



# The EU's One Stop Shop

Current  
experiences and  
future  
developments



# What is VAT?

- **Multi-stage Consumption tax levied on all goods and services (NB anything which is not a good = a service)**
- **Tax collected from customer and remitted by Supplier (the "taxable Person")**



# Legal Base

- **Sixth VAT Directive (adopted in 1977)**
- **Harmonized tax base (with certain options)**
- **Harmonized taxing rules: to ensure that there can only ever be one place of taxation for each transaction ("Place of Supply")**



# WHY HARMONISE?

- **Common VAT System used in all Member States :**
- **- To ensure proper functioning of internal market**
- **- Avoid double & non taxation**
- **- Avoid controls etc at frontiers**
- **- Simplify system for traders**
- **- Ensure allocation of tax receipts to country of consumption**



# E Commerce: Pre 2002

- Digital downloads = Not goods = Services
- Basic "Place of Supply" rule for Services : Tax where supplier is established
- Simple rule which, in 1977, achieved the right result (in general tax accrued to country of consumption)



# E Commerce: Pre 2002

- However, applying this rule to Digital downloads resulted in
  - -EU suppliers being required to tax ALL sales (even to non EU Clients);
  - -non-EU suppliers selling tax-free to EU Customers.



# E Commerce

- **New Legal Framework therefore created:**
- **EU E-Commerce VAT Directive (2002)**
  - **Objective: To ensure that all purchases of digital downloads by consumers in the EU are subject to VAT (Level playing field)**



# E Commerce

- **First Step: Change Place of Supply rules to tax where customer resides**
- **Second Step: Enable collection by non-EU taxable persons**



# E Commerce

- Provides Three Options for Non-EU Taxable Persons to fulfil their obligations:
  - Register as a non-established person in each Member State
  - Establish in the EU
  - 'Special scheme' incorporating the One Stop Shop



# One Stop Shop

- Provides a single point of contact for registration, tax declarations and payments.
- All registrations and returns dealt with electronically
- However, tax chargeable at rate applicable in country of consumption (i.e. where purchaser resides)



# One Stop Shop





# One Stop Shop

- **Administrative requirements:**
- **Communication tools and messaging facilities between States**
- **Common procedures for dealing with registration; returns; payments etc**
- **Common interpretation of Scope**



# One Stop Shop

- **Results in First Quarter:**
- **570 Registrations**
- **17,500,000 Euros revenue**
- **Conclusion: Harnessing modern technology encourages voluntary compliance**



# The way ahead

- **Adapt and extend One stop shop to intra-community supplies to ensure:**
  - **taxation at the place of consumption**
  - **simplification of fiscal obligations**



# The way ahead

- Potentially more than 300,000 traders concerned (as opposed to 550 with current scheme);
- Need to fully automatise (to avoid unacceptable burdens for Member States)



# B2C GOODS

- Since 1993 (creation of Internal Market) intra-Community distance sales are:
- Taxed in Country of Seller up to a certain threshold;
- Taxed in Country of purchaser above threshold



# B2C GOODS

- **RESULT:**
- **Significant volumes of sales are taxed in State of consumption;**
- **However completion of VAT formalities in State(s) of consumption discourages cross-border activity**



# B2C GOODS

- **EU: No problem taxing BUT formalities discourage trade**
- **US: Can't tax because formalities would impede trade**



# B2C GOODS

- **Common Solution:**
- **Harness modern technology to minimize compliance obligations ;**
- **Safeguard Revenue base**



# B2C SERVICES

- **Basic Rule: Tax where supplier is established**
- **Simple for trader**
- **BUT increasingly leads to cross border sales (notably of telecom and e commerce services) taxed in country of establishment of supplier (c.f. US experience with distance sales of goods)**



# B2C SERVICES

- **WHY?**
- **Because tax rates vary from 14% (Madeira) and 15% (Luxembourg) to 25% (Denmark and Sweden)**
- **Hence the "Luxembourg/Madeira phenomenon"**



# B2C SERVICES

- **Solution:**
- **1) Change Place of Supply for certain B2C Services to country of purchaser**
- **2) Extend One Stop Shop to these supplies**



# Timetable

- **2004 : Simplification of obligations**
  - one stop shop for all transactions where the supplier is already liable to pay VAT in State where he is not established (Distance Sales of Goods, installation and assembly, work on immovable property, removals etc)



# Timetable

- **2005 : Change of Place of Supply for B2C services (telecomms, digital downloads, remote services)**
- **Inclusion within scope of one stop shop**



# FURTHER INFORMATION

- Public consultation launched
- See [www.europa.eu.int](http://www.europa.eu.int)