Managing indirect taxes in the digital age

e-Commerce: today’s indirect tax challenges
Key indirect tax issues – challenges for businesses supplying goods digitally

The term “digital” is predominantly associated with the supply of services electronically and the consequent indirect tax challenges that arise. But businesses in manufacturing, wholesale and, of course, retail must be able to reach distant markets in the pursuit of an omni-channel presence.

This relentless quest for distant markets and the supply chain connections required in an omni-channel environment often cause businesses to miss indirect tax consequences and compliance obligations. The penalties are costly and diverting.

Indeed, Donato Raponi, head of the value-added tax (VAT) unit at the European Commission’s Taxation and Customs Union Directorate-General, declared that “VAT has been identified as one of the top-3 barriers to cross-border e-commerce.” Companies have to spend around €8,000 annually per Member State to register and account for VAT. The current system is seen as complex and costly, with increased compliance risks and legal uncertainty for online merchants.

Is there an alternative?

No wonder then that businesses have considered ways to mitigate the cost of multi-territory VAT compliance under the distance-selling regulations.

On 20 October 2015, the VAT Committee of the European Commission published an updated set of guidelines in response to specific questions raised by the UK and Belgium about the application and operation of Articles 32, 33 and 34 of the Principal VAT Directive.

The questions concerned arrangements implemented to obviate the requirement to register for VAT under the distance-selling regulations via an interpretation of the term “goods dispatched or transported by or on behalf of the supplier” under Article 33. In summary, the structure sought to separate the supply from the transport of business-to-consumer (B2C) sales of goods to customers in distant Member States so that the requirement to register for VAT in the customer’s country would not arise.

The UK noted in its submission that “whilst these arrangements offer customers the options of collecting the goods in person or arranging delivery themselves, customers invariably request delivery by another legal entity ‘supposedly under a separate contract.’ Often, this transport company is associated with the supplier. The UK considers that, ultimately, the customer is ordering goods from the supplier and wants those goods delivered to him. The arrangements put in place between the supplier and the transport company are merely an alternative way in which the supplier has his goods delivered to the customer. The introduction of the transport company for the purposes of delivering the goods does not prevent those goods from being ‘dispatched or transported by or on behalf of the supplier.’ Consequently, the UK considers that VAT is due in the Member State of delivery.”

The VAT Committee has essentially agreed with the UK and Belgian view. Specifically, it has agreed that, for the purposes of Article 33, goods shall be considered to have been “dispatched or transported by or on behalf of the supplier” anytime the supplier “intervenes directly or indirectly in the transport or dispatch of the goods.” The supplier shall be regarded as having intervened indirectly in the transport or dispatch of goods when one of these conditions applies:

- The supplier subcontracts the transport or dispatch of the goods to a third party that delivers them to the customer.
- A third party dispatches or transports the goods, but the supplier bears the responsibility – totally or partially – for delivering the goods to the customer.
- The supplier invoices and collects the transport fees from the customer and further remits them to a third party that arranges the dispatch or transport of the goods.

In other cases of intervention – particularly when the supplier actively promotes the delivery services of a third party to the customer, puts the customer and the third party in contact, and gives the third party the information needed to deliver the goods – the supplier shall likewise be regarded as having intervened indirectly in the transport or dispatch of the goods.

These guidelines are the views of an advisory committee and do not constitute an official interpretation of EU law and do not necessarily have the agreement of the Commission. Nevertheless, they are very persuasive and clearly reflect the views expressed by tax authorities in most Member States.

In this climate of tax transparency and accountability and the potential for reputational risk, it is perhaps a brave online seller that would ignore such a warning shot.

On 7 April the European Commission adopted its Action Plan on VAT, setting out, among other measures, proposed actions to adapt the VAT system to the digital economy. It also provides clear orientation towards a single European VAT area in relation to the VAT system for cross-border supplies.


Feedback from businesses selling online B2C is that the complexity of VAT registration, VAT returns, Intrastat obligations, non-UK bank account requirements and associated guarantees presents a real barrier to entering markets that could otherwise be profitable. The risk of getting it wrong can outweigh the decision to enter new markets.

The European Commission is clearly cognizant of this and has launched a public consultation to help identify ways to simplify the indirect tax consequences of cross-border e-commerce transactions in the EU.

In the context of the Digital Single Market, the Commission is working to minimize burdens attached to cross-border e-commerce arising from the different regimes within the EU. It wants to provide a level playing field for EU companies, big or small, and see that VAT revenues flow to the country where the consumer is based. The Commission is clearly enforcing this in its response to the representations of the UK and Belgium above.

Indeed, in the context of the Base Erosion and Profit Shifting (BEPS) debate, which affects the global tax position of multinational companies, the EU is arguably making great strides toward verifying that taxation for VAT purposes at least arises where the supply is delivered.

Since January 2015, supplies of telecommunications, broadcasting and electronic services to EU customers are subject to VAT where the customers have their permanent address or usually reside.

This rule has generally been welcomed because it aligns EU rules with the destination principle, but it has given rise to significant challenges for suppliers that have to deal with varying VAT rules in potentially all 28 Member States.

The Mini One Stop Shop (MOSS) regime, which allows suppliers of services to register online, file a single EU-wide VAT return and make payments to a single authority, has provided some relief. However, in terms of providing a medium for non-EU-established businesses supplying B2C electronic services to levy VAT on their supplies, the response has not been as successful as the desire of Member States to work together to see that such taxation takes place.

The same level of complexity applies to cross-border trade in goods to consumers as well, considering that the destination principle applies when the threshold provided by each EU Member State is exceeded without the possibility to report to one single Member State.

To address this disparity and barrier to a truly EU-wide market, the European Commission released a survey in 2015 titled “Public Consultation on Modernising VAT for cross-border e-commerce” that sought views on the following topics:

- The current VAT rules for B2C cross-border supplies of goods and services
- The implementation of the 2015 changes to the VAT place-of-supply rules and extension to the MOSS compliance scheme for goods ordered online both within and outside the EU
- The EU’s commitment to the Digital Single Market Strategy for Europe, which includes:
  - The extension of the current single electronic registration (i.e., MOSS) and payment mechanism to intra-EU and non-EU sales of goods
  - The introduction of a common EU-wide simplification measure (i.e., a VAT threshold)
  - Single VAT audits of cross-border businesses
  - The removal of the VAT exemption for importing small consignments from non-EU suppliers

The survey closed in December 2015, and the UK Government has recently released its response to the issues outlined in the consultation. The Government wholly supports implementing the 2015 changes to the VAT place-of-supply rules for goods, as well as the extension to MOSS for goods ordered online both within and outside the EU.

When this article was published, the outcome of the consultation had not been issued. But, with notable exceptions for the smallest of the small and medium-sized enterprises (SMEs), the MOSS for goods is expected to be introduced, with the European Commission making proposals on the matter in the summer of 2016.

This review will mean significant changes for retailers and manufacturers involved in the supply of goods digitally, with the emphasis on building a new simplified regime and a level platform for the supply of goods and services digitally. How long the world will stand still once the method of taxing them catches up is up for debate, however.
Internet sales of goods continue to increase and most companies now have a strong web presence to attract customers. Sellers in all sectors are adopting new digital routes to market and getting closer to the end customer, often cutting out intermediaries in the process. As a result, companies of all sizes are reshaping their supply chains to reach new customers and enter new markets.

**Digital channels and digital goods:**
In all sectors, companies are offering consumers new types of products with a “digital” edge that are blurring the lines between traditional sales of goods and services by:

1. Allowing high levels of product customization (e.g., sneakers designed in the customer’s own colors)
2. Allowing the customer to interact with the goods digitally after purchase (e.g., a smart watch with related applications)
3. Enabling customers to create their own products to the vendor’s design (3D printing)

In many sectors, customers are being brought more actively into the design, manufacture and acquisition of goods, through online portals and processes such as 3D printing. These trends are altering the relationships between suppliers and customers and changing the shape of many traditional supply chains.

**Shifting supply chain from B2B to B2C:**
One impact of the digital revolution is that many companies that previously traded B2B are changing how they do business and they are now trading B2C exclusively or they are adding B2C channels to B2B operations. For example, a company that manufactures clothing that was previously sold to wholesale distributors for onward sale to retailers can increase its customer brand loyalty, reduce costs and improve margins by selling directly to final consumers using an internet site.

**Global overnight:** another effect of the rise of e-commerce is that companies of all sizes and in all jurisdictions can reach new markets far more quickly using their presence on the internet as their global store front, thus removing barriers to expansion such as investing in real estate and on-site staff, etc. As companies expand rapidly into new markets where they have no fixed establishment, they may struggle to comply with their indirect tax obligations.

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**Key indirect tax issues**

The indirect tax implications of dealing with cross-border internet sales of goods has been an important issue for the retail sector for many years.

Entering into online trading or expanding e-commerce trade in goods can require far greater attention to VAT/GST and customs issues. For example, changes may be required in pricing, contracts and the customer web interface to allow VAT/GST to be charged at the appropriate rate. The change may increase the vendor’s customs obligations or raise questions about valuation.

Nonresidents may need to register for VAT/GST and comply with VAT/GST reporting and invoicing obligations in a jurisdiction where they have no presence, making effective compliance difficult. If companies do not address these issues upfront they can risk incurring assessments and penalties for VAT/GST that can have a significant impact on the profitability of e-commerce sales (as any price paid by the final consumer is deemed to include any VAT/GST due).
Tax and cross-border considerations include:

- **Lack of VAT/GST harmonization**
  The general principle for taxation for cross-border supplies of goods is that VAT/GST should apply in the country of consumption, which is taken to be where the customer is located. However, a lack of clarity and agreement between countries or states about how tax should apply to e-commerce sales and who is responsible for charging and remitting it may lead to double taxation or no taxation. Even if the nonresident supplier is deemed to be responsible, compliance levels may be low.

- **Import values for customs duties**
  Customs duties are payable at the time of import, based on the customs value of the goods. Challenges exist when different import values flow through similar distribution channels. Traditional product flows of products purchased B2C (e.g., in a brick s and mortar store) may have different prices than products purchased over the internet.

- **Export controls**
  A number of countries impose restrictions on the trade of certain types of goods, e.g., weapons or goods containing technology that could potentially be used for a military purpose. As part of the Export Control Reform effort in the US, the rule proposes revisions to the Export Administration Regulations (EAR) to include the definitions of “technology,” “required,” “peculiarly responsible,” “proscribed person,” “published,” results of “fundamental research,” “export,” “re-export,” “release,” “transfer,” and “transfer (in-country)” to enhance clarity and consistency with terms also found on the International Traffic in Arms Regulations (ITAR), administered by the Department of State, Directorate of Defense Trade Controls (DDTC). This rule also proposes amendments to the Scope part of the EAR to update and clarify application of controls to electronically transmitted and stored technology and software. DDTC is concurrently publishing comparable proposed amendments to the ITAR’s definitions for the same reasons.

- **Cloud computing, export controls and sanctions screening**
  As cloud computing has taken off as an enterprise concept, many organizations are still unclear of the regulatory risks, particularly considering the often borderless nature of this internet-based computing. As companies continue to expand into internet sales through the use of digital storefronts, they often expose themselves to additional risks related to economic sanctions rules and regulations. While e-commerce brings the company closer to customers by speeding up several aspects of the transactions, it is still the business’ responsibility to “know its customer” and properly conduct sanctions screening before providing goods and/or services. The same obligation exists for sales and/or licensing of software, which are often made online within minutes. Businesses that rely on or sell cloud-based services must actively conduct sanctions screening for users and vendors of such services. This can become a challenge when a user of the company’s cloud services subsequently sells some, or all, of its cloud space to unknown third parties. In such a situation the service provider could be at risk for hosting information and thus providing services to an unlawful person or entity in contravention of sanctions rules. The combination of faster transactions, increased sales volume and pressure to provide products and services (such as software packages) instantaneously over the web, carries with it additional sanctions risk. In the case of crypto-currencies, such as Bitcoin, there often is a lack of transparency as to the identities of the payer and payee. Without being able to positively identify the parties on either of the side of the transaction, companies cannot perform effective sanctions screening which raises its risk for non-compliance. Companies that start to develop web-based payments and financial services for their customers will need to remain vigilant about understanding its regulatory risk and complying with zero-tolerance sanctions rules.

- **VAT/GST on low value imports**
  Individual imports of low-value goods (e.g., DVDs) may benefit from an import tax exemption. If the volume of imports of these goods increases, their sale on the local market may lead to distortions of competition. It has been estimated that in 2011, the VAT foregone within the EU could have reached just under €900m which is equivalent to a business turnover of €4.5bn. In response, countries around the world are reducing or removing import tax exemptions for low value imports (e.g., Australia and the EU). In this respect, it is worth to mentioning that the Union Customs Code entering into force on 1 May 2016 already presents significant changes with regard to the simplified clearance of this type of consignments.

### Considerations when undertaking supplies of e-services

Visit ey.com/indirectdigital, e-Commerce: today’s indirect tax challenges, Internet sales of services to explore our interactive diagrams setting out the main points to consider when undertaking any supply of e-services, either as a vendor, customer or both.

We list items to consider when determining the VAT treatment and compliance obligations of various scenarios including:

- Domestic sales
- Export/import
- Cross-border EU supplies
- Intermediaries
VAT/GST on cross-border sales within a customs territory
Special rules are generally needed to apply VAT/GST or sales tax to supplies made between suppliers and customers located in the same customs area but in different countries or states. This is an issue for territories such as the EU, US, India, Canada and Brazil. If the final consumer is expected to self-assess for any consumption tax due on an e-commerce purchase (e.g., as a use tax), poor levels of taxpayer compliance may lead to severe revenue shortfalls and a distortion of competition between nonresident and local vendors. However, if the nonresident vendor is required to register for VAT/GST in the customer’s country this may increase the vendor’s compliance burden and discourage cross-border activity.

Intra-EU trade in goods
EU businesses that sell B2C goods to other Member States are currently required to register and account for local VAT if the total sales exceed the distance selling threshold of the local countries. To mitigate the VAT compliance burden, the European Commission has proposed to explore the potential expansion of the current MOSS scheme for e-services to include VAT compliance for distance sales.

Returned goods
In the B2C market, products are regularly returned to the supplier (for example, because goods purchased online do not meet the demands of the customer or are defective). As many digital companies are spread out in terms of physical locations and warehousing, goods may need to be exported to be returned or may need to be returned to a place that is different from the original place of dispatch. These returns may require careful consideration from a VAT/GST and international trade perspective particularly as regards the IT and compliance setup.

New indirect tax rules
As the digital economy continues to evolve, new consumption tax may be introduced to clarify, harmonize and simplify cross-border transactions in goods for both B2B and B2C supplies. Companies engaged in sales of goods must keep abreast of any developments and should actively engage in any consultation processes and consider the impact of any changes on their supply chains and on their indirect tax obligations.

Customer impact
If the customer is responsible for paying the duty and VAT/GST on import for goods purchased from abroad, this may be inconvenient for final consumers. It may cause delays and the final price paid by the consumer may be far higher than that advertised on the vendor’s site. These aspects may have a negative impact on the supplier/customer relationship and discourage future purchases. In response, many e-commerce retailers are looking to incorporate ways for customers to pay the appropriate charges upfront, with the supplier making the import arrangements with a third party carrier.

How EY can help
We can assist companies in every size and sector to sell goods and services seamlessly using the internet, by allowing all consumption taxes, duties and indirect tax obligations to be met without disrupting the transaction, supply chain or value chain. Our end-to-end services and quick reference guides can help:

- Internet start-ups, including companies involved in new and disruptive online business models
- Companies selling online for the first time
- Companies expanding their web presence into new territories or new areas of business
- Companies improving or enhancing their online presence or customer experience
New e-commerce control measures
Denmark recently introduced measures aimed at making certain that foreign businesses correctly allocate value-added tax (VAT) revenues to Denmark. The country has one of the highest standard VAT rates in the EU (at 25%), so this is an important measure to prevent VAT avoidance and potential distortions of competition.

Overseeing payments for distance sales
The new rules, which took effect 1 January 2016, allow the tax authorities to investigate payments received for distance sales of goods made by foreign sellers to Danish customers and for electronic services supplied to non-taxable persons in Denmark.

According to the amended Danish VAT Act, the tax authorities may require banks, credit card companies and others handling the transfer of payments to provide details about the payment. To access this information, the tax authorities must first request permission from the Danish National Tax Board.

Comments on the changes
The new rules greatly extend the tax authorities’ powers to investigate payments received from cross-border sales to Danish consumers. The new control measures are therefore another important digital tool available to the country’s tax auditors.

The changes can be seen as an attempt to adapt the Danish authorities’ control measures to the current digital economic reality – as e-commerce grows and borders disappear in relation to e-trade.

These measures also serve as a reminder to businesses that supply goods and services cross-border that they must keep on top of VAT rules in every country where they have customers. Increasingly, tax authorities are adopting more sophisticated measures to identify and determine the correct VAT handling of foreign companies’ transactions and taking action against noncompliance.

A customer’s right to privacy
As a separate note, the extended measures still must protect a Danish customer’s right to privacy. Any payment information gathered by the tax authorities is anonymized according to the regulations on personal data.

In our view, protecting the customer’s privacy is imperative when implementing similar or new measures that could otherwise be regarded as disproportionate or excessive by requiring the acquisition of sensitive personal information.

What should your business know?
- Are you aware of your business’s activities in other countries?
- Do you have robust processes to identify and quantify foreign VAT obligations?
- Do you have a strategy for implementing foreign VAT registrations?
- Can your control mechanisms meet all your compliance obligations in every country where you do business and for every activity you undertake?
Tax authorities increase focus on compliance

Now that tax authorities can readily investigate sales made to Danish customers, they can manage foreign businesses’ activities in Denmark more effectively by seeing that they comply with regulations. However, the oversight of payments to foreign businesses is not without limits, as tax authorities will have to be made aware of any foreign business's activities in Denmark before an investigation can begin.

Despite this limitation, it is not farfetched to assume that a more rigorous and automatic approach will be applied in the future, whereby the identification of businesses is determined based on computer-generated assessments according to predefined filters.

In recent years, there has been an increased focus worldwide on how businesses comply with indirect tax legislation, i.e., VAT, customs duties and excise duties.

This focus has led to many initiatives, including:

- Extending the use of the domestic reverse charge
- Increasing the information that must be recorded and submitted periodically (for instance, through additional VAT ledgers)
- Introducing additional reporting measures to trace goods that are transported into the country
- Splitting payments so that the VAT due on the supply is automatically paid by the buyer to the tax authorities.

The Danish tax authorities' recent measures are one example of this increased compliance focus.

It is no surprise that tax authorities around the world continue to introduce measures to promote the right allocation of VAT revenue, and it is not even a new development. In fact, this is simply what the public should expect.

What is new is the diversity of the measures available to tax authorities, as well as the variety of the approaches being developed.

The digital age, when everything is more or less handled electronically, has in principle given the tax authorities access to even more detailed information on the doings of businesses and private individuals. That the Danish tax authorities have found a way to combine this information could be regarded as an early example of what the combination of the business and private sphere might lead to in the future — the automatic access to control businesses’ activities through third-party information.

As we expect these developments to continue in the digital age, the question is not if we will see new measures, but rather when and how these measures will arrive. The simplicity behind the examination of payments to foreign countries today could in time lead to a requirement for tax authorities to have universal direct access to businesses' books and records. This poses a number of ethical questions.

Digitalization is a gift, but who should determine when enough is enough and decide when it is time to evaluate whether the use of data has gone too far?
How EY can help

Businesses can establish an effective work plan processing system to adapt to foreign VAT/GST registrations. Based on our experiences with VAT/GST implementation worldwide, we have developed an effective four-phase conversion process:

- Impact study
- Planning and implementation
- Transition/output testing
- Post-implementation review

Each phase can be broken down into six relevant disciplines or work streams:

- Indirect tax regulatory
- Systems (IT)
- Processes and controls
- Business transformation
- VAT compliance
- Project management
EU and The Mini One Stop Shop regime

Consulting on the MOSS

Since January 2015, supplies of telecommunication, broadcasting and electronic services to European Union end customers (B2C) are subject to value-added tax (VAT) where the customers have their permanent address or usually reside.

While this rule has been generally welcomed, as it has aligned the EU rules with the VAT destination principle, it has given rise to significant challenges for suppliers that have to deal with the VAT rules of potentially 28 EU Member States.

The Mini One Stop Shop (MOSS) regime allows suppliers to register online, file VAT returns and pay the VAT to a single Member State, and it has certainly provided some relief from the compliance burden.

The same level of complexity applies to the cross-border trade of goods to end consumers, considering that the destination principle applies when the threshold provided by each EU Member State is exceeded. However, with goods, it is not currently possible to report VAT to one single Member State.

Recognizing that this discrepancy could add to the burden for EU businesses, the EU Commission launched the public consultation “Modernising VAT for cross-border e-commerce”.

EY contacted businesses and stakeholders to discuss the complexities they face from the current regime and what changes to the legislation they would welcome.

The feedback highlighted that the main areas of concern include:
- The qualification of the services and subsequent determination of the place of supply
- The identification of the place where the customer resides
- The person liable for VAT
- The MOSS
- Discrepancies between EU Member States

Qualification of the services and subsequent identification of the place of supply

Even if the EU legislation defines the services subject to the 2015 changes, the constant evolution of the related technology prevents the legislation from covering all possible situations, creating uncertainty in some cases, especially for the qualification of new services.

This issue arises, for example, with online gaming services and online shows, which, for different reasons, cannot always be considered as fully meeting the criterion of the “minimal human intervention” provided by the Explanatory Notes describing electronically supplied services.

Some businesses have expressed the view that the EU Commission’s Explanatory Notes should be binding for Member States to mitigate the risk of conflicting interpretations and should be updated regularly as technology evolves to account for the specifics of new services.

Identification of the place where the customer resides

The 2015 VAT e-services rules involved shifting the place of taxation for B2C supplies of services from the place where the supplier is established to the place where the customer belongs. This change has attributed a central role to the identification of the customer’s location.

Advances in technology, however, allow customers to receive these types of services anywhere and everywhere, creating significant uncertainty for suppliers because it may be difficult to understand where the customer resides.

Even if the EU legislation provides for rules to ease such identification, they do not fit all cases. Therefore, some of our contributors pointed out the practical difficulties that suppliers face in obtaining two (or three, depending on the case) non-conflicting pieces of evidence about the consumer.

These contributors would welcome the removal of the need to provide two non-contradictory pieces of evidence, and they would like the legislation amended to reflect that.

**Person liable for VAT**
The presumption provided by the VAT law is that each person taking part in the supply acts in its own name but on behalf of the actual supplier and, therefore, is deemed to be liable for VAT on the supply. Nowadays, that may result in additional complications because the supply chains can be very complex.

This difficulty may be especially burdensome for small and medium-sized enterprises (SMEs), which do not always have the resources to understand the intricacies of the VAT law and may be exposed to significant liabilities if they do not comply.

Some businesses would welcome an amendment to the relevant legislation allowing one or more of the persons intervening in the supply to be considered as not acting in their own name. The other parties in the chain would have to agree, and there would have to be evidence to support this treatment.

**Moss**
Businesses have welcomed the extension of the MOSS to the supplies subject to the 2015 changes because it reduces the administrative burden arising from the changes.

However, the MOSS currently does not allow businesses to obtain full relief from their VAT compliance burden, and all contributors stressed that its scope should be extended to help EU businesses really be competitive.

The contributors supported the use of the MOSS for supplies performed in all jurisdictions (i.e., even to countries where the business has fixed establishments), the reporting of transactions in local currencies and the shortening of the 10-year retention period for records.

**Discrepancies among EU Member States**
The lack of harmonization among the VAT legislation of EU Member States – which gives rise to some of the issues already discussed – was one point highlighted by all businesses that participated in the study.

They said the lack of harmonization causes the most difficulties in areas such as invoicing, bad debt relief and tax audits, giving rise to significant uncertainty among taxpayers.

These challenges appear more significant for SMEs than for multinational companies, as the former usually lack the resources to keep abreast of legislative updates in all the jurisdictions where they have end customers.

**Various other items and possible improvements**
Among other points mentioned by contributors, one recurring theme is the lack of a common legal framework among EU Member States for the VAT treatment of vouchers.5

Furthermore, the contributors would generally welcome an extension of the MOSS to the B2C supplies of goods.

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5 In this respect, a Proposal for a Council Directive elaborated by the EU Commission has been pending for years. The last version available to the public is dated 11 November 2014.
Indirect tax and the Indian e-commerce marketplace

The sun seems to be shining brightly for the e-commerce sector in India. With its ever-growing popularity among Indian consumers, the sector is expected to perform better than ever, and the Indian e-commerce market is expected to grow the fastest globally over the next three years. According to a report from The Associated Chambers of Commerce & Industry of India (ASSOCHAM), India’s e-commerce industry is likely to touch the US$38 billion mark in 2016.

The e-commerce players could be described as India’s new-age barons and, as a result, the sector has become a key focus for investors, lawmakers, regulators and administrators.

Interaction with indirect tax

This business model complexity is aggravated by India’s indirect tax environment, which has always been fraught with challenges. It has multiple levies at the central, state and municipal levels that result in many issues related to applicability, valuation and availability of credits.

Under India’s current indirect tax rules, the following taxes apply:

- Excise duty is levied on the manufacture of goods.
- Value-added tax (VAT) or central sales tax (CST) applies to intrastate or interstate sales of goods, respectively.
- Service tax applies to the provision of services.
- Entry tax applies to the entry of goods into a particular state.
- Customs duty is levied on the import of goods into India.

VAT and entry tax are state levies, and the other taxes are central levies. It is not possible to use credits between central and state levies.

The marketplace model

Currently, most e-commerce companies operating in India are acting as a marketplace, providing services such as marketing, technology support, warehousing and logistic support to the sellers.

As such, these companies are subject to service tax. The sellers acting in this marketplace model must charge VAT/CST or service tax on the sale of the goods or the provision of services.

However, VAT authorities in various states hold the view that e-commerce players act as agents for the sellers; therefore, they should be treated as dealers from a VAT perspective. The state VAT authorities do not always understand that the e-commerce companies are merely providing a platform to the sellers and are not selling the goods in their own right.

As a result, VAT authorities in certain states are requiring e-commerce companies to undertake additional indirect tax compliance obligations for the delivery of goods in their states. In addition, the authorities have introduced cumbersome returns to provide details of goods sold through e-commerce platforms. Failure to provide this information is imposing the obligation to levy VAT onto e-commerce companies.

Certain states are also proposing the imposition of a VAT withholding tax on payments made to dealers by e-commerce players. In certain states, entry tax has also been proposed if goods have been purchased over the internet. Given the different requirements and practices followed by each state, it is easy to see that complying with all these provisions is an ordeal!

Current indirect tax issues for e-commerce companies

Reverse logistics: one of the key challenges faced by e-commerce companies is managing returned goods. The sellers often accept these goods, and the e-commerce company must dispose of them even though it has no rights in the goods.

**Discounts:** another perplexing indirect tax issue is the treatment of discounts. Discount schemes either flow directly from the seller or are funded by the e-commerce companies. For discounts, even though the actual consideration paid by the customer is reduced, the service tax and VAT authorities are proposing that taxes should be levied on the full value of the sale, with no regard for the discounts.

**Aggregator:** recently, the service tax law has introduced the concept of an “aggregator,” whereby the e-commerce company must pay tax on services provided by service providers (listed on the portal) under the brand name of the e-commerce company. This levy results in multiple issues for affected e-commerce companies, including restricting the availability of credits for payment of an aggregator service, loss of credits available to the principal service provider, double taxation on the commission element and a lack of prescribed mechanism for undertaking compliance. With such a wide range of issues, the sector strongly opposes the imposition of this levy.

**The move to GST**

As is common knowledge, India has been striving to move to a goods and services tax (GST) regime; however, this goal is proving elusive because of various hurdles.

GST is proposed as a destination-based tax with a dual levy (central and state), whereby central GST and state GST will be levied on intrastate transactions, and an integrated GST will be levied on interstate transactions. Place-of-supply rules will determine the nature of tax and the state where the liability needs to be discharged.

As FDI norms may not change in the GST era, it seems likely that e-commerce companies’ business models will not change. Unlike current indirect tax laws, which have no clear policy for the e-commerce sector, GST is expected to have specific provisions in this area. Having said that, things may not greatly improve.

A review of the proposed GST model indicates that the issues around discounts, aggregators, reverse logistics, compliance procedures and multiple registrations might continue to assail the sector.

**Advocating for effective GST rules**

GST will be a game changer for all sectors, especially the digital sector. Given its dependence on supply chain efficiency and the interplay of goods and services, the e-commerce sector will likely face difficult legislation unless it positively advocates its positions. The diversity of business models makes it difficult to find common ground for all subsectors.

One key advocacy point is that the vendor should be responsible for paying taxes and undertaking compliance for the sale of goods and services provided through a portal, and that no liability should accrue on the e-commerce players. This would mean that the aggregator concept would not apply in the GST era.

Furthermore, since the e-commerce players provide a wide range of services (such as marketing, warehousing and logistics), the place of supply for all these activities should be made the same.

Under the proposed GST regime, separate registrations would be needed for all locations on a state-by-state basis. If the e-commerce companies are made to comply with this requirement, it could result in acute business issues. Therefore, e-commerce providers should work to introduce the concept of a unified centralized registration to the sector.

It is crucial that e-commerce companies consider the business implications and the possible complications of their activities under GST. As India prepares to introduce this new indirect tax regime, the industry needs to address tax policy issues with lawmakers.

Given the uncertainty in GST, and the measures that state and central government regulators have tried to apply to the e-commerce sector in recent months, it is time for the sector to rally together, take sound tax positions and engage with authorities to create an environment conducive to the continued growth of e-commerce in India.

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European distance sales thresholds

EU businesses that sell goods business to consumer (B2C) to other Member States are required to register and account for local VAT if the total sales exceed the distance selling threshold of the local countries.

This map shows the distance sales thresholds for each Member State at 1 January 2016.

Use our distance sales calculator to determine whether your B2C distance sales exceed the distance sales registration threshold in each EU Member State.

The spread of digital services—the new VAT/GST rules, but an uneven global landscape

One of the biggest impacts for indirect taxes from the digital revolution has been the rapid increase in cross-border services, especially in digital services provided directly to final consumers (B2C). Digital services include a wide range of activities and may cover telecommunications, music and video downloads, online gaming, cloud services, online advertising and subscription services for online publications.

Shifts in the place of taxation

The way that services are accessed and delivered to final consumers over the internet is challenging the fundamentals of how and where VAT/GST applies. As nonresidents generally fall outside the consumption tax system and it is difficult to collect VAT/GST from final consumers, this trend has been perceived by many countries as presenting a significant threat to indirect tax revenues and to domestic service providers.

In response, governments around the world are taking action to clarify and change their VAT/GST legislation for digital services. Increasingly, nonresident service providers are obliged to register and account for VAT/GST in the customer’s country. The effect is a rapid shift in the place of taxation to where the customer is resident (which is treated as the place of consumption).

- **The European Union:** Effective 1 January 2015, EU and non-EU businesses that sell B2C telecommunications, broadcasting/media, and electronic services to private customers located in the EU are taxed according to the country of the customer. These changes have significant impact on the VAT and commercial aspects of affected businesses. In terms of VAT compliance, service providers can account for local VAT under individual local VAT registrations, or through the simplified Mini One-Stop-Shop (MOSS) scheme (which avoids the need to undertake separate local VAT registrations in up to 28 countries).

- **Other countries:** Countries that have recently introduced specific VAT/GST rules relating to digital services include: Japan, Norway, South Africa, Albania and South Korea (see map). Countries that have announced plans to take action on this issue include, Australia, New Zealand, Israel and Canada. In the US, individual taxing jurisdictions are also taking action on the digital economy and there are efforts to introduce multistate taxation in this field.

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Managing indirect taxes in the digital age
Key indirect tax issues

The changes in how and where consumption tax applies to e-services represent a significant issue for companies operating in the digital economy, including:

- **Keeping track of changes**
  The legislative landscape is currently very uneven and changing rapidly. Service providers must keep track constantly of where they have customers and what the VAT/GST rules are in those countries and what changes are on the horizon.

- **Lack of harmonization**
  While no single internationally accepted VAT/GST treatment applies to cross-border supplies of digital services, instances of double taxation and non-taxation are likely to arise. If nonresidents are not obliged to charge VAT/GST, this may distort competition and reduce government revenues. However, imposing VAT obligations can significantly add to the compliance burden for nonresidents and may discourage them from trading in certain markets.

- **VAT/GST registration for B2C supplies**
  In many countries, VAT/GST registration obligations arise for B2C supplies of digital services. This requires all digital service providers to ascertain and act on the status of their customers and where they are resident, which may be information that the supplier does not generally collect. In addition, the supplier’s obligation to register may arise from the first sale to a customer in that country – leaving the supplier little time to act. However, failing to act on this obligation can lead to severe financial penalties. The vendor may even be blocked from trading legally in the territory until it complies with local rules.

- **VAT/GST registration obligations for B2B supplies**
  Some countries may impose an obligation for nonresident service providers to register for VAT/GST for B2B supplies of digital services, including for intercompany services. It is hoped that most countries will not adopt this practice, as it adds to the compliance burden for nonresidents and brings companies into the VAT/GST net for supplies that could be accounted for by resident businesses (e.g., using a reverse charge mechanism). This practice is not widespread currently. However, all suppliers of digital services should monitor the situation closely as more countries impose a VAT/GST on digital activity.

- **VAT/GST compliance**
  A major issue for suppliers of e-services is complying with their on-going VAT/GST compliance obligations, especially if they have customers in multiple jurisdictions. Adopting robust indirect tax controls and effective systems are key actions for all digital service providers. Companies that supply services in the EU may consider using the MOSS to simplify their obligations, but they must also weigh up the disadvantages of using the scheme. Outsourcing VAT/GST compliance or concentrating indirect tax compliance resources in regional shared service centers may also be effective ways to meet the compliance challenge.
Key indirect tax issues continued

- **Pricing/margin**
  If VAT/GST applies to an online B2C service, the service provider must decide whether to add the tax amount to the existing price or reduce its margin to keep the price the same to the final consumer. As the average VAT/GST rate worldwide is around 20%, this decision is likely to have a significant economic impact but it is not always a straightforward choice – especially if the supplier serves customers in different countries that apply different VAT rates (as is the case in the EU) or if some customers will pay VAT/GST and others will not.

- **Customer relationship**
  The addition of VAT/GST to services supplied B2C has a profound impact on the customer relationship, e.g., on pricing, the customer interface, the information requested before services are supplied, and on prices charged in different countries for the same service, etc. Changes may have a negative impact on the customer experience, which may damage the supplier/customer relationship and discourage suppliers from operating in certain markets.

- **Contracts**
  Existing contracts will need to be reviewed and new contracts will need to be set up so that it is clear who supplies what to whom, who accounts for VAT/GST, and who collects certain other compulsory information (e.g., information on customer location).

- **Arrangements with intermediaries**
  Arrangements with intermediaries: where an intermediary acts as a disclosed agent in a transaction with a customer, the provider must get access to timely VAT/GST information from the intermediary to allow it to account for VAT/GST in the customer’s country.

- **Records and audit readiness**
  Invoicing policies will need to be amended to reflect invoice and record keeping requirements in each country where VAT/GST will be accounted for. Businesses will also need to ensure that their systems are capable of supporting audit requirements in these countries.

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How EY can help

We can assist companies in every size and sector to sell goods and services seamlessly using the internet, by allowing all consumption taxes, duties and indirect tax obligations to be met without disrupting the transaction, supply chain or value chain. Our end-to-end services and quick reference guides can help:

- Internet start-ups, including companies involved in new and disruptive online business models
- Companies selling online for the first time
- Companies expanding their web presence into new territories or new areas of business
- Companies improving or enhancing their online presence or customer experience
We discuss the impact of digital with the head of VAT of a communications company based in the European Union and identify priorities for the future.

Advantages and opportunities

VAT fraud
The advances in digital technology could make a big impact on fraud, particularly missing trader fraud. At the moment, this issue is having a big impact on our business sector in that we are having to face the real burden in combating the fraud and the financial risk. Better sharing of information and analysis will help tax authorities to make a real impact. It is a significant opportunity for the authorities.

E-invoicing, touchless processing
Some Member States and countries outside Europe are still skeptical about e‑invoicing and, hopefully, digital technology should encourage wider acceptance. Such acceptance will help promote further automation in the accounting processes, especially AP.

“Touchless process” is a buzzword in our organization at the moment. This is the ability to process a receipt through to the tax return without any human intervention. It is early days, but as technology further evolves, the opportunity is there.

And with the improving OCR software, there is the prospect of automating the VAT determination within the AP process, thereby reducing errors. It is an area that we are pursuing aggressively. There is another opportunity in the area of tax software used by business, particularly in analytics and the compliance process itself. At the moment, I feel it is an immature market and oversold, but there is the potential for some very, very impressive tools.

Digital also opens up the ability to communicate more with tax authorities electronically (registering for taxes, dealing with them online, filing returns and making e-payments). It is well-established in certain European jurisdictions but not uniformly so, and is less predictable outside Europe. However, the trend is there. It is inevitable and will make the process of liaising with the authorities simpler and easier.

Impact of digital on strategy
At this stage, none of the developments are having an impact on the fundamental strategy of improving shareholder value and compliance. What's more of an impact are data‑hungry authorities.

What is worrying is whether they actually know what to do with the data they are collecting. Do they have a good idea of what they are going to do with it — and not just with the volume of the data but of making best use of it so it becomes a mutual benefit and not just a costly exercise for business of providing data that just “sits there”?

Advancing technology is impacting us most around the compliance process in that it is enabling us to centralize compliance in a shared service center where we can benefit from standardized processes. We have some technology tools to increase efficiency and efficacy. The tools are not yet amazing, but the touchless invoice processing, which I have already mentioned, has taken a massive amount out of the “shadow tax function,” where there were many people involved in the VAT determination process.

Practical challenges

1. Standard Audit File for Tax (SAF-T)
   The increasing take-up by tax authorities in requiring taxpayers to file SAF-T is not in itself an issue, especially if there is a single standard report. What is challenging, and we are seeing it already, is that individual authorities are tweaking the data fields that they require.

   The result is that we will end up with a series of unique but highly prescriptive reporting standards. This increases the cost to business as ERP systems will need to be adapted to meet the particular format required: it is an extremely onerous and time-consuming exercise. I fear that the result will be 100 different versions of SAF-T, which will be a nightmare to comply with.

2. Unrealistic expectations by tax authorities
   I think that we will start to see tax authorities have unrealistic expectations about what companies are able to deliver in terms of digital reporting. They do not seem to have a good understanding of what ERP systems are capable of actually doing and significant underestimations of the effort involved, both in terms of cost and resource, especially when the tax authority is expecting virtual real-time reporting, for example, the new AR/AP reporting requirements in Spain effective from 1 January 2016.

   I do not think that the authorities have made any real investment in understanding the impact on business of digital reporting or even discussed with ERP providers the capabilities of their systems in meeting these reporting obligations.

Digital also opens up the ability to communicate more with tax authorities electronically (registering for taxes, dealing with them online, filing returns and making e-payments). It is well-established in certain European jurisdictions but not uniformly so, and is less predictable outside Europe. However, the trend is there. It is inevitable and will make the process of liaising with the authorities simpler and easier.
A real impact is resulting from more and more authorities looking to tax digital supplies according to the place of the customer. I am seeing a real acceleration in the take-up of rules similar to the EU which is impacting our business, and it is not easy to control where the business is selling.

To date, my experience is that governments have been practical in the implementation of thresholds, allowing a sensible proportionality between the collection of tax and the cost of collection. This is an area we watch very carefully, especially in the development of tax law in countries where we don’t consider ourselves to be active but the internet opens up markets quickly and quickly exposes us to local compliance obligations.

VAT and permanent establishment
A VAT registration does give visibility to an authority of an activity taking place in a country and will likely lead to questions about PE for corporate tax. I do see that there will be more exchange of information between authorities within countries and cross-border. I do not see it as anything to fear, as transparency per se is not a problem provided it is managed soundly and reasonably. Being seen to be compliant is part of our branding and code of conduct.

Three priorities
1. Managing the cost and complexity of the data requirements of tax authorities as they develop their digital reporting requirements, especially if there is a lack of coordination between authorities.
2. Keeping abreast of the ever-increasing fast pace of global change in tax laws.
3. Ensuring priorities are in place to deliver accurate returns on time.
Australia and New Zealand: GST changes for nonresidents supplying goods and services

The goods and services tax (GST) landscape in Australia and New Zealand is changing radically. Both countries have introduced new rules for cross-border transactions aimed at taxing private consumption of goods and services purchased from nonresident suppliers, while at the same time removing some nonresidents only making B2B supplies.

Goods

For goods, the new rules will provide for abolishing the current exemption thresholds for low-value imported goods. Currently, goods imported into Australia with a value of less than A$1,000 are not subject to GST or customs duty. It is intended that the low-value threshold for GST purposes will be reduced to nil effective 1 July 2017, although no legislation has been introduced to effect this change.

The New Zealand Government is also considering reducing the importation threshold (currently NZ$400) below which imported goods are not subject to GST.

Services

For digital services, nonresident suppliers will be required to collect and remit GST on remote services from 1 October 2016 in New Zealand and from 1 July 2017 in Australia.

The scope of these changes is very broad. Besides digital products such as movie streaming and music and app downloads, they also apply to any business-to-consumer (B2C) intangible supply, including that of services, some financial products, rights, gaming products and insurance.

Some B2B suppliers taken out of the Australian GST net

The Australian changes will also exclude from the GST system a number of nonresident suppliers who are currently registered for GST.

Certain nonresident suppliers of business-to-business (B2B) transactions that currently give rise to GST registration obligations will no longer be treated as “connected” with Australia. As a result, GST cannot apply, and the nonresident supplier can disengage from the GST system.

Broadly, these rules apply when the nonresident is not acting through an Australian enterprise and is making supplies to Australian businesses, not end consumers. While the start date of these changes depends on the passage of legislation, it is expected to be 1 October 2016.

The following types of supplies will no longer be treated as being connected with Australia when they are supplied B2B by nonresidents, and therefore they will not be subject to GST:

- Supplies of all intangibles (that is, anything other than goods or real property) made to Australian businesses that are registered for GST
- Supplies of intangibles to non-residents that are made in Australia
- Supplies of leased goods in Australia to a non-resident
- The supply and installation of goods in Australia by non-residents in certain circumstances

However, the overall (net) GST collection will not change, as Australian-based business recipients of these B2B supplies will be required to account for GST under the existing reverse charge mechanism where that business makes input taxed supplies.

Next steps

Nonresidents who supply goods and services to Australia and New Zealand should now consider how these proposed GST changes are likely to affect their operating models, their accounting and reporting systems, their pricing and contracts, and the information they need to gather.

The implications of these changes could include:

- Suppliers who make supplies to Australian and New Zealand consumers may come within the GST net, and they may have to register, collect and remit GST.
- Suppliers who currently account for GST on supplies that may no longer be “connected” with Australia may be able to cancel their GST registrations.
- GST may no longer apply to supplies made by domestic suppliers involving nonresidents that are currently subject to GST.

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Managing indirect taxes in the digital age
Spotlight on South Africa

Foreign electronic service suppliers

The South African VAT Act requires foreign electronic service suppliers to register for value-added tax (VAT) in South Africa. The law was introduced with effect from 1 June 2014. Although the new rules have been in place for more than a year, a number of issues may cause difficulties for foreign companies with customers in South Africa.

B2B supplies: unlike in other jurisdictions, such as the EU, the South African law draws no distinction between business-to-business (B2B) and business-to-consumer (B2C) supplies. Therefore, even if the recipient is entitled to a full input tax credit, the foreign electronic service supplier still has to register for VAT.

Supplies of software: the law does not currently include software in the definition of “electronic services.” However, subscriptions to a website, web application or database are covered by the “electronic services” definition, and software supplied on a subscription basis could also be included.

Late VAT registration: the law allows the tax administration, the South African Revenue Service (SARS), to set a later date for a vendor’s VAT registration in special circumstances. But recent discussions with SARS indicate that it is not willing to exercise this discretion for foreign electronic services providers unless they can prove that the recipient of the service is entitled to full input tax deduction (i.e., generally, for B2B supplies to fully taxable businesses). When this is not the case, a foreign service provider who has not registered for VAT in time could register under a voluntary disclosure application to mitigate penalties.

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Increasing mobility of technology

The digital explosion means that we are increasingly plugged in, with social media, emails and other updates creeping into our downtime. We are taking our devices with us wherever we go and using them during our leisure time.

As the line between work and leisure blurs, being permanently connected and available can certainly create a headache – and not just for technology users. EU businesses operating in sectors such as telecommunications are facing an additional headache in monitoring how we are using their services abroad to confirm they comply with rules governing value-added tax (VAT) and goods and services tax (GST).

The “use and enjoyment” rule

Broadly, EU VAT applies to telecommunications and digital services depending on the status of the customer and where the customer is resident. But this is not the end of the story. The EU Principal VAT Directive provides an option (Article 59a) for Member States to apply a “use and enjoyment” test to determine taxation for certain types of services, to prevent double taxation, non-taxation or distortion of competition.

In effect, this rule aims to tax certain services where they are “consumed.” In an increasingly mobile world, where it’s not uncommon for a resident of Belgium to work in Switzerland and then spend her weekends at her second home in France, how and where should these types of arrangements be fairly taxed?

Focus on the UK

Several EU Member States, including the UK, have exercised this option for telecommunications and broadcasting services and for electronic services. For telecommunications and broadcasting, the UK applies the “use and enjoyment” rule to both business-to-business (B2B) and business-to-consumer (B2C) services. For electronic services, it has exercised this option only for B2B supplies.

In the recent UK Budget, the Chancellor of the Exchequer, George Osborne, announced that there would be a review of the wider application of the UK VAT “use and enjoyment” provisions, with a possible view to extending them to other services, including advertising.
“Use and enjoyment” issues for UK telecom providers

For UK businesses operating in the telecoms sector, the application of the “use and enjoyment” rule means that if UK consumers make calls (and use other telecommunications services) outside the EU, the services fall outside the scope of UK VAT. With contract customers, however, the telecoms provider is entitled to treat the portion of the monthly recurring charge (MRC) that relates to the non-EU use as outside the scope of UK VAT.

The contentious issue is how these businesses calculate the non-EU portion of the MRC. Historically, most UK businesses in the telecoms sector have agreed to an apportionment methodology based on comparing their non-EU revenues with total revenues. The UK tax authorities, Her Majesty’s Revenue and Customs (HMRC), announced to telecoms businesses in 2013 that they intended to review the “use and enjoyment” methodology. The authorities felt that a revenue-based methodology resulted in a disproportionately high percentage of non-EU use compared with “actual” non-EU use. Any agreed methodologies were revoked or expired at the end of 2014 or in early 2015.

However, a review of “use and enjoyment” raises a number of challenging questions: what is effective use? How do you measure it? Does the perceived enjoyment and value received by the customer equate to the tax authorities’ perception? Despite the early warning, most UK businesses affected by the review are still trying to agree on a new apportionment methodology with HMRC.

Impact on other sectors

The VAT “use and enjoyment” provision for telecoms, broadcasting and e-services is no longer a concern exclusively for the telecommunications, media and technology sectors. Changes to business models mean that more sectors are seeing the impact of the digital economy: using new means to sell traditional products and developing new digital products. Transformative digital technologies are also redefining and driving innovation in other industries, and making traditionally “static” services more mobile. For example:

- **Smart cars** – it is possible to hire a smart car and drive across an international border. What is the VAT position if that car is receiving or using mobile telecommunications services?
- **Driverless cars** – will these operate or be monitored by telecommunications services?
- **Media** – should online and broadcast advertising campaigns be considered “used and enjoyed” where their target audiences are located?
- **Health care** – diagnostic and monitoring apps will follow patients wherever they go. Where should VAT apply?
- **In-transport entertainment** – how should governments tax Wi-Fi and similar services on planes, trains and cruises?

Implications for businesses

Consumers’ increased mobility is creating a range of VAT/GST challenges for businesses that provide mobile-enabled services. In a wide range of sectors, service providers may need to consider monitoring the VAT/GST rules relevant to their activities, including the application of “use and enjoyment” provisions, in all countries where they have no direct or indirect physical presence but where they may have customers.
The changing tax landscape

Around the world, VAT/GST rules are changing rapidly. Some countries are introducing new VAT/GST regimes, while others are adapting their existing ones to the digital economy. Besides understanding the technical position, especially when a change is introduced, you should address a number of considerations before fully implementing any VAT/GST change, including:

- How will you monitor whether countries will seek to tax “use and enjoyment”?
- How will you monitor where customers use your services?
- How does the relevant country define “effective use and enjoyment”? Does it tax roaming services charged to vacationing consumers? Does it tax charges made by local operators to foreign telecommunications providers?
- How do you accurately maintain your VAT/GST logic as new technologies are developed?
- How will you avoid overpaying domestic VAT/GST where customers have not used and enjoyed the services domestically?
- How can your in-house VAT/GST team manage risk and respond effectively to fast-paced global expansion?
- Do you pass on any local tax cost or savings to your customer, or retain universal pricing and risk an impact (which may be positive or negative) on your profit margins?
- How will tax authorities police any debts for services used in their country?

What should businesses do?

The rate of change and technological innovation presents a number of key challenges, including:

- How do you stay up to date with the ever-changing global VAT/GST rules?
- Have you evaluated the full impact (technical, practical and commercial) of the changes already in the pipeline?
- Have you modeled your data to understand the potential financial impact and the best/worst/most likely scenarios?
- Should you be lobbying and working with governments and tax authorities to highlight the practical challenges, and agree on what are reasonable efforts to comply with local rules?
- Have you implemented robust processes and controls (both human and automated)?
- Have you considered your strategy about how and where you do business?
- Have you considered and consulted on the interaction of the tax position with other legislation and regulations, such as copyright, data protection, etc.?
- Have you mapped out the potential impact on all these points in the event of geopolitical changes (e.g., the exit of countries from the EU)?
- Have you created an effective governance framework to address and manage tax and reputational risk issues and to agree on tax and business policies?
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Excerpt from Managing indirect taxes in the digital age. Read the full report and access interactive content at ey.com/indirectdigital.
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Indirect taxes, ranging from value-added tax (VAT) and customs duties to environmental levies, affect the supply chain and the financial system. They pose unique challenges to multinational tax functions since they must be managed accurately and in real time. These often invisible taxes can have significant impacts – on cash flow, absolute costs and risk exposures.

Thanks to our network of dedicated Indirect Tax professionals, who share knowledge and ideas, we can provide seamless, consistent service throughout the world and help you deal effectively with cross-border issues. These include advising on the VAT treatment of new and complex transactions and supplies, and helping resolve classification or other disputes and issues with the authorities.

We provide assistance in identifying risk areas and sustainable planning opportunities for indirect taxes throughout the tax life cycle. We can provide you with effective processes to help improve your day-to-day reporting for indirect tax, reducing attribution errors and costs, and making certain indirect taxes are handled correctly.

We can support full or partial VAT compliance outsourcing, help identify the right partial exemption method and review accounting systems. Our customs and international trade teams can help you manage customs declarations, audit and review product classifications, and evaluate import and export documentation. Our globally integrated teams can give you the perspective and support you need to manage indirect taxes effectively.

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