)</p>
<p>Option 3b would be combined with Option 3a to increase coverage of the OSS to all B2B supplies of goods and services, while leaving the current VAT refund mechanisms (via the EU VAT refund system (Council Directive 2008/9/EC) and 13th Directive (86/560/EEC) in place. <i>NB: can be implemented on its own, or combined with Option 3a; can be combined with any IOSS options</i></p>	<p>Domestic supplies of B2C goods (#3) Transfer of own goods cross-border (when not part of a B2B2C transaction) (#1a) Chain transactions (#1b) Domestic supplies of B2C goods (#3)</p>
<p>Option 3c would have the same coverage as 3b, while also introducing a deduction mechanism into the OSS, thereby allowing businesses to use it to claim back the deductible input VAT incurred in a Member State where they are not established <i>NB: can be implemented on its own, or combined with Option 3a; can be combined with any IOSS options</i></p>	<p>Domestic supply of goods Domestic supplies of B2C goods (#3) B2B where the reverse charge does not apply (#2) Domestic supplies of B2C goods (#3) Domestic supplies of certain B2B services where the reverse charge does not apply (#6)</p>
<p>Option 4 – extension of the OSS as in Option 2, plus the introduction of a mandatory reverse charge for B2B supplies by non-established persons. This would replace the current patchwork of rules to make Article. 194 mandatory for all B2B transactions involving non-established suppliers. To ensure uniform application, this option would need to be accompanied by measures to harmonise the use of Article. 194, and to enhance coordination and information-sharing between Member States (for which the latter could be facilitated inter alia via the DRRs examined in part 1 of the study). <i>NB: can be implemented on its own, or combined with Option 3a; can be combined any IOSS options</i></p>	<p>Chain transactions (#1b) Domestic supply of goods B2B where the reverse charge does not apply (#2) Domestic supplies of B2C goods (#3) Domestic supplies of certain B2B services where the reverse charge does not apply (#6)</p>

IOSS options	
Option 1 – status quo	N/A
Option 2 - removal of the EUR 150 threshold for use of the IOSS and / or extension to excise goods <i>NB: can be implemented on its own or in combination with IOSS Option 3, as well as any selection of OSS options</i>	B2C distance sales of goods imported by the supplier from a third country/territory with an intrinsic value exceeding EUR 150 and excise goods (#4)
Option 3 - removal of the optional character of the IOSS, either for deemed suppliers (IOSS Option 3a), for taxable persons distance selling into the EU over a certain threshold, indicatively set at EUR 10 000 (IOSS Option 3b) or for all taxable persons making eligible distance sales of goods into the EU (IOSS Option 3c). <i>NB: can be implemented on its own or in combination with IOSS Option 2, as well as any selection of OSS options</i>	None

Source. Authors' own elaboration.

4.2.1. Options related to the One-Stop Shop

Three specific options are proposed in addition to the continuation of the status quo. Two of these (Option 2 and Option 3) focus on expanding the scope of the OSS to further reduce the situations requiring VAT registration for non-established businesses, while the last (Option 4) proposes to do this with a combination of the OSS and increasing the scope of the reverse charge mechanism.

Option 1: continuation of the status quo as of 1 July 2021

This option would leave in place the VAT system as it stands on 1 July 2021, meaning that in certain situations non-established businesses can use the OSS, IOSS and / or reverse charge mechanisms to avoid multiple VAT registrations. Indeed, as explained in Section 3.3 above, this already captures many types of transactions involving non-established businesses, namely B2B transactions where the reverse charge applies, intra-EU supplies of B2C distance sales of goods, supplies of B2C services, and B2C distance sales of imported goods (provided that these have a value of not more than EUR 150 and are not excisable goods). However, this still leaves out numerous types of transactions, some of which are widespread and / or of growing importance (particularly with regard to e-commerce). Moreover, businesses with heterogeneous value chains involving a mix of types of transactions would still need additional VAT registrations. While minor refinements (e.g. additional guidance, quick fixes) could improve the implementation and use of the OSS, it would not be possible to address the identified problems without more extensive action.

Option 2: extension of the OSS to domestic B2C supplies of goods

Distance sales of goods and supplies of services by non-established suppliers are already covered by the OSS. Option 2 would simply entail a minor increase in the scope of the OSS, to cover *domestic* B2C supplies of goods by non-established suppliers and other residual B2C supplies (i.e. transaction #3 as per Table 2 above). Limiting the expansion of the OSS to these additional B2C transactions would make it relatively simple to implement, requiring only minor legal and IT changes that would not entail significant costs for administrations or taxable persons.

However, implementing Option 2 on its own would leave major gaps. In particular, it would not cover the transfers of goods cross-border that currently trigger VAT registration.³⁷ Such transactions are especially widespread in e-commerce, for distance

³⁷ Important to note is that Option 2 would not affect transactions falling under the 'Quick Fix' defined in Article 17a of the VAT Directive. This allows non-established suppliers to avoid VAT registration from the transfer of own goods and later domestic supply for 'call off stocks', whereby a supplier dispatches goods to another Member State where he is not established with a view to

sellers making use of electronic interfaces to market their goods. They also precede other domestic transactions, such as supplies of goods on a weekly market by a vendor, and supplies of goods made by a vendor when participating in an exhibition or similar event.

Option 3: extension of the OSS to remaining B2C supplies of goods and B2B supplies by non-established persons.

From a VAT perspective, B2B transactions are inherently more complex than B2C transactions, because they often involve deductible VAT in the country of supply to ensure the neutrality of the VAT system. For this reason, this policy option is broken down into three specific sub-options. Option 3a would extend the OSS to cover B2B transactions that form part of the B2B2C supplies that are increasingly common in e-commerce. Option 3a could be combined with one of two sub-options that would use the OSS to cover 'pure' B2B transactions: Option 3b would do this while leaving the existing VAT deduction/recovery mechanisms in place, while Option 3c would introduce a deduction mechanism into the OSS. The following paragraphs describe each of these sub-options in more detail.

Option 3a: extension of the OSS to B2B2C transactions. As explained in the problem definition, many of the B2B transactions that trigger VAT registration for non-established suppliers in fact form part of wider transactions that terminate by a sale to an end consumer, in other words, 'B2B2C transactions'. Most importantly, these transactions become complex and costly to comply with when they include the transfer of goods cross-border (either by an electronic interface or the supplier's own means) that precedes the storage and subsequent 'sale' to a customer in the destination Member State (i.e. transaction #1a). This sub-option would also cover the B2B2C sale of goods first acquired in a Member State where the supplier is not established (i.e. transaction #1c), which is becoming more prevalent in the context of e-commerce business models, such as drop-shipping, as well as other residual supplies of goods within #3.³⁸This option would not cover transfers of own goods for other business purposes, which are addressed in Option 3b and 3c below.

These transactions involve three distinct steps, each of which has specific implications that would need to be addressed in the proposed solution. The OSS would be used to declare steps 2 and 3 as follows:

1. **ICS from the Member State of departure:** this exempt intra-EU movement is typically the first step of a transfer of own goods. Currently, it requires a VAT return in the Member State of departure, as well as a VIES listing (recapitulative statement) under Article 262.1.a,³⁹ both of which need a VAT number for the customer in the destination country to be provided – for the transfer to be exempt under Article 138. Since the supplier is also the customer for a transfer of own goods, this normally triggers a VAT registration in the destination country. Covering this step in the solution proposed would require two key changes: (i) on the VAT return in the Member State of departure, a new box would be needed to designate that the movement is not a 'classic' ICS, but rather a movement taking place in the frame of a B2B2C transaction; (ii) a specific code would need to be introduced on the VIES listing to identify the destination Member State and to denote (using the supplier's OSS number) either that the transaction is exempt under Article 138 or excluded from being treated as a taxable transfer

the later domestic supply to a taxable person who is known in advance and VAT registered in the destination country.

³⁸ More specifically, the supplies that would be covered are supplies of goods on a weekly market by a vendor established in another country; supplies of goods made by a vendor when participating in an exhibition, trade fair or similar event in another Member State.

³⁹ Outside of the VAT framework, Intrastat filings may also be required to report Intra-Community supplies / movements (subject to certain thresholds).

under Article 17.2 – an amendment to the VAT Directive would be needed in either case. To ease compliance, the VIES listing could be pre-filled based on the VAT return (by adding a new box) or vice versa.

2. **ICA in the destination Member State:** this step currently triggers a VAT registration for the supplier, since acquiring goods requires a VAT return to be filed in the Member State into which the goods are acquired (or the VAT number issued – ‘safety net’). This is, subject to Article 140.c for example, a taxable event under Article 20 or 21 that normally involves no net VAT, because the VAT that would theoretically need to be paid is offset by deductible input VAT. Given that the OSS does not include a deduction mechanism, this step could be integrated into the OSS return by introducing a ‘reporting event’ functionality, which would be applicable only under certain conditions where no VAT payment is due – the reporting could be limited to the goods value only. In particular, to avoid fraud and ensure that the OSS is only used for ICAs taking place within a broader B2B2C transaction, suppliers could be obliged to make the final sale within a certain time limit following the receipt of the goods in the destination Member State – indicatively of one year. Subject to penalties, the supplier would need to keep track of this 12 month deadline, and comply with ordinary VAT obligations (including VAT registration) after its expiration. Data would be matched on the OSS VAT return to the VIES listing (and VAT return) filed in the Member State of establishment under step 1.
3. **Domestic sale in the destination Member State:** under the existing rules, this last step would also trigger a VAT registration obligation because domestic supplies B2C (i.e. excluding application of Article 194) cannot be included within the OSS (except for ‘deemed supplies’ by platforms facilitating a supply by a non-EU established supplier). This step would be covered by Option 2, which is also an integral part of this policy option, meaning that it would not be problematic as long as steps 1 and 2 could be addressed.

Worth noting is that **the first two steps normally take place before the final customer is known**, meaning inter alia that it could be a consumer or indeed a business. For this reason, it is suggested, as part of any decision to implement this option, that the changes proposed in steps 1 and 2 also be made available in the frame of similar B2B2B transactions (but would need to be identified as such on both the VAT return – and the VIES listing – of the Member State of Establishment). Article 194 (the use of which would be extended if this option is implemented together with Option 4 below) could then be used for the final sale, avoiding additional VAT registration requirements in the Member State where the final transaction takes place.⁴⁰

Importantly, the **traceability and information-sharing imperatives of both steps 1 and 2 would go beyond the current functions of the OSS**. Two possible enhancements could be envisaged. One possibility could be to integrate this option with the **DRRs** examined in Part 1 of this study (e.g. VAT listing or real-time reporting) in order to capture the relevant information. This approach would entail substantial costs for tax authorities and taxable persons, but these would, in any event, be incurred as part of the broader reforms on DRRs, coupled with relatively minor adjustments to the OSS. The main drawback is that introducing special conditions for *certain kinds of* intra-

⁴⁰ The process as described would not cover the rare situations where an end customer is a taxable person established in the Member State where the supply takes place but is not VAT registered, as is the case for e.g. holding companies, trusts, non-profits. To extend the coverage of this policy option to such transactions, it could be considered whether to introduce in the VAT Directive a provision allowing taxable persons who are not VAT registered to be identified by means of an individual number, as is the case for services under Article 214(1)(d) combined with Article 256.

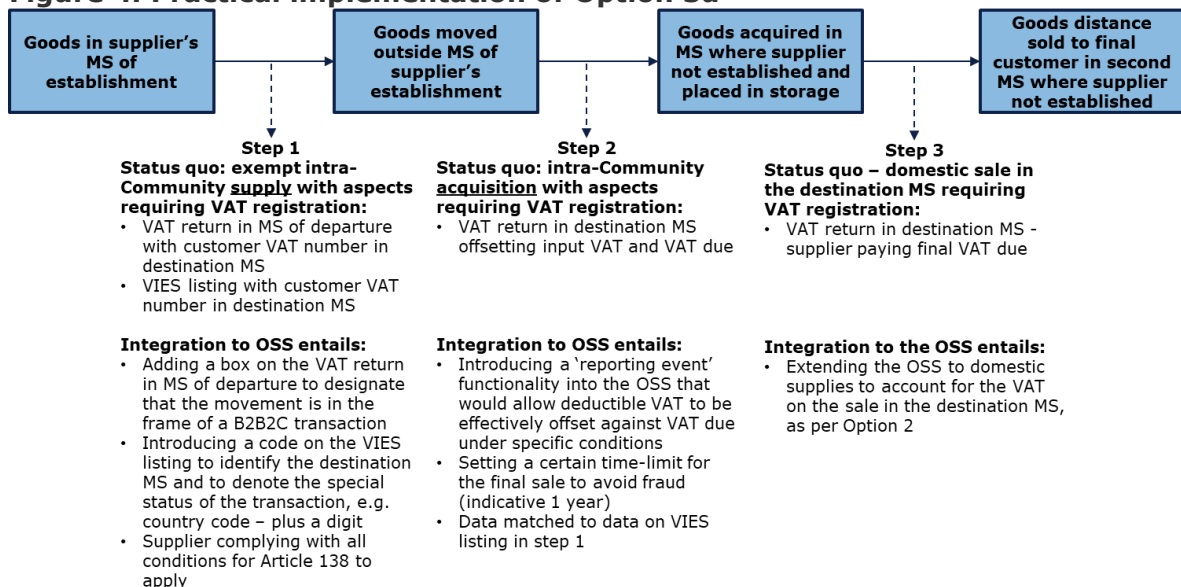
Community supplies would create complexity that could lead to implementation challenges and the potential for fraud.

An alternative approach would be to develop a **dedicated EU-level IT system for registering and tracking relevant goods, i.e. those supplied in the B2B2C chain** (for the B2B2B chain the quick fix under article 17a would cover many situations – with an IT tracking solution being adopted where the quick fix for consignment stock did not or could not be applied). This would be similar in concept to the Excise Movement and Control System (EMCS), which is used to monitor excise goods that are moved within the EU under a state of duty suspension.⁴¹ By allowing a 'parallel track' for goods in the scope of B2B2C transactions, such an approach would avoid the introduction of complicating exceptions to the existing rules and processes; for example, it would track the date on which goods entered a given Member State, allowing a deadline for the final sale to be easily enforced. The downside is that this approach would involve significant costs for IT development at EU level, as well as implementation costs for national authorities and taxable persons.

Finally, it should be noted that a further **extension of the deemed supplier rule** to all supplies facilitated by electronic interfaces (rather than only distance sales by non-EU established suppliers, facilitated by an electronic interface,) could also be considered. Since electronic interfaces are typically VAT registered in all Member States where they would store and ship goods, this would alleviate the need for additional VAT registrations for a significant proportion of the B2B2C transactions covered in this sub-option.

The figure below summarises the main steps and how this sub-option would integrate into the OSS a transfer of own goods followed by a domestic supply. For goods first acquired in a Member State where the supplier is not established, then sold to an end customer, the process would be similar, but begin at Step 2 in the figure. This should provide a starting point for a detailed examination of the legal, procedural and IT implications that would be needed before taking a decision on whether and how to pursue this sub-option.

Figure 4. Practical implementation of Option 3a



Source. Authors' own elaboration.

Option 3b: extension of the OSS to remaining B2B supplies while leaving existing input deduction / recovery arrangements in place. This would open a route to avoiding VAT registration for a number of 'pure' B2B transactions (i.e. not those

⁴¹ An overview of the EMCS is provided on DG TAXUD's website: [Excise Movement Control System \(europa.eu\)](http://europa.eu)

taking place in the frame of the B2B2C transactions covered by Option 3a). These include the transfer of own goods cross-border (transaction #1a when for business purposes other than the B2B2C transactions covered in Option 3a), chain transactions (#1b), the domestic supply of goods B2B where the reverse charge does not apply (#2) and domestic supplies of certain B2B services where the reverse charge does not apply (#6).

Option 3b would leave existing VAT deduction arrangements in place. Businesses would thus need to use the existing VAT refund procedures, which are considered problematic because they entail substantial hassle and related cash-flow concerns (since deductible VAT would first need to be paid in the Member State where it is due). This issue could be partly addressed by using the OSS to promote, harmonise and streamline access to the VAT Refund mechanisms. But such measures would be unlikely to encourage businesses who incur significant input VAT in Member States where they are not established to cancel their registrations and use the OSS instead. Implementing this sub-option would also require updates to the IT infrastructure of the OSS to allow it to be used for the new transactions covered, which would need to be investigated in depth before making any decision to move forward, as well as related amendments to the VAT Directive.

Option 3c: extension of the OSS to remaining B2B supplies while introducing a deduction mechanism into the OSS. While covering the same transactions as Option 3b, this would entail more extensive changes by introducing a deduction mechanism into the OSS, allowing businesses to use it to claim back the deductible input VAT incurred in a Member State where they are not established. This would in turn enable businesses to avoid having to use the VAT refund procedures and would be likely to increase uptake of the OSS among businesses. But stakeholders – especially tax authorities – expressed extreme scepticism, because it would entail the Member State of establishment deciding on the deductible VAT incurred in another Member State. This is technically challenging, because VAT rules vary by country and the tax authorities of Member State A cannot be expected to be experts on Member State B. Tax authorities also considered this sub-option risky, because they would be obliged to make financial outlays in accordance with decisions made outside their jurisdiction. The IT developments needed both to integrate the additional transactions and refund mechanism and to accommodate the additional traffic would also be significant and require in-depth investigation, as would the necessary legislative changes.

Option 4: extension of the OSS as in Option 2, plus the introduction of a mandatory reverse charge for B2B supplies by non-established persons

Replacing the current patchwork of rules, this option would make the application of Article 194 available and mandatory for all B2B transactions involving non-established suppliers, considerably reducing the scope of transactions requiring VAT registration. All transactions covered in Options 3b and 3c would be included, except transfers of own goods cross-border which would not be covered. This is because Article 194 typically requires the customer to be registered in the country where the supply takes place, meaning that to truly minimise VAT registration requirements, this option would need to be combined with Option 3a. While tax authorities were generally favourable towards Option 4, there were some concerns about the current level of fragmentation in the application of the reverse charge mechanism. To secure their support and ensure effective implementation, it thus seemed likely that this option would need to be accompanied by changes to the VAT Directive to harmonise the use of Article 194 (and to make its use compulsory at Member State level), and to enhance coordination and information-sharing between Member States. If DRRs are implemented (as explored in Part 1 of the study), this could facilitate the necessary trust by making it easier for the tax authority in the Member State where a transaction takes place to verify the details of a transaction.

4.2.2. Policy options for distance sales of imported goods / the IOSS

Two options are proposed in addition to the continuation of the status quo. These options are not mutually exclusive, and they can complement each other. As with the OSS, these mostly correspond to the options initially presented in the ToR and inception report. However, Option 3 on making the IOSS mandatory for non-EU distance sellers has been operationalised and thereby broken down into two sub-options, namely Option 3a, which would make the IOSS mandatory only for deemed suppliers and Option 3b, which would make the IOSS mandatory only for businesses with distance sales of imported goods into the EU over a certain threshold, and Option 3c, which would make the IOSS mandatory for all.

Importantly (as discussed in more detail in Section 5.4 below), the recent launch of the IOSS has made it very difficult to assess both the effectiveness of the mechanism as it currently exists, and the likely impact of the policy options. Most stakeholders were in 'wait and see' mode on the IOSS, and were reluctant to support expansion until it can be fully evaluated. It was also indicated that further progress on the IOSS scheme would depend inter alia on increased mutual assistance agreements with third countries (which would reduce the current need for EU-established intermediaries for users of the IOSS).

IOSS Option 1: continuation of the status quo as of 1 July 2021.

The new rules abolished the optional threshold (previously up to EUR 22) for low-value consignments supplied as part of a commercial transaction, where imports were VAT-free. At the same time, the 'deemed supplier' rule was introduced, which makes the electronic interfaces facilitating certain supplies of goods the 'deemed' supplier for VAT purposes. To facilitate the implementation of the new rules in terms of collection and payment of the import VAT, and compliance and controls, the IOSS was launched. This mechanism (which distance sellers can opt into for all eligible sales) allows importers to pay VAT without registering in multiple Member States and, simplifies the VAT compliance process.

While the IOSS on its own is unlikely to trigger an important decrease in non-compliance and fraud, the combination of the IOSS and accompanying new rules (e.g. the deemed supplier) is likely to have an important effect. However, the extent of the likely decrease in the levels of fraud is hard to gauge at this stage. As examined in Section 5.4.1 below, stakeholders expressed diverse views. Some claimed that non-compliance and fraud would continue unabated unless controls increased significantly. Others felt the combination of the deemed supplier rule – which covers the vast majority of sales through major platforms – and increased data on sellers to be obtained via the IOSS would have a major positive effect.

IOSS Option 2: removal of the EUR 150 threshold for use of the IOSS and / or extension to excise goods

The IOSS currently applies only to goods with an intrinsic value not exceeding EUR 150, which corresponds to the value above which goods need to be declared for customs purposes (full declaration and potential liability to customs duties). However, stakeholders indicated that a significant proportion of distance sales of imported goods – indicatively around 10-20% – exceeded this value and will thus be ineligible for the IOSS. This option would allow the use of the IOSS for higher-value goods, making it potentially more useful for distance sellers of imported goods of which at least some are valued at more than the current threshold. This option could also open up the IOSS to excise goods, for which distance sales of imports into the EU have been estimated in 2019 as a relatively small market worth EUR 56m.⁴² The likely effects of this option on problems of compliance and fraud is a priori difficult to estimate. However, a meaningful

⁴² Study assessing articles 32 and 36 of Council Directive 2008/118/EC concerning the general arrangements for excise duty, PwC, 2020.

impact could be expected on reducing administrative costs for businesses. This is because importers of higher-value goods (or a mix of higher- and lower-value goods and / or excise goods) would no longer need to VAT register in the Member State where VAT is due. That said, since such goods would still need to be declared and processed for customs purposes and, if applicable, customs duty to be paid, a significant part of the administrative burden would remain. Excise goods are also subject to numerous and varied national restrictions that would remain in place and thus limit the potential reduction in compliance costs. Stakeholders expressed largely positive views towards this option, with the caveat in some cases that it would be worth testing the system on low-value consignments first i.e. those with an intrinsic value not exceeding EUR 150.

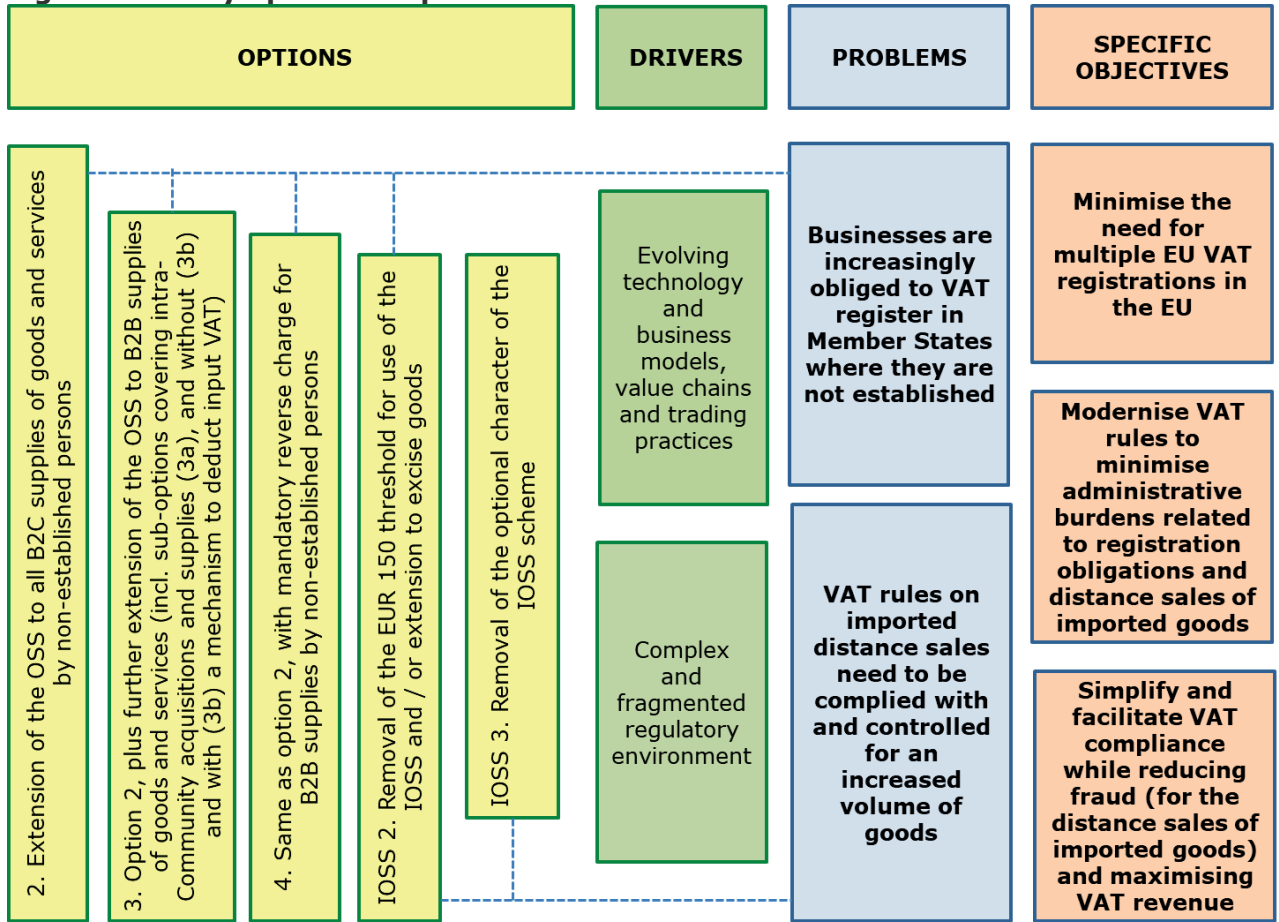
IOSS Option 3: removal of the optional character of the IOSS scheme

This option would make use of the IOSS mandatory for distance sellers of imported goods, either up to the current threshold of EUR 150 or (if implemented alongside Option 2) also for higher-value goods. This can be done through making the IOSS mandatory only for deemed suppliers (Option 3a) or only for companies that distance sell into the EU above a certain threshold (Option 3b), indicatively set at EUR 10,000, i.e. the same as the intra-EU distance selling threshold (including any TBE services), or indeed by making use of the IOSS mandatory for all eligible transactions (Option 3c). The sub-options take inspiration from similar mandatory schemes in other countries, and would aim to maximise uptake of the IOSS and thereby the associated benefits, particularly in terms of reduced fraud and improvements in the level playing field for EU and non-EU sellers. As for impacts on compliance costs, these are likely to be minor: if the IOSS is considered worthwhile, uptake will be high regardless of whether it is mandatory. Nonetheless, there could be some benefits for postal operators and express carriers, especially under Option 3c, because they would no longer need to distinguish between different sellers that are and are not availing themselves of the IOSS.

4.3. The Intervention Logic of Proposed Options

This section concludes with an intervention logic diagram, which shows how the policy options connect to the problem tree. Figure 5 below, is structured around the links between the proposed options and two main problems. As shown, Options 2, 3, 4 and IOSS Options 2 and 3 will address all of the main problems, though to varying degrees. All options will also address the problem driver of a complex and fragmented regulatory environment, albeit in different ways. In contrast, the driver on evolving technology and practices is exogenous and will not be directly addressed by the intervention. Rather, it reflects contextual factors that have played a role in rendering the existing VAT framework problematic.

Figure 5. Policy options for part 3



Source. Authors' own elaboration

5. ANALYSIS OF IMPACTS

5.1. Introduction

This chapter presents the impacts of the policy options. As explained previously, the options fall into two groups, namely options related to the OSS – Single Place of VAT Registration and options related to the IOSS. In both cases, the options focus on increasing the scope and use of these mechanisms (and, in the case of one option, the reverse charge mechanism) in order to cover more transactions and thereby minimise VAT registration obligations and address the other issues described in Chapter 3 on the problem definition.

The assessment is based primarily on the targeted consultation of different types of businesses, business federations, VAT practitioners and tax and customs authorities, supplemented by legal analysis and (primarily for the purpose of making extrapolations) secondary data and reports, input from internal experts on the study team and feedback from two Fiscalis workshops on VAT in the Digital Age. The reasoning and evidence used for the different findings are explained on a case-by-case basis, with citations to external sources as relevant.

Overall, this has allowed for a thorough and robust assessment of how the different options would affect VAT registration requirements and the likely impacts on stakeholders. However, it is also important to bear in mind that, since the new rules and mechanisms have only been recently introduced, many findings involve a relatively high degree of uncertainty, while the level of precision on certain aspects – particularly regarding the IOSS options – is limited.

The analysis is structured by policy option, with a focus on whether and to what extent impacts could be expected in terms of three aspects which correspond to the ‘consequences’ described in Section 3.4 above. The impact areas are (1) reduced administrative burdens for businesses of VAT registration and compliance; (2) improved VAT compliance and reduced fraud; and (3) improved functioning of the Single Market. Since the policy options are not mutually exclusive, but rather could be combined in various ways to form a fully-fledged policy choice, the analysis concludes with a section assessing and comparing the different combined options.

When reading the analysis, it should also be noted that **all options deviating from the status quo entail certain one-off costs to administrations** for familiarisation, training and/or process adaptation, as well as some transitory uncertainty. While stakeholders were generally unable to put concrete figures to these costs, they were considered fairly easily absorbed as long as meaningful benefits could be expected. Certain options would also require more substantial costs, particularly for IT development, which are highlighted in the analysis where relevant.

Also important to bear in mind is that **the impacts assessed are incremental and do not entail structural changes** to tax treatment or affect large sectors to a scale that would lead to measurable macro-level effects on the economy. For this reason, impacts on parameters such as prices of goods are deemed negligible and are not discussed in the analysis.

Before presenting the results, the next section frames the analysis by explaining the mechanisms or ‘pathways’ by which reducing the scope of VAT registration obligations could be expected to generate the envisaged impacts.

5.2. Impact pathways from removing VAT registration obligations

While the policy options are different, much of their intended impact would be generated in similar ways, most importantly as knock-on effects from reducing the scope of situations where businesses need to VAT register in more than one Member State. The

mechanisms at play are thus described here (rather than in the sections on the impacts of the individual policy options) for the purpose of clarity and avoiding repetition. Since any impacts not resulting from removing VAT registration obligations are specific to individual policy options, these are discussed in the sections on each option below.

To explain, reducing the need for businesses to obtain and hold multiple VAT registrations is not an end in itself, but rather is envisaged to address – at least partly – several of the problems being experienced with the current situation. The ways in which the problems could be addressed are briefly outlined below in terms of three types of impact, which are then described individually in more detail:

- **Reduced administrative burdens for businesses of VAT registration and compliance:** obtaining and maintaining a VAT registration entails costs. It follows that decreasing the number of VAT registrations would lead to a reduction in costs for businesses. Indeed, this reduction would be proportionate to the number and types of businesses affected and the number of registrations they have⁴³.
- **Improved VAT compliance and reduced fraud:** while VAT registration requirements were not currently found to be responsible for substantial amounts of fraud, regulatory costs and complexity were seen to increase (often low-level) non-compliance, especially among SMEs. Since reducing the scope of situations requiring VAT registration for non-established businesses would make compliance simpler and cheaper, it would also be likely to improve compliance.
- **Improved functioning of the Single Market:** the need for additional VAT registrations makes it more complicated and costly to trade in Member States other than that where a business is established. This compromises the principle of “VAT neutrality”, which means that the VAT rules should not be a primary factor in business decisions, which in turn can create unfair competition and hamper trade in the Single Market.⁴⁴ Reducing the need for such VAT registrations would thus be a step towards restoring VAT neutrality with regard to VAT registration, making it easier for business to pursue new transactions and expand into new markets.

The policy options seek to reduce the scope of situations requiring VAT registration by non-established businesses, either by expanding the scope of the OSS and IOSS, or by broadening the application of the reverse charge mechanism. It follows that, for each policy option, the **scale of impact** is closely related to the order of magnitude of the situations that would fall (or not) under the scope of the OSS and IOSS⁴⁵. The rest of this section unpacks the mechanisms that could be expected to generate the different types of impacts, from costs of VAT registration and compliance levels to the effect on the Single market and economy of the EU. It is then followed by a section that explores

⁴³ The number of relevant businesses, however, is not necessarily proportional to the number of relevant types of situations. Indeed, businesses may engage in multiple activities, some falling into the scope of the OSS and IOSS, others not. Even if the latter account for a small proportion of the business’s overall turnover, it may alone trigger the need for VAT registration in a Member State where the business is not established, hence have consequences on its whole organisation. This issue, which may impact differently SMEs as opposed to larger businesses and MNCs, will be explored in more detail as part of the next subsection.

⁴⁴ See inter alia “OECD International VAT/GST Guidelines on Neutrality”, 2011, url: <https://www.oecd.org/tax/consumption/guidelinesneutrality2011.pdf>.

⁴⁵ This statement is slightly less relevant for Option 4 (reverse charge made mandatory for relevant B2B transactions) and IOSS Option 3 (IOSS made mandatory), which are not scope extensions as such since they will not in themselves reduce the types of situations where businesses will be able to avoid having to VAT register. The impacts of these policy options will be unpacked in detail as part of the next subsection.

the nature and size of the impacts of each policy option in more detail, referring to the mechanisms presented here where relevant.

5.2.1. Administrative burdens for businesses related to VAT registration and compliance

As mentioned, the main way that the policy options aim to decrease administrative burdens for businesses is by reducing the scope of situations that require them to VAT register in Member States where they are not established. A preliminary step to estimating these impacts is thus to ascertain how much obtaining and maintaining a VAT registration actually costs.

EU businesses that engage in certain types of cross-border or domestic transactions, as well as non-EU businesses engaging in trade into the EU Single Market, may be required to VAT register in a Member State where they are not established. Normally, this is to account for the VAT due in this Member State, but such an obligation can arise even if no VAT is actually due as part of the transaction. The entry into effect of the VAT e-commerce package on 1 July 2021, including the introduction of the OSS and IOSS, aimed to reduce the number of transactions that give rise to the obligation for businesses to VAT register in other Member States. However, important exceptions still remain, as shown in Section 3.3.1. VAT registration can be a time-consuming compliance obligation and generate significant costs, especially since it typically triggers wider VAT-related obligations, such as the need to complete VAT declarations or returns, as well as (in some cases) VIES listings and statistical reporting. These obligations themselves entail costs, the sum of which can prove especially burdensome for small or medium-sized businesses.

Table 4 summarises the costs of obtaining a VAT registration in relation to wider VAT compliance costs. Ideally, such costs would be expressed in two ways: (1) 'one-off' costs associated with the VAT registration process; and (2) recurrent costs associated with maintaining a VAT registration – i.e. complying with the VAT reporting obligations – on an ongoing basis. The table does capture the first of these, as shown. However, the second has proven much less straightforward. This is because respondents to the targeted consultation had a lot of trouble to separate out recurrent costs *purely* from maintaining a VAT registration from wider VAT compliance costs in Member States where they are not established. Moreover, it cannot be assumed that the savings from removing the obligation to maintain a VAT registration could be simply translated into equivalent savings for a business. Indeed, there would be some savings, but other costs (e.g. to maintain IT systems needed to comply with the VAT rules in different Member States) are unrelated to VAT registration as such and would remain for businesses engaging in business across borders. For this reason, the table contains estimates of *all* VAT compliance costs in Member States where a business is not established.

Finally, it is worth briefly explaining the parameters presented:

- **Types of costs:** within both one-off and ongoing costs, costs are split into (i) internal staff time and (ii) fees and external consultant costs. The latter are based on EUR values provided by interviewees. For the former, interviewees provided estimates in terms of days of staff time. These were then converted into EUR using the methodology described in the table below.
- **Cost per occurrence for the normally efficient firm (EUR):** the figures are based on data provided by businesses in the targeted consultation. Since these varied widely depending on the circumstances (particularly size) of different businesses, it was considered appropriate for each type of cost to base the estimates on the 'median' response, which, as opposed to the 'mean' (or 'average') value, is less sensitive to extreme values provided e.g. by businesses that are exceptionally large or have especially complex operations.

- **Interval:** complementing the median cost per occurrence, the table also presents the interval of figures provided from lowest to highest.
- **Base (number of businesses):** since figures were provided in each case by a sub-set of respondents to the targeted consultation, for the sake of transparency the table shows the number of businesses for each type of cost.

Lastly, it should be said that business operations and administrative arrangements vary significantly depending on business size, types of transactions, Member State(s) of activity, etc. It was thus necessary to make assumptions in order to simplify the reality enough to arrive at workable estimates. These in turn entail a **high margin of error**. At the same time, they are **useful to provide an order of magnitude** for the kinds of costs businesses face to deal with the administrative burdens of VAT registration in Member States where they are not established. All of these aspects, and the figures themselves, are further explained after the table

Table 4. Estimated costs of VAT obligations and compliance in an EU Member State other than that of establishment

Types of costs	Cost per occurrence (EUR) ⁴⁶	Interval	Base (# of businesses)
One-off costs of VAT registration in another MS			
Internal staff time	500	160 to 800	8
Fees and external consultant costs	4 000	1 000 to 10 000	13
Total one-off costs	4 500	1 200 to 11 000	N/A
Ongoing VAT compliance costs of engaging in cross-border trade in a MS other than that of establishment, per year			
Internal staff time	8 000	1 600 to 82 500	10
Fees and external consultant costs	12 300	6 000 to 150 000	14
Total annual ongoing costs	20 000	8 000 to 250 000	11

Notes. 'Total one-off costs' is the sum of internal staff time and external consultants' fees, and reflects the 'partly outsourced' approach taken by the majority of consulted businesses. In contrast, 'Total annual ongoing costs' have been directly reported by businesses, independently from the amount of internal and external consultants' fees costs. It explains why the two rows do not exactly add up; still the sum of EUR 20 300 is very close and consistent with the total of EUR 20 000.

Source. Authors' own elaboration based on the targeted consultation and Eurostat data.

One-off costs of VAT registration

Obtaining a **VAT registration in another Member State usually costs about EUR 4 500** according to the responses provided by businesses as part of the targeted consultation. For the purpose of the study, these costs have been defined broadly and include internal staff time to deal with the VAT registration process, which can involve tasks such as completing forms, collecting and signing documents. Through this process,

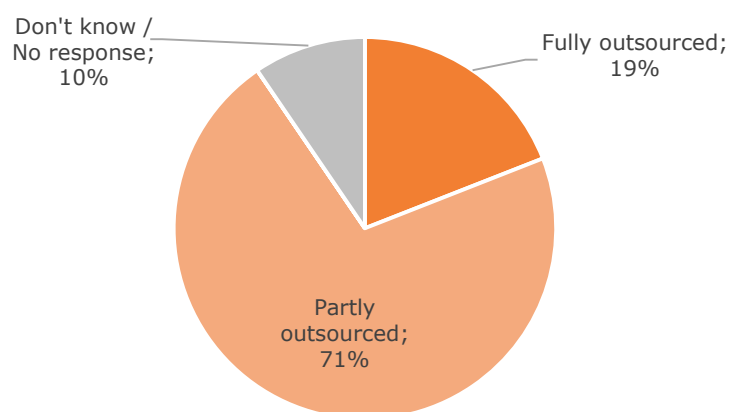
⁴⁶ The two rows of 'Internal staff time' and 'Fees and external consultant costs' were aggregated by translating person-days into EUR using average hourly wage in the Business sector, equal to 15 EUR across the EU-27 according to [latest Eurostat estimates](#).

The cost to the employer is higher than the amount that the employee is paid, so a 'premium' of 25% was added to make it 18.75 EUR per hour. This gives 150 EUR per day, assuming a working day of eight hours. For one-off costs, the median of 3 person days therefore leads to 450 EUR, rounded to 500 EUR. For ongoing costs, the median figure provided by target consultation respondents was 0.20 FTE over a year (minimum of 0.04, maximum of 2.10), which multiplied by 262 working days in a year leads to a median cost of EUR 8 000.

businesses may also incur administrative fees related to the certification, translation and/or notarisation of official documents. These additional costs depend on the Member State's requirements for VAT registration and can vary a lot from one Member State to another. In relation to the number and complexity of requirements, timings can vary from a few hours in Member States where requirements are few or easy to meet, to multiple weeks or months where registration involves follow-up procedures such as the aforementioned certification or notarisation.

Additional fees can also be incurred for services from tax advisors and other service providers who assist with VAT compliance⁴⁷ by businesses lacking the capacity or willingness to handle such procedures internally. Businesses often seek assistance from local external consultants to register in Member States where procedures are less straightforward (and / or it is difficult to deal with local languages). As shown in Figure 6 below, all businesses from the targeted consultation fell at least partly into this category, with none of the 21 surveyed businesses which held a VAT registration in another Member State claiming to deal with VAT compliance fully internally. In terms of calendar time, the overall registration process can reportedly take from a few hours to multiple months, depending on the nature of the business and the specific Member State in question.

Figure 6. Handling of the VAT registration process – internal or external



Source: Targeted Consultation (21 businesses)

Ongoing costs

The costs of VAT registration are not only incurred as a one-off, at the time of registration, but also on an **ongoing basis**, as being registered entails ongoing reporting requirements in the Member State which need to be complied with (such as the obligation to complete and file/submit VAT returns and pay VAT due, recovery of credits etc.).

As mentioned, it proved difficult for the businesses interviewed as part of the targeted consultation to distinguish between the costs related to maintenance of a VAT registration and wider VAT compliance and reporting obligations in Member States where they are not established, as the processes and cost items involved are typically dealt with together. Furthermore, it is also hard to separate costs that relate to VAT obligations from wider VAT compliance needs. When probed about VAT compliance costs in general, the businesses in the targeted consultation described a variety of obligations, most importantly filing VAT returns, but also recapitulative statements, IT system

⁴⁷ VAT compliance services are traditionally provided by specialised tax consultancies and advisors. However, electronic interfaces have also begun forming partnerships with such companies, allowing them to facilitate VAT compliance services for their business users for a fee.

adaptation, invoicing requirements, staff training, the need for periodic advice and support, etc.

Among the different ongoing costs, the single most significant and frequently cited was the **maintenance of IT systems**. This was attributed to a range of issues, such as incorporating new products or countries of activity, dealing with changes to VAT treatment, and changes to invoicing requirements. All of these aspects need to be fully current in order for a business to be able to comply with the VAT rules in different Member States.

Although part of wider VAT compliance, such costs are often not directly related to the obligation to VAT register in other Member States, and are **perceived by businesses as much more burdensome than the costs of VAT registration itself**. All in all, businesses in the targeted consultation estimated **ongoing VAT compliance costs to amount to EUR 20 000 per year per Member State** on average where the business holds a VAT registration, excluding audit (and associated legal) costs. The ongoing costs for **SMEs are typically lower and have been estimated at EUR 6 000 per year per Member State**.⁴⁸ Importantly, costs can vary significantly for individual businesses depending on the complexity of their activities (e.g., the volume of transactions, diversity of supply chains and sectors of operation), the services used by businesses (e.g., the reliance on consulting firms to complete VAT returns) and local requirements (e.g., the requirement in certain Member States to use a locally established fiscal representative for non-EU businesses)⁴⁹.

Total costs incurred by businesses

Since businesses often need to VAT register in more than one Member State where they are not established, **the overall cost of VAT registration has to be multiplied accordingly**. A recent study indicates that a typical business engaged in cross-border transactions would require three VAT registrations in Member States other than that in which it is established; for SMEs, the figure was two Member States. At EUR 4 500 per Member State on average, this amounts to average one-off VAT registration costs of EUR 13 500 for 'average businesses' and EUR 9 000 for SMEs. By a similar logic, annual ongoing costs on average are estimated at EUR 60 000 for 'average businesses' and EUR 12 000 for SMEs, as shown in Table 5. This is a substantial amount especially for businesses in start-up or expansionary phases, and may act as a barrier to pursuing new transactions and/or reaching new markets.

⁴⁸ As described in Table 4, this estimate is a median based on a sample of 11 businesses with significant variance, from EUR 8 000 for smaller businesses, to EUR 250 000 for larger businesses who outsource such services more easily. Large businesses are often established in other Member States, which leads to additional requirements and costs. Considering that 10 businesses out of the 11 who provided data about overall VAT compliance costs are multi-national companies, the estimate is more likely to be representative of large businesses. For this reason, it was not possible to estimate the costs for SMEs based on these data. Instead, in line with a recent study on VAT compliance, costs for SMEs these were estimated at 30% of those faced by 'average businesses'. CF. Deloitte's VAT Aspects of cross-border e-commerce report (2015).

⁴⁹ The same 2015 Deloitte study cited lower costs for VAT registration and ongoing compliance, amounting to EUR 8 000 per Member State per year for general businesses, with the cost of one-off VAT registration amounting to only a tiny part of this total. For SMEs, VAT-related costs were found to amount to EUR 4 000 per Member State per year. However, these estimates did not include training and IT costs, the latter of which especially can vary a lot across businesses and represent a large burden for those of small and medium size. This difference in scope is likely to explain part of the gap between the present study's estimates of EUR 20 000 per year, which virtually includes *any* cost related to VAT compliance, and the lower figures of EUR 8 000.

Table 5. VAT-related costs of cross-border trade for businesses

Business type	# of MS	Per MS – in EUR	Across multiple MS – in EUR
Total costs of VAT registration in multiple MS (one-off)			
Average business	3	4 500 (1 200 – 11 000)	13 500 (3 600 – 33 000)
SME	2	4 500 (1 200 – 11 000)	9 000 (2 400 – 22 000)
Total annual VAT compliance costs of doing cross-border trade with multiple MS - implying VAT registration (ongoing)			
Average business	3	20 000 (8 000 – 250 000)	60 000 (24 000 – 750 000)
SME	2	6 000 (2 400 – 75 000)	12 000 (4 800 – 150 000)

Source. Authors' own elaboration based on the targeted consultation and Deloitte 2015.

Albeit with a great deal of uncertainty, by extrapolating the costs for individual businesses to the EU as a whole, it is possible to get a sense of the scale of **ongoing costs currently faced by businesses requiring a VAT registration in the EU in a Member State other than that of establishment**. This would act as an upper limit on the potential savings if a Single Place of VAT registration could be achieved for each business. Using the best available data, it can be assumed that the costs presented above are being experienced by about 20 000 'average businesses' and 280 000 SMEs⁵⁰. This adds up to EUR 1.2 billion of VAT administrative costs for 'average businesses' and EUR 3.4 billion for SMEs, i.e. about EUR 4.6 billion in total.

In contrast, companies that can handle the costs of *establishing* themselves in another Member State may prefer to do so rather than 'simply' holding multiple VAT registrations. Being established in another Member State allows companies to deal more easily with local operators, suppliers and/or consumers and to manage their stocks in a more efficient way. A local establishment may also help a business to build up the administrative capacity to deal with local VAT compliance efficiently.

5.2.2. VAT compliance and fraud levels

The starting point is that **VAT registration requirements have not been found to be a major source of fraud and non-compliance**.⁵¹ This is mainly because the pay-off of not registering for VAT is relatively low. As described above, a typical business could expect to save several thousand EUR per year by avoiding a VAT registration, while non-compliance brings risks of significant penalties. For businesses with complex value chains, registering for VAT in another Member State can even avoid cash-flow issues by making it easier and quicker to deduct any local input VAT via a local VAT return instead of via the VAT refund mechanisms.

The targeted consultation widely echoed this view: stakeholders, including tax authorities, businesses, federations or VAT practitioners, felt that businesses wanting to be compliant would remain so regardless of whether this means VAT registering in

⁵⁰ The number of SMEs and typical businesses were extrapolated from the 2015 study previously mentioned, which estimates a number of 248 581 companies engaged in B2C cross-border e-commerce, among which 232 118 SMEs. These figures were extrapolated to 300 000 companies in total (and the same proportion of SMEs). This rests on the assumption that the growth of e-commerce since 2015 not only reflects growth in the number of active e-commerce businesses but also in the growth of volumes and values of sales of already existing businesses; hence the growth of the number of businesses should be significantly smaller than the growth of e-commerce sales over the same period.

⁵¹ It is important to point out that, while stakeholders did not make a strong link between VAT registration requirements and current fraudulent and non-compliant practices, this was not always the case. In particular, fraud whereby VAT registered – but non-established – businesses collected VAT from customers but never paid it to the tax authority was a key motivating factor behind the introduction of the reverse charge as defined in Article. 194.

additional Member States. In contrast, non-compliant / fraudulent businesses are unlikely to become compliant because of a reduced VAT registration obligation, at least insofar as this is replaced by use of the OSS mechanism. In other words, VAT registration obligations, while a hassle for businesses, presently seem to be neither a cause nor an effect of significant non-compliance or fraud.

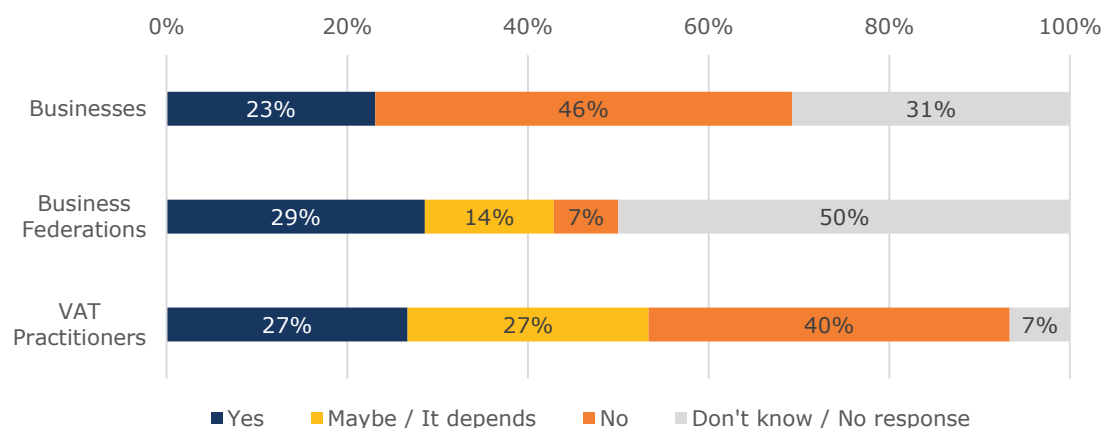
The exception to this general rule relates to **low-level non-compliance**, particularly with regard to micro and small businesses. As explained in Section 3.4.1 on the problem definition, VAT registration rules are complex and vary by Member State. Due to this, some businesses with only minor or one-off taxable activities in Member States, other than that in which they are established, may either fail to understand their registration obligations or decide that complying is not worth the hassle and cost. Such problems did not seem uncommon, inter alia, among micro-sellers engaging in distance sales via e-commerce platforms. While tax authorities interviewed found it unlikely that this type of non-compliance is responsible for important VAT revenue losses, it stands to reason that policy options to reduce the scope of situations that trigger VAT registration for non-established suppliers will lead to a commensurate, albeit small, reduction in non-compliance.

5.2.3. Impacts on the functioning of the Single Market

VAT neutrality implies that VAT rules should not play a role in business decisions in the value chain, or cause unfair competition in the Single Market. A company may decide to arrange its operations differently for the purpose of avoiding multiple VAT registrations, for example by deciding not to sell to customers outside its Member State of establishment. These kinds of distorted business decisions, from a lack of VAT neutrality perspective, were identified as a consequence (albeit a minor one) related to the problem of VAT registration obligations. Indeed, VAT registrations did appear to affect operational decisions in specific cases, even if this did not seem to hold as a general rule. As a result, the **changes in VAT registration requirements that would result from the policy options are likely to generate meaningful, but minor improvements to the functioning of the internal market and benefits for some businesses** engaged in cross-border trade. The impact of the policy options that aim at reducing the number of situations that trigger VAT registrations will, therefore, be largely neutral from a market impact perspective.

For most businesses that engage in relevant transactions, the obligation to VAT register in another Member State is usually perceived as a manageable cost of doing business. This is illustrated in Figure 7, where businesses, business federations and VAT practitioners were asked whether the availability of the OSS (the case under the status quo but not yet launched when the data was collected), would lead their business / members / businesses to pursue new types of transactions: businesses and VAT practitioners both leaned more towards 'No' and 'Maybe / It depends' than 'Yes'. Overall, it can be said that VAT registration obligations are generating minor distortions and marginally reducing trade within the Single Market. While many businesses have accommodated themselves to the situation (or indeed are held back by numerous other regulatory and non-regulatory factors), others, particularly **smaller businesses, may face barriers in operating more efficiently and / or pursuing new markets.**

Figure 7. Will the availability of the OSS lead your business / members / businesses to pursue new types of transactions?



Source. Targeted consultation.

Removing the obligation to VAT register in Member States where a business is not established would promote VAT neutrality, eliminating concerns about the costs and / or hassle of dealing with VAT registration. However, this is only if additional burdens / cash flow implications are not created, such as onerous processes to effect VAT refund claims and long payment delays. When the burden of claiming back input VAT through the VAT refund mechanisms (Directive 2008/9/EC or the 13th VAT Directive) is deemed higher than the burden of VAT registering and filing local VAT returns (including for deductions), i.e. by not utilising the OSS, then the lifting of the VAT registration requirement alone would not solve the market distortion.

Two types of transactions were found to suffer disproportionately from distortions due to VAT registration obligations, meaning that **removing the obligations would benefit suppliers of these transactions in particular**. The transactions are the transfer of own goods cross-border which often precedes a sale as part of a B2B2C transaction in the **e-commerce** sector (and **chain transactions**). The targeted consultation indicated that the need to VAT register caused some businesses not to operate in Member States where they were not established. A similar dynamic was reported in the targeted consultation, albeit at a very small scale, in specific sectors such as businesses supplying goods with installation and assembly (such as builders, electricians, and plumbers) that operate in border regions, as well as among isolated examples of individual businesses.

5.3. Analysis of impacts: Options related to the One-Stop Shop

This and the following section assess the likely impacts of each policy option, in terms of (i) costs for business for VAT registration and compliance; (ii) VAT compliance and fraud levels; and (iii) impacts on the functioning of the Single market. Section 5.3 deals with the options related to the OSS, while Section 5.4 with the options related to the IOSS.

By and large, the expected impacts derive from the extent to which the different options will reduce the scope of situations requiring VAT registration for non-established businesses, as per the mechanisms described above. Where relevant, any additional factors that are specific to individual policy options are also examined.

The end of the section on each policy option presents a **table that briefly summarises the impacts under each of the three types of impacts**. Aside from the narrative description, a scoring system is also used to denote the nature and scale of impacts in comparison to the continuation of the status quo. A score of 0 indicates no or only

marginal change. The scale ranges in principle from 'much worse' (-----) to 'much better' (+++++), but no policy options were actually found to make the situation worse.

5.3.1. Option 1 – continuation of the status quo

Under the status quo, businesses carrying out a number of transactions will continue to be able to avoid VAT registration in Member States where they are not established either through the OSS or other mechanisms that existed before 1 July 2021 (e.g. Quick Fix - Article 17a on call-off stocks). However, as detailed in Section 3.3.1 on the problem definition, several exceptions remain, meaning that certain situations still require additional VAT registrations. The most important of these are the following, which are listed in terms of the most to least widespread, as per the analysis presented in 2.3:

1. **ICA/ICS in/from a Member State where the business is not established**, which includes:
 - a. **Transfer of own goods cross-border** (degree of magnitude – 3);
 - b. **Chain transactions** (degree of magnitude – 3);
 - c. **B2B2C sale of goods first acquired in a Member State where the supplier is not established**, for example through drop shipping (degree of magnitude – 2);
2. **Domestic supply of goods B2B where the reverse charge does not apply** (degree of magnitude – 2);
3. **Domestic supply of goods B2C made by non-established suppliers** (degree of magnitude – 2);
4. **B2C distance sales of goods imported by the supplier from a third country with an intrinsic value exceeding EUR 150 or products subject to excise duties** (degree of magnitude – 2);
5. **Export from a Member State where the exporter is not established, not under transit**, (degree of magnitude – 1); and
6. **Domestic supply of B2B services where the reverse charge does not apply** (degree of magnitude – 1).

This means that companies engaged in the above transactions – including if they also or even primarily carry out transactions that do not require VAT registration – as part of their business activities will continue to incur the costs of VAT registration in other Member States in order to comply with their VAT obligations. These **costs are not expected to evolve significantly in the short term for compliant businesses, as the procedures for VAT registration and compliance are relatively stable**, and there is no evidence that they could be simplified or harmonised at EU level without the kind of actions proposed in the other policy options. **However, the volume and importance of certain types of transactions – especially in e-commerce, and e-charging – that remain outside the scope of the OSS**, exacerbate the scale of the problems.

Distance sales and the e-commerce sector

Some of the most important transactions listed above, especially the transfer of own goods cross-border (1.a), which can be either followed by a domestic supply of goods B2B (2.) or B2C (3.), are mostly relevant within the context of distance sales made in the e-commerce sector. This is especially the case of the transfer of own goods, whose

prevalence is largely (but not exclusively⁵²) related to online selling via electronic interfaces.

In practice, the transfer of own goods cross-border arises in two situations: (i) companies move their own stocks to another Member State (e.g. for storage in a warehouse), which they may then use or sell to local B2C customers – this situation was judged to be rare (though becoming more common via e-commerce business models) except among large multinationals;⁵³ or (ii) the **movement of goods on behalf of the owner by an intermediary – typically an e-commerce interface** – e-commerce for the purpose of storage and onward sale to customers either in the Member State of storage or yet another Member State. Overall, distance sales of goods cross-border were estimated to amount to about EUR 72 billion across the EU-27 in 2020⁵⁴, including EUR 43 billion within the EU and EUR 29 billion from outside the EU-27 (distance sales of imported goods). In terms of the number of parcels, although it is difficult to estimate their volumes precisely, the order of magnitude is likely to be in the **billions of units transferred cross-border across and into the EU every year**, both by suppliers themselves and by electronic interfaces on behalf of their suppliers.

Also of increasing prevalence within e-commerce business models are B2B2C transactions whereby a business sells goods online that it does not keep in stock, but rather purchases and sells directly to the final customer (transaction #1c). The business is required to VAT register if it is not established in the Member State where the goods are acquired. While it was not possible to estimate the size of the market for such transactions with any precision, it is common in the 'drop-shipping' business model. Several stakeholders in the targeted consultation also indicated that it is likely to increase in prevalence as the economy continues to digitalise.

Another type of transaction triggering VAT registration also relates primarily to e-commerce, namely **B2C distance sales of goods imported by the supplier from a third country** with an intrinsic value exceeding EUR 150 or products subject to excise duties (transaction #4). According to the findings of our targeted consultation, such transactions make up around 10 to 20% of the volume of e-commerce into the EU, mostly carried out by non-EU businesses, as well as (to a lesser extent) by EU businesses directly selling and importing goods from outside the EU into a Member State where they are not established.

While the scale of these transactions is already significant, the continued growth of e-commerce means they will continue to become more so, exacerbating the scale of the associated problems if the status quo is left to continue. Indeed, e-commerce in the EU has been growing at more than 10% a year since 2015.⁵⁵ If such a growth rate were to be sustained over the short and medium terms, this would make for a growth of 60% over the next five years and of 160% over the next decade. Moreover, a significant proportion of the affected businesses are SMEs, which face more important constraints on VAT compliance than larger firms. This has implications in terms of the impacts that could be expected from the continuation of the status quo.

⁵² For example, some businesses with operations in multiple Member States reported moving equipment across borders for purposes of repair or use – which are not returned to the original Member State.

⁵³ Although not widely reported in the targeted consultation, there was anecdotal evidence that some third-country suppliers also stored goods in Member States where they were not established in order to be close to their customers.

⁵⁴ These estimates are based on data from the 2015 IA, updated to remove the UK, exclude services from calculations and account for the observed growth of e-commerce over the period 2015-2020. It is also worth noting that for logistical reasons it was not possible to include Northern Ireland in the analysis, even though it is still de facto part of the Customs Union. However, this is assumed to have only a minimal impact on the overall figures.

⁵⁵ See <https://ecommercenews.eu/ecommerce-in-europe/#market>

For **regulatory costs**, the costs for SMEs of dealing with additional VAT registrations are relatively high (as described above). This means that the overall regulatory costs of having to register for VAT in another MS will increase, because the number of SMEs engaged in 'problematic' cross-border situations will increase as a result of the expected significant growth of the e-commerce sector

With regard to **compliance levels**, since many of the businesses involved are SMEs – many of which have limited administrative capacity – low-level non-compliance (by mainly micro- and small businesses) could be expected to increase to a certain extent as these types of transactions, undertaken by these types of business, become more prevalent. However, this would likely be minor, given that VAT registration was found to be playing only a small role in non-compliance and fraud at the time of writing.

More worrying are the potential Single Market impacts on SME activity. Given the relatively high costs that SMEs face to deal with additional VAT registrations, they find themselves more likely than larger businesses to organise their activities so as to avoid these registration obligations. In addition to acting as a brake on market activity overall, the continuation of the status quo could thus mean foregone market share and sales for SMEs, in comparison to larger businesses who are better equipped to comply with complex rules.

The OECD Unpacking E-commerce report released in 2019⁵⁶ showed that while large businesses participate in e-commerce more than SMEs, they tend to do it through Electronic Data Interchange (EDI), through which they directly exchange and trade with other businesses (B2B). In contrast, small businesses are more likely to participate in web sales, in particular B2C sales. According to the report, "84% of small e-commerce firms participate in e-commerce through web sales" and "66% of all small firms are using e-commerce to send to end consumers (B2C)" which is to be compared with 49% for medium-sized sellers and 41% for large sellers. Web sales account for more than 50% of the turnover of small e-commerce businesses, against 30% of the turnover of larger businesses. The expected increase of EU web sales over the next few years, including through electronic interfaces, will therefore largely arise from SMEs. For them, the complexity of VAT registration requirements may act as a hindrance to growth and the development of cross-border trade.

Other transactions and industries

Another industry which is likely to grow significantly over the next few years and which typically engages in transactions out of the scope of the OSS regime is that of electric vehicle charging. **The European electric vehicle charging market** including mobility service providers, technical operators, hardware, asset owners, energy management, and electricity and grid providers **is currently valued at about EUR 5 billion** and is projected to reach about **EUR 36 billion by 2030**, implying a massive growth rate of around 25% per year.⁵⁷ The fact that electric vehicle charging providers have to VAT register in every Member State where their customers charge their vehicles, as the supply of electricity is a supply of goods for VAT purposes, has been reported as a major barrier to growth for companies in this sector. The problem specifically relates to mobility service providers, and technical operators including software providers. Under the status quo (Option 1), barriers to enter new markets and to reach new Member States will remain due to ongoing VAT registration requirements for electricity suppliers.⁵⁸ This may especially lead to smaller businesses being outcompeted by larger

⁵⁶ https://www.oecd-ilibrary.org/science-and-technology/unpacking-e-commerce_23561431-en

⁵⁷ Arthur D Little, 'Electric vehicle charging in Europe', January 2021:

<https://www.adlittle.com/en/insights/viewpoints/electric-vehicle-charging-europe>.

⁵⁸ As explained in Section 2.3.2 above, the supply of electricity is considered a supply of goods made at the location of the charging station, which – depending on the Member State of establishment of the actors involved in the supply chain – can trigger a VAT registration requirement. See the VAT Committee Guidelines from the meeting of 19 April 2021.

businesses that have the resources and capacity to handle multiple VAT registrations. Eventually, the situation might even act as a barrier to the expected fast-paced growth of the sector.

The other transactions mentioned above, which will not fall under the scope of the OSS mechanism, are relevant to a large variety of industries and business types. **Chain transactions** are prevalent in multiple value chains including commodity trading, retail, as well as a range of manufacturing businesses that include chemical and energy (oil, gas, etc.), and can represent a significant share of turnover in some sectors. The **domestic B2B supplies of goods where the reverse charge does not apply** (transaction #2 in the above list) and the **domestic B2C supplies of goods made by non-established suppliers** (transaction #3), are both prevalent in specific market segments and cover very diverse types of transactions among which fuel supplied by fuel card operators (#2), machine rental businesses (#2) and construction/installation companies operating in border regions (#2 for B2B transactions, #3 for B2C). None of these transactions are expected to grow quicker than the rest of the economy over the medium and long terms, hence the challenges related to VAT registration requirements will remain similar. The category of domestic B2B supplies of goods where the reverse charge does not apply also includes supplies of goods after importation (e.g. a business importing into a Member State where it is not established, then supplying the goods either within that Member State or to a third Member State). However, these are typically carried out by MNCs (for which the requirement to register for VAT does not incur any additional burden in the Member States where they are already established) and usually do not represent a large part of such businesses' operations. Such transactions are also potentially covered by Article 194 in 15 out of 27 Member States, which removes the VAT registration requirement in the Member State of supply.

Finally, **exports from a Member State where the exporter is not established** (transaction #5) (assuming no transit arrangements are applied), and **domestic supplies of B2B services where the reverse charge does not apply** (transaction #6) are all considered marginal, affecting only specific transaction types in relatively small sectors: hand-crafted furniture dealers (#5) and companies providing passenger transport services, admission to events or catering services (#6). These last two transaction types are relatively rare on the scale of the EU-27 economy but may represent large parts of the activities of the companies that carry them out. Although the majority of Member States apply Article 194 for these supplies, not all of them do so, which can be an issue especially for businesses operating in border areas. None of these situations are expected to grow in importance in the foreseeable future, and the challenges and issues related to VAT registration for the businesses engaged in them are likely to remain the same under the continuation of the status quo.

Transactions already in the scope of the One-Stop Shop

Finally, it is important to highlight that those businesses carrying out *any* of the types of transactions that trigger the obligation to VAT register in another Member State need to do so, even if these only comprise a small proportion of their activities.⁵⁹ Given the diversity of transaction types involved, this means that the conditions in place under the status quo would allow relatively few businesses (e.g. 'pure' distance sellers storing goods in their Member State of establishment) to reduce their number of VAT registrations or expand without triggering new VAT registration obligations.

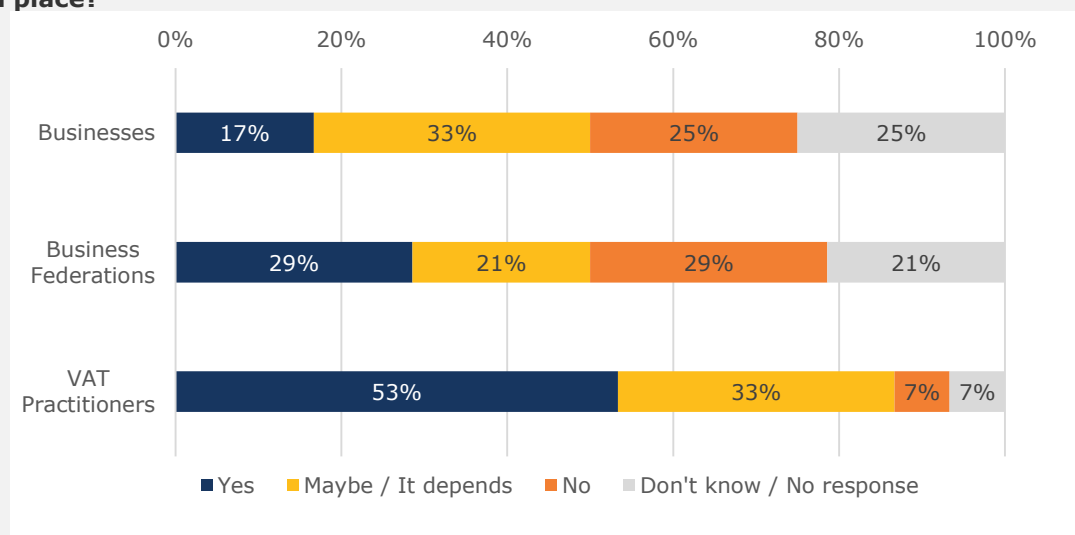
⁵⁹ Note that from 2025, the introduction of the VAT scheme for SMEs will stipulate that any such VAT registration obligations for SMEs will be limited to supplies in a given year over EUR 100 000.

Indeed, while this issue will need to be investigated further once the VAT e-commerce package has been in place for longer,⁶⁰ the evidence suggests that not all businesses carrying out eligible transactions will register for the OSS.

Box 12. The ongoing issue of VAT registration for OSS eligible transactions

When asked if they will cancel existing VAT registrations once it is in place, the businesses that are planning to use the OSS (or might be using it) are mostly undecided, with a majority of them saying that they might do it depending on the circumstances and if the OSS proves to be a useful and reliable tool (see Figure 8). Some pointed out that that they are already registered in multiple Member States and have already spent significant one-off costs on the registration process: they would rather keep their registration “in case” it proves convenient in the future, even though this implies incurring ongoing costs, rather than having to go through the registration process once again. Among business federations and VAT practitioners, views are a bit more favourable with 29% of the former and 53% of the latter believing that businesses will cancel VAT registrations once the OSS is in place and once any residual transactions are dealt with. Respondents noted that smaller businesses are more likely to cancel their registrations than larger businesses, for the reasons mentioned above.

Figure 8. Will you (businesses) be cancelling existing VAT registrations once OSS is in place?



Source. Targeted consultation.

While most businesses may be in wait-and-see mode until the OSS has been running for some time before cancelling their VAT registrations in Member States other than that in which they are established, it is expected that they will do so if the system is shown to work after one year or two. For new businesses which do not yet have any registrations in other Member States but whose activities may require so and fall within the scope of the OSS, they are even more likely to use it to avoid VAT registration and associated costs, in multiple Member States.

However, **any business activity that does not fall into the scope of the OSS may lead to the entire business having to register for VAT purposes.** This implies that businesses who engage in a mix of transactions, where one or some do not fall within the scope of the OSS, may have to VAT register for these specific transactions, which will make the OSS less valuable for their purpose. Some stakeholders even noted that the introduction of the OSS with a restricted scope would increase the complexity of their VAT compliance as some of the transactions would have to be reported as part of VAT returns while others would be reported as part of the OSS.

In addition to this, the OSS currently does not allow for any input VAT deduction, which is regarded by businesses as a major limitation. Consequently, businesses may not use the OSS even though their transactions are within its scope, simply to avoid having to use the VAT refund

⁶⁰ As noted throughout this report, the data collection for this study was conducted in Spring 2021, before the new e-commerce rules and OSS had been launched.

procedure(s) – Directive 2008/9/EC and the 13th VAT Directive. This challenge and the cash-flow implications of using the OSS will be elaborated further under Option 3.

To sum up, the **expected impacts of Option 1 are briefly described in Table 6**. Essentially, the existing problems would be expected to persist and, to a certain extent, get worse. This is because some of the types of transactions triggering VAT registration – especially those related to e-commerce – are increasing in prevalence. With regard to the scores, a '0' or '-' is given in each case. This does not mean that the situation will remain the same as at the time of writing. Indeed, for regulatory costs and the impact on the functioning of the Single Market in particular, the situation is expected to get worse. Rather, the scores of '0' indicate that Option 1 is the continuation of the status quo and thus forms the basis of comparison for the other policy options.

Table 6. Impacts of Option 1, continuation of the status quo

Policy option	Administrative burdens	VAT fraud and compliance levels	Functioning of the Single Market
Option 1: Continuation of the status quo	N/A The expected growth of the e-commerce sector (and other relevant sectors) implies that an increasing number of businesses, especially SMEs, will have to register for VAT in another Member State, leading to an increase in costs.	N/A Non-compliance and fraud levels related to multiple VAT registration are likely to remain as they are today, or to only marginally increase.	N/A The unlevel-playing field between SMEs and larger companies will persist and could become more prevalent as the value and volume of distance sales across the EU increase in the near future.

Source. Authors' own elaboration.

5.3.2. Option 2 – extension of the OSS to domestic supplies of goods B2C

By expanding the coverage of the OSS, this option would alleviate the need to VAT register for taxable persons engaging in the following transactions (transaction #3, see Section 2.3 for more details on each of them):

- **Domestic B2C sales of goods from warehouses or fulfilment centres by non-established suppliers** (degree of magnitude – 2); and
- **Other B2C supplies including:** *supplies with installation and assembly; supplies of goods made on board means of transport; supplies of gas, electricity, heat or cooling energy; supplies of goods on a weekly market by a vendor established in another country; supplies of goods made by a vendor when participating in an exhibition, trade fair or similar event in another Member State* (degree of magnitude – 2).

Importantly, this option would not obviate the need to VAT register for businesses engaging in transactions involving the movement of their goods to a Member State where they are not established before onward sale. This type of transaction is widespread and increasingly common among sellers using third-party electronic interfaces to market and transport their goods. A similar problem would prevail for supplies of goods on a weekly market by a vendor established in another country; supplies of goods made by a vendor when participating in an exhibition, trade fair or similar event in another Member State.

To explain, for such transactions, Option 2 would bring the final domestic B2C sales within the scope of the OSS. However, the *initial transfer of goods* itself involves an ICS followed by an ICA (i.e. the initial B2B leg of a B2B2C transaction). This triggers a VAT registration requirement in the country to which the goods are moved. **For these**

transactions, Option 2 would therefore be a first step in addressing the problem but has no impact in itself in reducing the need for VAT registration. To fully address this issue, Option 2 would need to be combined with Option 3a (see Section 5.3.3), which provides a mechanism for using the OSS to deal with the transfer of own goods. This way, both the 'transfer' and the 'domestic sale' parts would be covered, allowing businesses that engage in such transactions to avoid additional VAT registrations. The impacts of such a solution are discussed under Option 3.

Leading from this, it can be inferred that **the main impacts from Option 2 would derive from opening up the OSS to 'Other B2C' supplies i.e. domestic supplies of goods.** Most importantly given the relative magnitude of the different types of transactions included in this category, **Option 2 would solve the issue of VAT registration for those cross-border supplies (in the sense that the supplier is not established in the Member State where the VAT is due) whose place of supply is in the destination country.** This includes the supply of electric vehicle charging.

While the situations covered could appear minor, lifting the distortion that results from the need to VAT register in each Member State where customers charge their vehicles and continue to file VAT returns in all those Member States would clearly have **major impacts on those providers, improving their profitability and ability to grow.** Evidence from the targeted consultation suggests that the availability of the OSS would decrease providers in this industry's VAT compliance costs significantly (reportedly more than 30%), although some complexity would still remain in case of the recovery of any deductible input VAT incurred in Member States where companies are not established.

It is not foreseen that Option 2 would significantly impact the levels of fraud and non-compliance, since compliance is usually high. However, since they cannot currently serve customers in Member States where they are not VAT registered, Option 2 may allow them to expand their business operations outside their Member State of establishment. Evidence also suggested that the option would generally lead to a strong increase in intra-EU transactions and, therefore, a strengthening of the Single Market.

Option 2 would also cover other domestic B2C supplies (of goods), generating positive impacts for certain, albeit limited, market segments. Only 26% of the businesses interviewed as part of the targeted consultation considered that Option 2 would make a difference to their activities⁶¹. The impacts would be concentrated among taxable persons operating in border regions, which tend to be self-employed individuals or businesses of relatively small size operating in the sectors of construction and installation/assembly. This implies that the obligation to VAT register in another Member State could act as a barrier that could either put a financial burden on the companies or this could prevent them pursuing new customers, or incentivise them to 'stay under the radar' and not fully comply with their VAT obligations, for example by reverting to undeclared work. In this sense, Option 2 would have a significant impact on their activities by allowing them to reduce their VAT compliance costs and diminish fraud incentives. However, evidence shows that such activities barely exist beyond small, 'niche' markets, indicating that the impact on the Single Market would be on the margin.

To sum up, the **expected impacts of Option 2 are described in Table 7.** A minor but noticeable improvement compared to the status quo is expected in terms of VAT registration and compliance costs. However, because this option would only affect a small number of transactions, where there were not previously major problems of compliance or market functioning, the positive impacts in this area would not be more than marginal.

⁶¹ In the targeted consultation, 63% of businesses said Option 2 would not make any difference and 11% expressed no opinion / did not know. However, most of the businesses interviewed in our sample did not have any activity relevant to the two types of transactions that would fall under Option 2. This reflects the small sizes of the markets and sectors at play here.

Table 7. Impacts of Option 2, extension of the OSS to domestic supplies of goods B2C

Policy option	Administrative burdens	VAT fraud and compliance levels	Functioning of the Single Market
Option 2: extension of the OSS to domestic supplies of goods B2C	+	0	+
	The number of market segments and transactions affected are relatively small and relate mainly to electric vehicle charging, passenger transport services and certain companies operating in border regions. However, for these specific market segments, the costs associated with VAT registration would decrease meaningfully.	Under this option, compared to the levels of non-compliance and fraud related to multiple VAT registrations, these levels are likely to remain as low as they are today, or to decrease slightly for very specific businesses and situations.	The impact will be restricted to very specific sectors and markets, and is not expected to lead to any sizeable impact on the functioning of the Single Market as a whole.

Source. Authors' own elaboration.

5.3.3. Option 3 – extension of the OSS to remaining B2C supplies of goods and B2B supplies by non-established persons

Option 3 would incorporate the extension of the OSS to B2C supplies of goods described in Option 2, while further opening it up to B2B supplies. Given the complexity of B2B transactions from a VAT perspective, Option 3 is comprised of three distinct sub-options, as follows:

- **Option 3a:** extends the use of the OSS to intra-Community supplies and ICAs, in situations where these relate to the first leg of the B2B2C transactions, which are increasingly important in e-commerce, namely **transfers of goods cross border and subsequent domestic supplies** (transaction #1.a), **B2B2C sale of goods first acquired in a Member State where the supplier is not established** (transaction #1.c – importantly since the customer is not known in advance, this option also covers similar B2B2B transactions), and other residual domestic supplies of goods (transaction #3⁶²); transfers of own goods for other business purposes are addressed in Options 3b and 3c);
- **Option 3b:** would be combined with Option 3a to increase coverage of the OSS to all B2B supplies of goods and services (additional transactions covered include #1.a transfer of own goods cross border – when not part of a B2B2C transaction, #1.b chain transactions, and #2 domestic supplies of goods B2B where the reverse charge does not apply), while **leaving the current VAT refund mechanisms** in place; and
- **Option 3c:** has the same coverage as Option 3b, while **adding a mechanism to deduct via the OSS any input VAT** incurred in other Member States.

Of these, Option 3a could either be taken forward on its own or combined with either Option 3b or Option 3c as part of a future policy choice. Importantly, as explained in Section 4.2.1 on the policy options, **all three of these sub-options would entail significant changes to the OSS mechanism and therefore generate significant IT development costs at EU and national levels, as well as related implementation costs**, which would vary depending on the precise modalities chosen. For example, the traceability and information-sharing required for Option 3a could be addressed either as part of the DRRs examined in Part 1 of the study or with a dedicated EU-level IT system. Such costs would need to be assessed in depth and weighed against

⁶² Specifically, the supplies that would be covered are supplies of goods on a weekly market by a vendor established in another country; supplies of goods made by a vendor when participating in an exhibition, trade fair or similar event in another Member State

the benefits described below as part of a decision to move forward with any of these sub-options.

Under Option 3a, the B2B element of B2B2C transactions frequently taking place in e-commerce would be covered with the OSS, hence (since this option also includes the changes described under Option 2) **eliminating the VAT registration requirement** for companies engaging in two important types of transactions, namely the transfer of goods cross-border followed by domestic sales (similar B2B2B transactions would also be covered, with the final sale being accounted for using the reverse charge as per Article 194), and the B2B2C sale of goods first acquired in a Member State where the supplier is not established (a type of transaction common in the drop-shipping business model). According to VAT experts interviewed for the study, the magnitude of drop shipping was difficult to estimate but deemed prevalent in certain market segments (i.e. score of 2 out of 3) and likely to increase in prevalence in the context of the overall growth of the e-commerce sector.

As discussed under Option 1, the **transfer of goods cross-border followed by a domestic supply is a very significant and growing type of transaction** with regard to so-called 'third-party suppliers' selling via electronic interfaces in the e-commerce sector, representing billions of EUR in turnover per year. These tend to be small or very small companies⁶³, for which having to VAT register abroad can be a prohibitive burden (or lead to non-compliance or fraud).

First and foremost, via the mechanism described in Section 5.2 above, **administrative burdens would decrease** substantially for the many businesses involved in these types of transactions. This would make it easier to deal with the rules, hence **increasing compliance levels**. Fraud would also decrease, but only to a minor extent given that little evidence emerged to suggest that VAT registration requirements played a role in outright fraud (compared to errors, such as businesses applying the VAT of their 'home' Member State).

By reducing the costs for small suppliers to register for VAT in other Member States when engaging in a transfer of goods, Option 3a **is also likely to positively impact the functioning of the Single Market by lowering practical barriers to intra-EU distance-selling**. A Eurostat consumer survey conducted in 2020 showed that, while 90% of EU consumers had made a recent purchase from a national e-seller, *only 30% had done so from other EU sellers*. The figure for non-EU sellers was 21%. While the disparity between domestic and international distance sales is caused by numerous factors, it shows the potential for significant growth, particularly given that the rise of e-commerce is expected to continue. This was confirmed by a recent report forecasting that B2C cross-border e-commerce within the 16 Member States of Western Europe and Scandinavia would increase from EUR 146 billion in 2020 to EUR 220 billion in 2022, which represents an increase of +51%⁶⁴.

Option 3b would extend the OSS to *B2B* transactions (except for the transactions preceding B2C transactions addressed in Option 3a). In practice, this means that any cross-border sales made by a business supplier to another business would fall within the scope of the OSS, hence not requiring VAT registration. Such transactions are very prevalent in the Single Market. According to the Unpacking E-commerce OECD report (2019), "business-to-business (B2B) transactions still account for the lion's share of e-commerce transactions". The number and share of B2B e-commerce transactions vary a lot from one sector to another: more than 95% of the sales from manufacturing companies engaged in e-commerce are made to B2B buyers, as opposed to 35% in the

⁶³ Recent figures show that 73% of businesses selling on the US Amazon marketplace have 1 to 5 employees; 10% have 6 to 10 employees; 10% have 11 to 50 employees; 3% have 51 to 100 employees; and only 4% have more than 100 employees. Source: <https://www.statista.com/statistics/886904/amazon-seller-business-size-by-employees/>

⁶⁴ See: <https://ecommercenews.eu/25-5-of-e-commerce-in-europe-is-cross-border/>

retail sector. B2B e-commerce sales amount to about 90% in the construction sector, 75% in the transportation and storage sector, 50% in telecommunications and real estate, and 40% in accommodation and travel.

The **potential impact of this option would vary considerably by Member State**, due to the diversity in application of the optional reverse charge for non-established suppliers (Article 194). For B2B transactions involving non-established suppliers where the reverse charge is already applicable, the impact is likely to be minimal. This is both because there is no present VAT registration obligation, and because stakeholders typically prefer the reverse charge to the OSS (since it avoids that the supplier needs to ascertain the amount of VAT due, charge it to customers, pay and declare it on their VAT return). Furthermore, the supply is not subject to VAT (i.e. no VAT is collected by him) at the level of the supplier where the reverse charge applies, meaning no negative cash flow effects.

However, as explained in Section 2.3, Article 194 is not applicable to all B2B transactions involving non-established suppliers in all Member States. In certain Member States (including France, Poland and Belgium), it is very widely applied. Others do not apply Article 194 at all (including Greece, Luxembourg and Slovenia), while numerous Member States (including Austria, Denmark and – crucially – Germany) limit its use to certain transactions, such as supplies of goods with installation. In these Member States, Option 3b would provide a means to avoid VAT registration for a significant (though difficult to determine) number of companies, meaning an important potential to make an impact.

This sub-option would also cover **chain transactions**, which are prevalent in many different sectors (such as construction, and commodities trading) where they can account for a significant share of businesses' turnover. Based on the targeted consultation, the overall value of chain transactions across the EU-27 is estimated to amount to EUR 80-100 billion, corresponding to roughly 30 million transactions a year⁶⁵. The businesses engaged in chain transactions are typically of medium-to-large-sized and cross-border transactions are often at the core of their activities. For this reason, they tend to be registered in multiple Member States for numerous operational and administrative reasons. Lifting VAT registration requirements would in principle only have a marginal impact on their activities, as these do not act as binding constraints for them to engage in new transactions and pursue new markets. As a result, fraud and non-compliance levels are likely to remain the same for businesses engaged in chain transactions, while the EU-27 economy should not be significantly impacted.

More broadly, the likely uptake of the OSS under this sub-option is very limited because of **the perceived cash flow implications of using the OSS for B2B sales**. In contrast with the transactions covered under Option 3a, the B2B transactions covered under Option 3b would in fact involve significant input VAT to be deducted by suppliers. The targeted consultation showed that businesses would be unlikely to use the OSS in this form for such transactions. This is because a business using the OSS would have to first pay the VAT through the OSS then claim any VAT locally incurred through the VAT refund procedure (Directive 2008/9/EC, or the 13th VAT Directive, for non-EU established businesses), as explained in Section 2.3. Many interviewed businesses expressed the view that they avoid the VAT refund mechanism(s) where possible, and that for businesses repeatedly incurring deductible input VAT in specific Member States, maintaining a local VAT registration was often preferable, where possible or required. Moreover, opting into the OSS means that a business is obliged to declare all eligible transactions in the OSS, although the registrations could be maintained for non-OSS eligible transactions. None of the interviewed businesses expressed a willingness to do this as part of Option 3b. This implies that the **impact of Option 3b would be marginal at most, with no discernible effects on costs for businesses, compliance levels or the functioning of the Single Market**. That said, some

⁶⁵ These figures are based on consistent estimates provided by national tax authorities from two Member States.

interviewed businesses could envisage potentially using it if the VAT refund mechanism was streamlined at the EU level, which would imply simplifying requirements, shortening the delays to obtain VAT refunds, allowing monthly claims in all Member States, etc.

In other words, lifting the VAT registration requirement alone may not solve the problem if the burden of claiming back input VAT through the VAT refund mechanisms (Directive 2008/9/EC or the 13th VAT Directive) is deemed higher than the burden of VAT registering and filing local VAT returns. **Due to the impossibility to deduct input VAT through the OSS mechanism, the uptake of Option 3b would likely be very limited.** It is by itself unlikely to lead to any significant reduction of VAT compliance costs for businesses, and as a result will have no sizeable impact on fraud and non-compliance levels, or on the functioning of the Single Market.

Option 3c would cover the same types of transactions as 3b, but also introduce an input tax deduction mechanism within the OSS. For transactions reported in the OSS, this would allow businesses to use it to, in addition, claim back the deductible input VAT incurred in a Member State where they are not established. This is expected to make the OSS more attractive for businesses carrying out applicable B2B transactions, as the impossibility to deduct VAT through the OSS was perceived as a major stumbling block, as explained above for Option 3b.

The **impacts of this option are thus likely to be considerable, especially in those Member States where Article 194 is not (widely) applied currently.** This take-up is likely to generate a noticeable reduction in VAT registration and compliance costs, and a commensurate increase in compliance levels as the incentives for non-compliance (and the likelihood of intentional non-compliance) are reduced. In terms of impacts on the functioning of the Single Market, this option could result in businesses, especially SMEs, pursuing new types of transactions.

However, the **feasibility of this option has been questioned.** This is because it would entail the Member State of establishment deciding on the quantum of deductible VAT incurred in another Member State. This is technically challenging, because VAT deduction rules vary by country and the tax authorities of Member State A cannot be expected to be experts on the legislation of Member State B. Tax authorities also considered this risky, both because they would be obliged to make financial outlays based on decisions made outside their country, and because of the practical barriers to conducting audits and controls on companies based in other Member States. Indeed, several stakeholders pointed out similarities between this option and the Definitive VAT system, whose adoption is presently stalled due to comparable issues.

To sum up, the **expected impacts of Option 3 are briefly described in Table 8.** As shown, the most important impacts, of the three sub-options, would be expected from Option 3a, because this would address the major issue of B2B transactions forming the first part of B2B2C transaction common in e-commerce. In contrast, hardly any discernible impact is envisaged from Option 3b, mainly because issues concerning input VAT deduction are likely to render it unattractive for businesses. Option 3c would resolve these issues by incorporating a deduction mechanism into the OSS, leading to meaningful impacts for suppliers of transactions where the reverse charge is not already available. Importantly, for the sake of clarity the table focuses on the impacts that are **additional to those described under Option 2**, which would also be included if any one of Option 3a, 3b or 3c were to be implemented.

Moreover, of the sub-options in Option 3, **a future policy choice could include only Option 3a, or Option 3a and Option 3b or 3c.** Indeed, combining Option 3a and 3c would be expected to generate greater benefits than Option 3a alone, by bringing more transactions into the scope of the OSS. However, the relative advantages of this would need to be compared with Option 4 (or indeed a combination of Option 3a and 4), which is done in Section 5.5 below. It should be noted that, since Option 3 includes Option 2, and that impacts would be cumulative, the scores shown are the sum of expected

impacts both from each sub-option of Option 3 and Option 2 (i.e. '+' for administrative burdens, '0' for VAT fraud and compliance levels, and '+' for functioning of the Single Market).

Table 8. Impacts of Option 3, extension of the OSS to remaining B2C supplies of goods and B2B supplies

Policy option	Administrative burdens	VAT fraud and compliance levels	Functioning of the Single Market
Option 3a: extension of the OSS to transfers of own goods cross border and chain transactions	++ Due to a reduced need for VAT registrations, a significant reduction in the costs incurred by small suppliers engaged in intra-Community supplies and ICAs as part of their e-commerce activity is expected.	+ Compliance is made easier and likely to improve among SMEs, especially those engaging in intra-Community supplies and ICAs as part of e-commerce operations. Fraud could decrease too although fraudulent businesses are likely to remain so.	++ Noticeable improvement of the level-playing field between small businesses and larger players of the e-commerce sector. Positive impact on intra-EU trade.
Option 3b: extension of the OSS to all B2B supplies of goods and services	0/+ Virtually no impact as very few businesses would use the OSS for B2B transactions (cash-flow implications, especially since businesses opting in would need to use the OSS for all eligible transactions).	0 No expected impact on fraud due to lack of uptake of the OSS by eligible businesses.	0/+ No expected impact on the functioning of the Single Market due to lack of uptake of the OSS by eligible businesses.
Option 3c: same coverage as Option 3b with the inclusion of a mechanism to deduct input VAT via the OSS	++ Meaningful positive effects as the OSS could be used for any B2B supply where the reverse charge mechanism is unavailable (concentrated in certain Member States), lifting the obligation to VAT register in another MS.	+ Non-compliance and fraud could be expected to decrease to a limited extent, in line with expected uptake of the OSS in certain Member States and for certain Member States where the reverse charge is not currently possible.	++ For the market segments and Member States involving suppliers able to avoid VAT registration by using the OSS, increased VAT neutrality and some improvements to the functioning of the Single Market and trade can be expected.

Source. Authors' own elaboration.

5.3.4. Option 4 – mandatory reverse charge for B2B supplies by non-established suppliers

Option 4 presents a practical and simple means of removing VAT registration obligations for the transactions discussed under Options 3b and 3c above, namely the B2B supplies of goods and services not addressed in Option 3a. Option 4 entails making the (currently) optional reverse charge (Article 194) mandatory for all B2B supplies by non-established persons.⁶⁶ This option, like Option 3b, would solve the VAT registration requirement for domestic supplies of goods and services where the reverse charge

⁶⁶ An exception would be for non-taxed or exempt supplies, for which the reverse charge cannot be used.

currently does not apply. However, it would not address any issues for suppliers incurring deductible input VAT in Member States where they are not VAT registered. It would also not cover transfers of goods cross-border or chain transactions, as Article 194 only covers B2B supplies of goods or services made by non-established businesses. For businesses engaging in transfers of goods cross-border or in chain transactions, to avoid having to register for VAT in a Member State where they are not established, Option 4 would need to be combined with Option 3a.

The reverse charge mechanism under Article 194 was generally viewed favourably by the companies interviewed as part of the targeted consultation (despite the current lack of harmonisation of its scope and conditions of application across Member States). Multiple businesses noted that the largest share of VAT compliance costs on the B2B side relate to filing VAT returns and keeping up to date with VAT rates and obligations in the other Member States where their clients are located, which would disappear if using the reverse charge. In this sense, the **extended use of the reverse charge would generate a significant reduction in business costs.**

With regard to **non-compliance and fraud the impacts are less clear**; expanding the reverse charge mechanism could reportedly **help reduce carousel (or missing trader) fraud**, with some national tax authorities mentioning they implemented the mechanism in certain sectors for the purpose of fighting it. Another reason for tax authorities to be keen to use the reverse charge, as opposed to using the OSS for B2B transactions, is that the former would normally make them deal with national businesses (i.e. the customers of the non-established suppliers) established in their own Member State, about which they know more and which they can control and audit more easily.

However, other respondents, mostly national tax authorities and VAT practitioners (as well as a few businesses and federations) expressed the concern that, **because the reverse charge mechanism breaks the VAT chain (which normally involves each supplier in a value chain charging and paying VAT), the risk of fraud could increase.** More specifically, they explained that, by shifting the fiscal responsibility of declaring transactions away from the seller, the reverse charge would place the responsibility of compliance on a single actor (the buyer) rather than on both actors (the buyer and the seller), thereby limiting the possibility of cross-checking fiscal information. That said, if DRRs are implemented (as explored in Part 1 of the study), this could allow tax authorities to quickly verify the details of a transaction and thereby facilitate such cross-checking.

Importantly, this increased risk of fraud was particularly associated with certain, relatively rare types of situations. For example, where the customer is (also) non-established in the destination country, the tax authority could perceive a reduced ability to identify and sanction non-compliance. Similarly, controls could become more difficult in specific situations, such as B2B chain transactions ending with a B2C transaction that might be paid in cash or not declared. Overall, tax authorities felt that these problems could be avoided – and risks of fraud minimised – if the application of Article 194 were to be harmonised across all Member States and coordination between tax authorities improved.

With respect to the **effects on the functioning of the Single Market, the transactions that would fall under Option 4 are considerable**, especially in Member States where Article 194 is not (widely) applied. This also includes certain transactions where the reverse charge is not typically used at all, including for example importations followed by a local supply, and supplies of fuel through fuel card providers, are prevalent in specific market segments.

Leading from this, Option 4 could lead some businesses to pursue certain types of transactions that are currently too costly for them due to VAT registration requirements. Since VAT registration is likely a decisive factor mostly for SMEs with limited cross border turnover, it could reduce barriers to market entry for these operators. For large

companies Option 4 would likely have the effect of reducing costs without leading to any major impacts on the functioning of the Single Market as a whole.

In summary, **Option 4 is expected to generate meaningful positive impacts, as described in Table 9.** The effects on VAT compliance costs (from reduced administrative burdens), fraud and on the wider market are expected to be beneficial and concentrated on businesses operating in the Member States, or carrying out certain types of transactions, where the reverse charge is not currently possible. While some stakeholders expressed concern about risks of fraud, it seemed likely that these could be minimised by streamlining the rules for the application of the reverse charge mechanism across all Member States in a way that would reduce discrepancies between them.

Table 9. Impacts of Option 4, mandatory reverse charge for B2B supplies

Policy option	Administrative burdens	VAT fraud and compliance levels	Functioning of the Single Market
Option 4: mandatory reverse charge for B2B supplies by non-established suppliers	++ The use of the reverse charge mechanism would significantly reduce VAT compliance costs for some businesses, where there is currently no access to Article. 194.	+ The reverse charge is useful for helping to detect and reduce certain types of fraud (e.g. carousel fraud) while possible risks noted by some tax stakeholders could be minimised by streamlining the rules for Article 194 across Member States and improving coordination between tax authorities, inter alia through DRRs.	++ Option 4 could have a noticeable effect on specific markets and sectors, particularly the situations that currently do not fall under Article. 194, and in the Member States where it is currently not applied (or only narrowly), while having a limited impact elsewhere. Besides, given the limited role of VAT registration in business decisions, the overall impacts on the EU economy would be minor.

Source. Authors' own elaboration

5.4. Analysis of impacts of: Options related to the implementation of the Import One-Stop-Shop

Since 1 July 2021, it is possible to declare through the IOSS distance sales of goods imported into the EU from third countries and third territories, thereby lifting the obligation for suppliers to be registered in the Member State of destination of the goods. Combined with the simultaneous introduction of the deemed supplier rule – which makes electronic interfaces liable to collect, report and remit the VAT due from the consumer when they facilitate distance sales of imported goods (not exceeding EUR 150 in value) of their third-party sellers⁶⁷ – the IOSS is expected to reduce the scope of situations requiring VAT registration compared to the conditions that prevailed previously. Indeed, a large share of distance sales of imported goods into the EU, especially when made by small or medium size businesses (whether established in the EU or not) are made through electronic platforms or interfaces. The deemed supplier rule will therefore transfer the obligation to VAT register from third-party sellers to electronic interfaces (if all of the relevant conditions are met), thereby considerably reducing the number of businesses that are required to VAT register in a Member State where they are not established.

In any case, the recent nature of these key changes **makes it very difficult to establish a baseline against which potential future changes could be compared.**

⁶⁷ Another simplification which was introduced with the new rules are the Special Arrangements, whereby in case the supplier is not registered in the IOSS postal operators or express carriers may collect the import VAT and remit it to tax authorities on a monthly basis.

It also proved virtually impossible for stakeholders to express their views, due to the timing of the study, on the potential expansion of the scope of the IOSS, or to provide estimates of the likely effects that the changes brought into effect on 1 July 2021 would have on VAT collection in the short, medium and long runs. Given that most respondents to the targeted consultation were in wait-and-see mode and thought the current system would need to be thoroughly assessed before thinking of making any changes to it, the analysis of impacts presented below is partly speculative and based on the limited information and insight available at the time of writing.

5.4.1. Option 1 – IOSS status quo as of 1 July 2021

Under the continuation of the status quo, this situation will be maintained and only the transactions that do not fall within the scope of the IOSS will trigger the obligation to VAT register in a Member State where the supplier is not established: the distance sales of goods imported by the supplier from a third country/territory **with an intrinsic value exceeding EUR 150, or products subject to excise duties, or means of transport.**

As shown in Table 10, the total value of distance sales of imported goods into the EU is estimated at about EUR 25 to 30 billion, of which 80 to 90% is estimated to originate from non-EU suppliers.⁶⁸ Findings from the targeted consultation also indicated that goods with a value higher than EUR 150 or subject to excise duties amount to 10-20% of the total value of distance sales of goods into the EU. Although this share can seem low, it still **represents up to EUR 6 billion a year of transactions that trigger the need for suppliers (if they act as the importers) to register for VAT in the Member State of destination**, an amount that can be expected to grow at a similar rate as e-commerce over the next few years. While reliable estimates on future e-commerce trends are scarce, the sustained growth observed over the past years in the EU-27 is unlikely to slow down. This is especially true in light of the Covid-19 pandemic which has resulted in a large increase of e-commerce sales worldwide and in the EU (13% revenue increase between 2019 and 2020⁶⁹). As mentioned in the previous section of this report, the e-commerce sector has been growing at more than 10% a year since 2015 in the EU. If this trend were to continue over the next several years, the total value of distance sales of goods of an intrinsic value greater than EUR 150 into the EU could amount to more than EUR 10 billion a year in five years and to EUR 15.5 billion a year in ten years time.

⁶⁸ This figure is based on estimates from national tax and customs authorities, postal operators and VAT practitioners from the targeted consultation. A majority of stakeholders noted that these are only rough estimates since the supplier's origin is not known by customs authorities and therefore it does not appear in national statistics (whether the supplier originates from the EU or not).

⁶⁹ See: <https://ecommercenews.eu/ecommerce-in-europe/#market>

Table 10. Total value of distance sales of imported goods into the EU-27, EUR billion

Distance sales of imported goods	Total across the EU-27	Not exceeding EUR 150	Above EUR 150
Total	25 - 30	22 - 25	3 - 5
By EU businesses	3 - 5	3 - 5	< 1
By non-EU businesses	22 - 25	19 - 20	3 - 5

Source. Authors' own elaboration and calculations based on findings from the targeted consultation and Deloitte's VAT Aspects of cross-border e-commerce report (2015).

Given the foreseen growth in e-commerce and distance sales from outside the EU, the consequences identified in Section 3.4 above are like to remain and even become gradually worse. With regard to **regulatory costs**, this means that a substantial number of third-country suppliers (i.e. those whose transactions are ineligible for the IOSS) will continue to need to obtain and hold VAT registrations in one or more EU Member States. In cases where the business is not willing or able to obtain a VAT registration, customers (or the postal operators or express courier services) will need to deal with the VAT collection/payment (and any customs formalities) themselves.

More importantly, as has been the case in recent years, the **main concern will continue to be fraud and non-compliance, along with any knock-on distorting market effects** for EU businesses facing price competition from non-compliant suppliers. Given the limited amount of time since the new rules and IOSS were launched (and the fact that the study fieldwork took place beforehand), it is very difficult to estimate the baseline level of VAT fraud and non-compliance post 1 July 2021. Prior to 1 July 2021, the e-commerce VAT fraud gap was estimated at about EUR 5 billion per year. The introduction of the deemed supplier rule, combined with the elimination of the EUR 22 threshold below which import VAT was generally not due, were aimed to tackle this.

Again with regard to the early state of implementation, it is understandable that most stakeholders voiced uncertainty about the extent to which the IOSS would reduce fraud. That said, **early anecdotal evidence has been positive**, with tax and customs authorities reporting high uptake of the IOSS and reduced numbers of suspicious parcels. This was attributed in part to the deemed supplier rule (which makes platforms collect and pay VAT on behalf of suppliers) and the new requirement for customs declarations to be submitted for all small consignments imported under e-commerce (albeit allowing a 'super reduced' data set with limited information).

Nonetheless, they felt that capacity constraints would continue to be a problem, given the huge volume of parcels and limited ability to target and carry out sufficient controls. Suppliers and / or electronic interfaces are also still facing an incentive to under-value parcels, with a view to reducing the amount of VAT (and – outside of the IOSS system – customs duties) to be paid. **Particular concerns related to non-EU electronic interfaces and non-EU businesses**, who might still try to subvert the rules. This is not to suggest that all of the EUR 19-20 billion of distance sales of imports by non-EU businesses is prone to fraud. Rather, fraud is more likely for certain consignments than for others.

The lack of detailed studies precludes any confident estimates, but **the few available sources do allow for an idea of the order of magnitude**. Firstly, it is assumed that sales of goods with an intrinsic value not exceeding EUR 150 are more prone to fraud, since these are subject to fewer formalities and checks than larger consignments. Fraud is also more likely on products coming from certain countries than others, and from smaller businesses as opposed to larger ones. Piecing together the figures, the possibilities for fraud would appear to be concentrated within around EUR 4 – 6 billion

of distance sales from non-EU businesses, of which the proportion that is actually fraudulent probably much lower.⁷⁰

From a **market perspective**, this situation could disrupt the level-playing field between EU and non-EU businesses, by making it easier for non-EU businesses to evade VAT and thereby compete unfairly on price. As for the transactions taking place through electronic interfaces, the deemed supplier rule is expected to largely restore the level-playing field between legitimate and illegitimate suppliers by transferring the liability to collect, report and remit VAT onto electronic interfaces. Electronic interfaces, by their nature, size and capacity, are indeed much more likely to be VAT compliant than third-party sellers (whether established in the EU or not). Although non-EU electronic interfaces may, for similar reasons as third-party sellers, have lower incentives to comply with their VAT obligations than EU electronic interfaces, thereby leaving opportunities for fraud and non-compliance by non-EU, and to a lesser extent EU sellers, early evidence suggests that large non-EU electronic interfaces have all registered in the IOSS.

Related to this, some stakeholders expressed concerns about illicit traders potentially abusing the IOSS mechanism to fraudulent ends. In particular, large electronic interfaces worried that their IOSS registration numbers could be used fraudulently by shadow operators to declare their own transactions under the identity of compliant businesses.

In summary, the continuation of the status quo on the IOSS is expected to have the following impacts, as described in Table 11. While the new rules in place since 1 July 2021 have resolved significant issues related to VAT compliance costs and non-compliance, and levelled the playing field between EU and non-EU suppliers, issues do remain which are likely to increase over the short and medium terms due to the increases in the volumes and values of distance sales of imported goods into the EU, led by the general surge of e-commerce sales.

Table 11. Impacts of IOSS Option 1

Policy option	VAT registration and compliance costs	VAT fraud and compliance levels	Functioning of the Single Market
IOSS Option 1: status quo as of 1 July 2021	N/A Although VAT registration and compliance costs will likely remain the same under the status quo, the increase of distance sales of imported goods from e-commerce imply that more and more parcels, transactions (and businesses) will fall out of the scope of the IOSS and trigger the obligation to VAT register.	N/A The current rules, despite making compliance easier, are likely to reduce fraud to a certain extent but will not make it disappear. The expected growth of distance sales imported into the Single Market imply that more opportunities for non-compliance and fraud will arise.	N/A Ongoing opportunities for non-compliance and fraud, especially for non-EU suppliers and electronic interfaces, imply that the level-playing field between EU and non-EU businesses may deteriorate going forward and hamper the competitiveness of EU businesses.

Source. Authors' own elaboration.

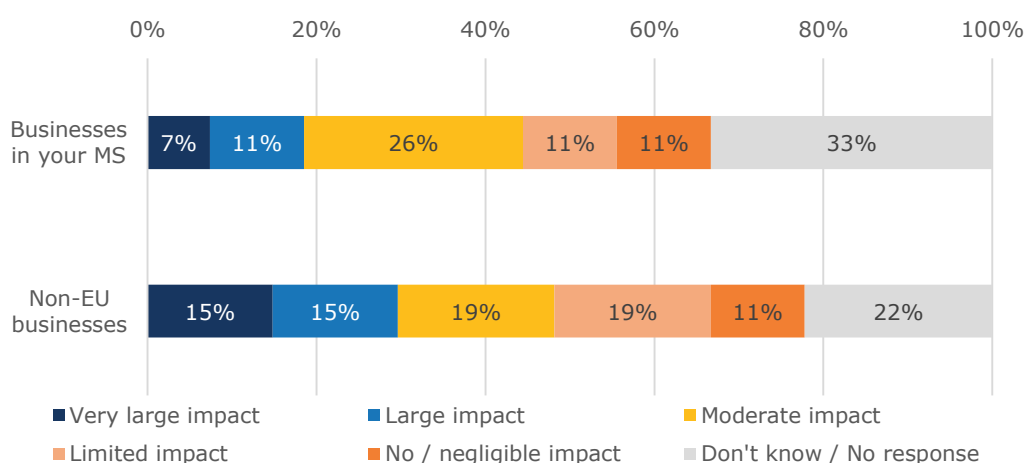
⁷⁰ To explain further: as per the table above, about EUR 19 – 20 billion of distance sales of imports are from non-EU businesses. Of this, around half (i.e. EUR 9.5 – 10 billion) can be assumed to be from smaller businesses. Regarding countries of supply, a recent study (though focused only on Finland) indicates that around half of e-commerce sales from outside the EU are from China (24%) and countries other than the US and UK (21.5%) – i.e. 45.5% in total. This leads to an estimate of roughly half of the EUR 9.5 to 10 billion, i.e. EUR 4.3 – 4.55 billion. Source for the breakdown of e-commerce by country: [The volume of e-commerce from non-EU countries was lower than expected last year \(helsinkitimes.fi\)](https://helsinkitimes.fi).

5.4.2. Option 2 – removal of the EUR 150 threshold and / or extension to excise goods

IOSS option 2 would remove the EUR 150 threshold for use of the IOSS, thereby potentially removing the VAT registration requirement for sellers of higher-value goods. While goods above the value of EUR 150 still need to be declared and processed for customs purposes, this would be expected to reduce the administrative burden to a certain extent. As mentioned earlier, distance sales of goods worth more than EUR 150 together with goods subject to excise duties (and means of transport) imported from third countries/territories make up around 10-20% of B2C e-commerce in the EU, as suggested by the targeted consultation. It is possible that the lifting of the threshold will lead to at least a small increase in trade, but not to any foreseeable, substantial extent. A similar logic would hold for excise goods, if this option were used to open up the IOSS to them. However, the likely impact would be limited, given the small size of the market (estimated at EUR 56m in 2019⁷¹) and existence of numerous other administrative requirements that vary by type of excise good and Member State.

As part of the targeted consultation, 92% of tax authorities deemed the EUR 150 threshold 'appropriate' while only 8% thought it 'too low'. In terms of businesses, though half of them didn't express any opinion on the threshold, among those who responded, 76% deemed it appropriate, 24% too low. Only a handful of VAT practitioners and business federations deemed it too high. When asked whether the EUR 150 threshold impacts the risk of non-declaration, no tax authority responded 'to a large' or 'very large' extent. This reflects the common view that the current level of the IOSS threshold, which corresponds to that of full customs declarations, is relevant (or that the implementation of the IOSS is too recent to show evidence of the contrary). When asked whether the removal of the IOSS EUR 150 threshold would make a difference to the activities of EU and non-EU businesses importing goods into their Member State, the views of national authorities were mixed, as shown in Figure 9. While the possibility of opening the IOSS to excise goods was not raised in the targeted consultation, it stands to reason that similar replies could have been expected, given that, like goods over the EUR 150 threshold, excise goods are subject to various rules beyond VAT.

Figure 9. Effects of removing the IOSS threshold on businesses – views of tax authorities



Source: Targeted Consultation.

⁷¹ Study assessing articles 32 and 36 of Council Directive 2008/118/EC concerning the general arrangements for excise duty, PwC, 2020.

Tax authorities expressed heterogeneous views on the removal of the EUR 150 threshold, reflecting an expectation of some impact along with considerable uncertainty. Indeed, businesses themselves, business federations and VAT practitioners, did not express strong views as to the impact of removing the threshold on costs for businesses.

With regard to fraud and non-compliance, it is unlikely that the availability of the IOSS would encourage non-compliant traders to fulfil their obligations, since **customs obligations related to import declarations and payment of customs duties will remain for all parcels valued at more than EUR 150**,⁷² as well as for excise goods. In other words, even with the IOSS it would be difficult to fast-track consignments comprised of such goods using the IOSS. Moreover, expanding the IOSS on its own would do nothing to address issues faced by customs administrations, which have had trouble targeting and carrying out effective controls on distance sales. Accompanying an expansion with coordinated improvements to customs processes (including e.g. more data-sharing between tax and customs authorities – cf the proposals on DRRs in Part 1 of this study, electronic manifests and pre-clearance) could be expected to have a more important effect.

As with IOSS Option 1, the market impacts in terms of trade are unclear but expected to be of small scale. The removal of the threshold could increase distance sales of these higher value and / or excise goods and therefore lead to positive effects on trade. These are however expected to be small considering that the difficulties of declaring and paying VAT on distance sales of goods into the EU is currently not perceived as a significant barrier to trade from non-EU businesses (they rather translate into non-compliance). For EU businesses, the impacts on their activities could be higher but, as described in the previous option, the sales above EUR 150 made by EU suppliers into the EU only account for a very small part of the total amount of distance sales of imported goods. The market for distance sales of imported excise goods is also currently relatively small.

In summary, while **the early stage of implementation of the IOSS makes it hard to draw firm conclusions**, it seems that moderate benefits on compliance costs could be expected from expanding the scope of the IOSS. These would stem from allowing some businesses to avoid VAT registration, even if they would still need to deal with full customs and other formalities on consignments valued over EUR 150 and / or excise goods and means of transport (depending on how the option is implemented). To make meaningful impacts on fraud (with knock-on effects in terms of improvements to the functioning of the Single Market), the implementation of this option would need to be accompanied by coordinated action to modernise and improve the targeting and effectiveness of controls.

⁷² If the customs duties relief threshold were to be lifted, the impact on non-compliance and fraud levels would be significant as most of the incentives for undervaluing parcels would disappear (operators may still undervalue parcels to pay lower customs duties and import VAT, whereas the 'threshold effect' around EUR 150 would not exist anymore).

Table 12. Impacts of IOSS Option 2

Policy option	VAT registration and compliance costs	VAT fraud and compliance levels	Functioning of the Single Market
IOSS Option 2: removal of the EUR 150 threshold	Some businesses will be able to avoid VAT registration in the destination Member State by using the IOSS, which represents a benefit even if they will still need to deal with customs obligations.	Fraud and non-compliance levels could be reduced if the scale of customs controls is modernized and made more effective, but this is unrelated to this option per se and seems infeasible under current circumstances.	The functioning of the Single Market could improve if administrative burdens decreased, making it easier for businesses to deal with the distance sale of imported goods and / or if fraud was reduced, thereby levelling the playing field, but the IOSS has not yet been in use for long enough to assess performance and impacts to reach a firm conclusion.

Source. Authors' own elaboration.

5.4.3. Option 3 – mandatory IOSS

IOSS Option 3 would make the use of the IOSS mandatory for distance sellers of goods imported into the EU, either up to the current threshold of EUR 150 or (if implemented alongside Option 2) also for higher-value goods. **IOSS Option 3a** would make the IOSS mandatory only for 'deemed suppliers', while **IOSS Option 3b** would make the IOSS mandatory only for taxable persons that distance sell into the EU above a certain threshold, indicatively set at EUR 10 000. **IOSS Option 3c** would make the IOSS mandatory for all businesses.

IOSS Option 3a is likely to be near to neutral with respect to compliance costs since the current optionality of the system implies that any deemed supplier that wishes to use the IOSS to declare and pay VAT on imported parcels can do so. An exception would be for postal operators and express couriers, for whom a mandatory IOSS would reduce the need to distinguish between suppliers using and not using the IOSS. The option will have a positive (but minor) effect on compliance since the electronic interface, as deemed supplier, would use the IOSS and collect the VAT. This could solve some of the remaining issues related to possible fraud from deemed suppliers, especially non-EU electronic interfaces, though such amounts of fraud are not likely to be significant compared to those that existed before the application of the deemed supplier rule. Moreover, non-EU established suppliers are required to appoint an EU-established intermediary, as per Article 369I (2).⁷³ Making the IOSS mandatory would not on its own resolve the main issues related to fraud, because illicit traders would still be able to undervalue parcels while using the IOSS. However, since the data collected via the IOSS will enable authorities to identify more easily fraudulent activity and patterns, it will act as a **further incentive for businesses to be compliant**.

As part of the targeted consultation, some electronic interfaces further mentioned that making the IOSS mandatory for all deemed suppliers would have a **positive effect on their activity, as it would improve the level-playing field between** them and their competitors. Indeed, the marketplaces that have not opted in for the IOSS are currently able to list products at lower prices (excluding VAT, which will only be paid by customers upon delivery), while those which use the IOSS and collect VAT with the payment for the goods have to include VAT in the listed prices, thereby making them (at least apparently) higher. Such a difference could bring customers and sellers to leave 'IOSS-compliant'

⁷³ Except for businesses established in third countries with which the EU has a mutual assistance agreement. Currently only Norway is able to use this provision – Article 369m 1. (c) .

marketplaces for others, especially for those established outside the EU. IOSS Option 3a would resolve this situation.

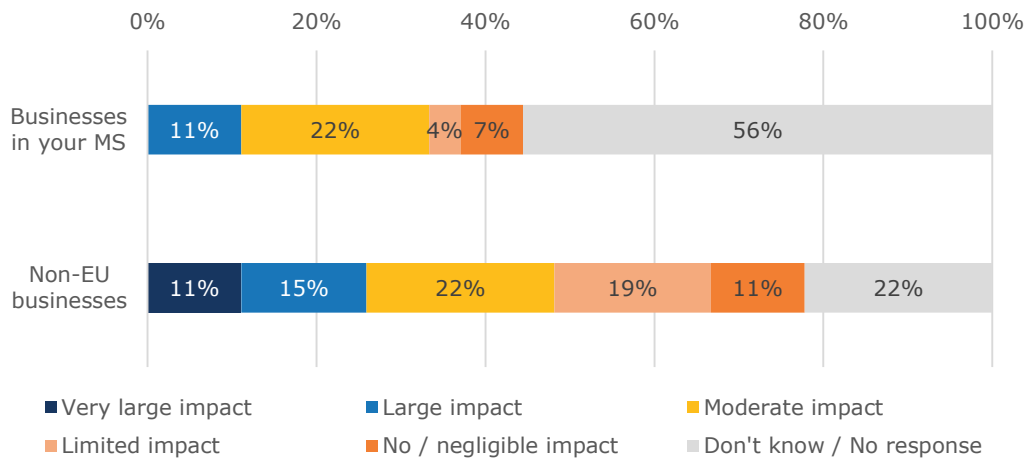
Under Option 3a, suppliers that do not sell through electronic interfaces will still be able to use the IOSS on an optional basis, leaving the potential for fraud in situations where the deemed supplier rule does not apply. This situation will be solved for large-volume sellers under Option 3b. IOSS Option 3b is not all that different to Option 3a, since it would also require the vast majority of electronic interfaces to use the IOSS as most of them would be above the threshold. This option would, however, also require other businesses that distance sell imported goods directly to EU consumers and that are over the threshold to register for the IOSS. Since this means that more businesses are required to register, this sub-option may lead to further positive effects on the functioning of the EU Single Market: fraudulent businesses will have a tougher time getting their parcels through customs and into the Single Market without paying VAT.

However, the additional impact of Option 3b compared to Option 3a is likely to be small: most companies that sell outside electronic interfaces and use their own platforms are of medium and large size and more likely to be compliant than smaller third-party sellers making sales through electronic interfaces. It will also be difficult for the EU customs and tax authorities to control the sales made by non-EU suppliers into the EU and detect them when the threshold for mandatory IOSS is reached; non-EU operators could for example rely (fraudulently) on multiple identities to ensure they can continue making sales without going through the IOSS, though improved use of customs surveillance data (e.g. through the centralised Surveillance system).

Option 3c, which would make the IOSS mandatory, would essentially include within the scope of the IOSS smaller businesses whose transactions do not fall under the deemed supplier rule (in addition to deemed suppliers under Option 3a, and medium and large businesses under Option 3b). Although the majority of small businesses make distance sales of imported goods through electronic interfaces, this would lead to some additional impact of Option 3c compared to Option 3a or Option 3b, especially if more businesses choose to sell through their own web shops.

All in all, **making the IOSS mandatory is expected to have some impact on VAT compliance levels from businesses.** However, compared to the effect expected from the introduction of the IOSS and the deemed supplier rule on 1 July 2021, the additional effect of making the mechanism mandatory was deemed small by most of the respondents from the targeted consultation, since the costs and benefits of compliance (compared to those of voluntary non-compliance and fraud) will remain roughly the same for businesses. While few businesses expressed a view, it is worth noting however, as shown in Figure 10 below, that according to national tax authorities, the effect of making the IOSS mandatory is expected to have a more significant impact on non-EU than on EU businesses. This reflects the opinion mentioned in the previous paragraphs that a certain proportion of businesses that do not opt into the IOSS, especially those established outside the EU, can avoid paying VAT, and that making the IOSS mandatory could (although to a limited extent) decrease fraud levels on distance sales of imported goods.

Figure 10. Effects of making the IOSS mandatory on businesses – views of tax authorities



Source: Targeted Consultation.

The majority of the stakeholders from the targeted consultation mentioned that time was needed to see how the IOSS mechanisms worked out and how many businesses used it before deciding to make it mandatory. Some of them, including national tax authorities, further made the point that such a change (i.e. making the IOSS compulsory) would require the removal of the EUR 150 threshold for using the IOSS, to avoid introducing further administrative and logistical burdens for businesses and electronic interfaces that sell goods up to and above the threshold, and which would need to accommodate two systems/channels in parallel.

Table 13 shows the expected impacts of the IOSS Options 3a and 3b on VAT registration and compliance costs, fraud and non-compliance levels, and the functioning of the Single Market. As with IOSS Option 2, it is not possible to draw firm conclusions at this stage of the IOSS implementation. However, it seems possible that making the IOSS mandatory could help to alleviate fraud and non-compliance to a limited extent. Similarly, the functioning of the Single Market would improve somewhat if the mandatory IOSS were to make progress towards levelling the playing field for EU and non-EU businesses. While the mechanism for making the IOSS mandatory differs between IOSS Options 3a and 3b, the envisaged impacts would be similar, since they would both have the effect of bringing most distance sales of imported goods into the IOSS.

Table 13. Impacts of IOSS Option 3

Policy option	VAT registration and compliance costs	VAT fraud and compliance levels	Functioning of the Single Market
IOSS Option 3a: IOSS made mandatory for deemed suppliers	0/+ While businesses that see the IOSS as an opportunity for cost savings will already be using it, postal operators and express couriers would benefit from a reduced need to distinguish between suppliers.	+ Residual fraud, especially from non-EU third party suppliers and non-EU electronic interfaces, will be reduced but opportunities for fraud and non-compliance (undervaluation of parcels, misuse of IOSS numbers) will remain.	+ The level-playing field between EU and non-EU businesses, both at the supplier and electronic interface level, will be improved as more non-EU businesses will become compliant.
IOSS Option 3b: IOSS made mandatory for taxable persons above a certain threshold	0/+ Same as Option 3a.	+ Marginally better than Option 3a as the scope will be extended to suppliers selling outside electronic interfaces, i.e. mostly businesses of medium and large size which are usually compliant.	+ Marginally better than Option 3a as the unlevel-playing field mostly lies between EU and non-EU small and very small businesses, which will not be affected by this option.
IOSS Option 3c: IOSS made mandatory for all	0/+ Same as Option 3a	+ Marginally better than Options 3a and 3b, because this would bring in non-EU businesses selling through their own web shops.	+ Marginally better than Options 3a and 3b, since compliance would increase among smaller businesses and further level the playing field.

Source. Authors' own elaboration.

5.5. Comparison of the policy options

This report concludes by comparing the policy options, with a view to informing decision-making about potential EU action in the future. As explained in Chapter 4, the policy options can be combined to form several distinct, fully-fledged policy options. While this leads to a large number of permutations that can make the fully-fledged options seem complex, the main differences between them are relatively straightforward and relate to the scope of possible intervention, as follows:

- **Options related to the One-Stop-Shop (OSS):** the key parameter is the scope of transactions covered. Option 2 consists of only a narrow intervention that would expand the OSS to domestic supplies of goods B2C by non-established suppliers. Options 3 and 4 both encapsulate Option 2, while furthering the intervention to also cover B2B transactions. This can be done either via the OSS, as per Option 3, or by expanding the scope of the reverse charge mechanism. Importantly, Option 3 includes sub-options: Option 3a, which opens the OSS up only to specific kinds of B2B transactions that are the typically the first leg of B2B2C transactions in the field of e-commerce; Options 3b and 3c both cover the remaining B2B supplies of goods and services by non-established suppliers, respectively without or with a mechanism to deduct input VAT using the OSS. Importantly, Option 3a can be combined with any of the Options 3b, 3c or 4 in order to ensure coverage of all relevant B2B transactions.
- **Options related to the IOSS:** two ways of increasing the scope have been assessed, namely removal of the current EUR 150 threshold for use of the IOSS and / or expanding the IOSS to excise goods (IOSS Option 2) and making the IOSS mandatory, either for deemed suppliers (IOSS Option 3a), for companies that distance sell into the EU above a certain threshold, indicatively set at EUR 10 000 (IOSS 3b) or for all suppliers in eligible transactions (IOSS Option 3c). IOSS Option 2 and IOSS Option 3a, 3b or 3c could be pursued on their own or together, and be combined with a selection of the OSS options.

As mentioned, the timing of the study complicated the analysis, because the OSS and IOSS and the other changes to the VAT rules described above only came into force on 1 July 2021, after the targeted consultations took place, while no data on uptake or results was available at the time of the research. This made it difficult to assess the status quo with the new rules, especially on the issue of fraud, which several changes were implemented expressly to combat. In general, but particularly regarding the IOSS, stakeholders were reluctant to voice strong views before the new mechanisms had been tested and evaluated. Overall, these limitations mean that the assessment, in particular of the IOSS options, entails more uncertainty, and is more theoretical, than would typically be desired.

Caveats aside, some fairly clear patterns emerged. First, VAT registration relates more directly to **the issue of 'high administrative and compliance costs'** than to the other consequences of fraud / non-compliance and distorted functioning of the Single Market. In general – to a degree that depends on which transactions they cover – the policy options thus provide opportunities to reduce administrative and compliance costs, whereas the likely impacts on fraud reduction and on the functioning of the Single Market are more modest.

Second, most of the policy options differ in terms of the scope of the situations currently triggering multiple VAT registrations that would be addressed. It follows that **the most significant expected benefits are from the options which cover the greatest proportion of these situations**. Other things being equal, this speaks for the 'maximalist' options, namely some combination of Options 3 and 4. Moreover, combined options that cover more types of transactions are likely to have an impact that is 'greater than the sum of their parts'. This is because for a business to benefit from any change to the status quo, it would need to avoid all situations that still require additional VAT

registrations. In other words: even if 99% of the transactions of a business currently requiring VAT registration could be dealt with using the OSS or via the reverse charge, it would still need to VAT register for the remaining 1%, meaning that the availability of the OSS would hardly affect its administrative burdens.

Third, the **analysis of impacts showed that the features of the mechanisms would also be likely to play an important role** in determining the effectiveness of given policy options. With this in mind, Option 3a was rated especially highly for allowing the OSS to cover the B2B2C transactions that have become increasingly widespread in e-commerce, while avoiding the complexity for tax authorities that would result from extending it to other B2B transactions. In contrast, the expected benefits of Option 3b (on expanding the OSS to cover the 'domestic' B2B transactions that currently require VAT registration) were found to be marginal because – without a mechanism to deduct input VAT – businesses largely felt that this option would be insufficiently attractive due to the negative impacts on cash flow and the possible difficulties and delays in having to utilise the VAT refund procedure(s). Businesses opting for the OSS are obliged to use it for all eligible transactions, which no interviewees expressed a willingness to do under the conditions of Option 3b. Option 3c includes such a deduction mechanism, making it more attractive for businesses, but caused concern among tax authorities, who worried it would not be feasible for the Member State of establishment to decide on the quantum of the deductible VAT incurred in another Member State. Meanwhile, Option 4 expands on the reverse charge mechanism and was favoured as a relatively simple way to avoid VAT registration for non-established suppliers, though it would not deal with issues about the recovery of input VAT incurred in other Member States. While Option 4 would not on its own allow VAT registration to be avoided for B2B2C transactions, it could be combined with Option 3a for this purpose.

Overall, assuming that any (inevitable) teething problems with the OSS are solved and that the mechanism works as planned, **the assessment provides some indications on the way forward**. If only minimal action is palatable, Option 2 seems superior to the status quo, since it could be implemented relatively easily, generating small but meaningful benefits in specific market segments. Option 3a was found likely to generate more substantial benefits, because it addresses specific types of transactions (namely the first leg of B2B2C transactions taking place in e-commerce business models) that increasingly oblige (often small) businesses to VAT register in multiple Member States, without fundamentally altering the nature of the OSS mechanism, which currently focuses on B2C transactions.

The **more difficult question concerns the remaining B2B transactions** where the reverse charge does not already apply. This represents a sizeable problem, particularly in the Member States where – due to the optional character and diverse implementation of Article 194 – the use of this reverse charge mechanism for non-established suppliers is either non-existent or strictly limited. Options 3b and 3c provide a means to cover these transactions through the OSS but seem unlikely to gain traction for the time being. Option 4, by relying on the reverse charge mechanism, came across as a more realistic approach if such action is indeed deemed viable.

Finally, with regard to the IOSS, **the very recent launch of the mechanism makes it especially challenging to establish a baseline against which future changes could be compared**. Before the introduction of the deemed supplier rule and import threshold, non-compliance and fraud on distance sales of goods from third countries were considered a significant and growing problem. Early, anecdotal evidence suggests that the new rules, combined with the IOSS, are generating some benefits in terms of reducing fraud while keeping administrative burdens for suppliers lower than they would be had the new rules been introduced on their own. With this in mind, it seems likely that the options to increase its scope (IOSS Option 2, which would eliminate the EUR 150 threshold) and / or use (IOSS Option 3, which would make the IOSS mandatory) would generate at least some additional benefits.

In closing, Table 14 below summarises the impacts of the policy options. Since the different elements were already described in detail in the previous section, the focus is on presenting the impacts of the combined options, and on providing a brief summary of the reasoning behind the estimated impacts. When reading the table, it should be noted that all options deviating from the status quo would entail certain one-off costs to administrations for familiarisation, training and/or process adaptation, as well as some transitory uncertainty. While stakeholders could not put concrete figures to these costs, they were considered fairly easily absorbed, as long as meaningful benefits could be expected. Certain options would also require more substantial expenditure, particularly for IT development, which are highlighted where relevant.

Table 14. Summary of the impacts

Policy option	Overview	Administrative burdens	VAT fraud and compliance levels	Functioning of the Single Market
<p>Option 1: Continuation of the status quo, both in terms of the OSS and IOSS <i>Additional transactions covered: N/A</i></p>	<p>Given that key sectors facing VAT registration problems – particularly e-commerce – are growing quickly, the existing problems (and additional costs) are expected to gradually worsen if the status quo remains in place.</p>		N/A	
<p>Option 2: extension of the OSS to domestic supplies of goods B2C by non-established businesses <i>Additional transactions covered (compared to status quo):</i></p> <ul style="list-style-type: none"> #3 Domestic supplies of B2C goods 	<p>This option would address the problem of multiple VAT registrations, but only in a limited number of market segments, particularly electric vehicle charging, passenger transport and for certain companies operating in border regions. For this reason, only minor benefits are expected in terms of reduced administrative burdens and functioning of the Single Market, while likely impacts on non-compliance and fraud are assessed as marginal.</p>	+	0	+
<p>Option 3a: extension of the OSS to intra-EU supplies and intra-EU acquisitions in the frame of B2B2C transactions common in e-commerce <i>Additional transactions covered (in addition to status quo):</i></p> <ul style="list-style-type: none"> #1a Transfers of goods cross border (when part of a B2B2C transaction or similar B2B2B transaction) #1c B2B2C sale of goods first acquired in a MS where the supplier is not established #3 Domestic supplies of B2C goods 	<p>This option would generate significant benefits by almost completely eliminating the need to VAT register for distance sellers, and for many businesses outside the e-commerce sector. This would reduce administrative burdens significantly, as well as reducing distortions to the functioning of the Single Market. By making compliance easier for SMEs, it would also reduce non-compliance, albeit to a limited extent in line with the relatively small size of the problem.</p> <p>Depending on the precise modalities chosen to implement this option, considerable IT development costs may be incurred by the Commission and / or Member State's administrations that would need to be assessed in detail before deciding to move forward.</p>	++	+	++
<p>Option 3b: extension of the OSS to all B2B supplies not covered in Option 3a, but while leaving current VAT refund mechanisms in place <i>Additional transactions covered (in addition to status quo):</i></p> <ul style="list-style-type: none"> #1a Transfer of own goods cross-border (when not part of a B2B2C transaction) #1b Chain transactions #2 Domestic supply of goods B2B where the reverse charge does not apply #3 Domestic supplies of B2C goods 	<p>Due to the lack of a mechanism in the OSS for dealing with input VAT incurred in Member States where businesses are not established, it seemed very unlikely that B2B suppliers would take up this option, meaning benefits would remain the same as for Option 2 on its own. Implementation would also likely require considerable IT development costs.</p>	0/+	0	0/+

Policy option	Overview	Administrative burdens	VAT fraud and compliance levels	Functioning of the Single Market
<p>Option 3c: same coverage as Option 3b with the inclusion of a mechanism to deduct input VAT via the OSS</p> <p><i>Additional transactions covered (in addition to status quo):</i></p> <ul style="list-style-type: none"> #1a Transfer of own goods cross-border (when not part of a B2B2C transaction) #1b Chain transactions #2 Domestic supply of goods B2B where the reverse charge does not apply #3 Domestic supplies of B2C goods 	<p>This option would be expected to add value for certain businesses, particularly in Member States where the reverse charge (Article 194) is not (widely) available for B2B transactions. However, uptake would be limited by the obligation for businesses to use the OSS for all eligible transactions, since certain businesses may wish to maintain VAT registrations in some cases for operational reasons (e.g. input VAT deductions). Stakeholders also expressed uncertainty and scepticism about whether there would be sufficient collaboration between Member States to make this work in practice. Implementation would also likely require considerable IT development costs.</p>	++	+	++
<p>Option 3a + Option 3b</p> <p><i>Additional transactions covered (in addition to status quo):</i></p> <ul style="list-style-type: none"> #1a Transfers of goods cross border #1b Chain transactions #1c B2B2C sale of goods first acquired in a MS where the supplier is not established #2 Domestic supply of goods B2B where the reverse charge does not apply #3 Domestic supplies of B2C goods 	<p>While this would generate the important benefits described under Option 3a above, the additional impact from including Option 3b would be very marginal (because the impact of Option 3b largely derives from Option 2, which is included in Option 3a by default).</p>	++/+++	+	+/++
<p>Option 3a + Option 3c</p> <p><i>Additional transactions covered (in addition to status quo):</i></p> <ul style="list-style-type: none"> #1a Transfers of goods cross border #1b Chain transactions #1c B2B2C sale of goods first acquired in a MS where the supplier is not established #2 Domestic supply of goods B2B where the reverse charge does not apply #3 Domestic supplies of B2C goods 	<p>By integrating transfers of own goods, chain transactions and wider B2B transactions into the OSS, along with an input tax deduction mechanism, this option would provide a way to eliminate multiple VAT registrations for most businesses. Its main limitations relate to the potential issues with uptake and feasibility described above.</p>	++++	++	++++
<p>Option 4: includes Option 2, and introduces the mandatory reverse charge for B2B supplies by non-established suppliers</p>	<p>Making the reverse charge available for all B2B supplies was found to be a practical way to generate significant positive impacts, especially for businesses operating where there is currently no access to Article 194. However, many tax authorities felt the rules, as to its</p>	++	+	++

Policy option	Overview	Administrative burdens	VAT fraud and compliance levels	Functioning of the Single Market
<p><i>Additional transactions covered (in addition to status quo):</i></p> <ul style="list-style-type: none"> #1b Chain transactions #2 Domestic supply of goods B2B where the reverse charge does not apply #3 Domestic supplies of B2C goods 	<p>application, would have to be harmonised and streamlined, with increased coordination between MS, in order to make this option workable and to avoid risks of fraud. If DRRs are implemented (as explored in Part 1 of the study), this could facilitate the necessary trust by making it easier for the tax authority in the destination MS to verify the details of a transaction.</p>			
<p>Option 3a + 4</p> <p><i>Additional transactions covered (in addition to Option 2):</i></p> <ul style="list-style-type: none"> #1a Transfers of goods cross border (when part of a B2B2C transaction or similar B2B2B transaction) #1c B2B2C sale of goods first acquired in a MS where the supplier is not established #2 Domestic supply of goods B2B where the reverse charge does not apply #3 Domestic supplies of B2C goods 	<p>Combining Option 4 with 3a would maximise the likely positive impacts, by (i) extending the OSS to particularly important B2B2C transactions, and (ii) relying pragmatically on the reverse charge for wider B2B transactions.</p>	++++	++	++++
<p>IOSS Option 2: removal of the EUR 150 threshold for use of the IOSS and / or extension to excise goods</p> <p><i>Additional transactions covered (in addition to status quo):</i></p> <ul style="list-style-type: none"> #4 B2C distance sales of goods imported by the supplier from a third country/territory with an intrinsic value exceeding EUR 150 and / or excise goods 	<p>This option could be combined with any of the above-mentioned options. While consignments with a value of over EUR 150 are subject to full customs formalities, minor benefits could still be expected for businesses that would be able to use the IOSS to avoid VAT registration. Some reduction in fraud risks and levelling of the playing field in the Single Market could be expected by allowing, via the IOSS, suppliers to import in any Member State. Similar impacts could be expected with regard to excise goods, which currently represent a relatively small market and are subject to numerous and varied national restrictions that would remain in place.</p>	<p>Added impact when combined with any other option: +</p>	<p>Added impact when combined with any other option: 0/+</p>	<p>Added impact when combined with any other option: 0/+</p>

Policy option	Overview	Administrative burdens	VAT fraud and compliance levels	Functioning of the Single Market
<p>IOSS Option 3: IOSS made mandatory, either for deemed suppliers (3a), or taxable persons distance-selling over a certain threshold indicatively set at EUR 10 000 (3b), or all taxable persons making eligible distance sales into the EU (3c)</p> <p><i>Additional transactions covered (in addition to status quo): None</i></p>	<p>Minor benefits are expected on administrative burdens for certain actors, such as postal operators and express carriers, for whom this option would obviate the need to distinguish between different suppliers. In contrast, to the extent that the IOSS reduces burdens for other taxable persons, they could be expected to take advantage of the voluntary scheme. The IOSS is also likely to help the authorities identify fraud, increase compliance and, as a knock-on effect, improve the level playing field. While the three sub-options work differently, similar impacts would be expected, meaning that the scores are only noted once in the table.</p>	<p>Added impact when combined with any other option: 0/+</p>	<p>Added impact when combined with any other option: +</p>	<p>Added impact when combined with any other option: +</p>

Source. Authors' own elaboration.

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