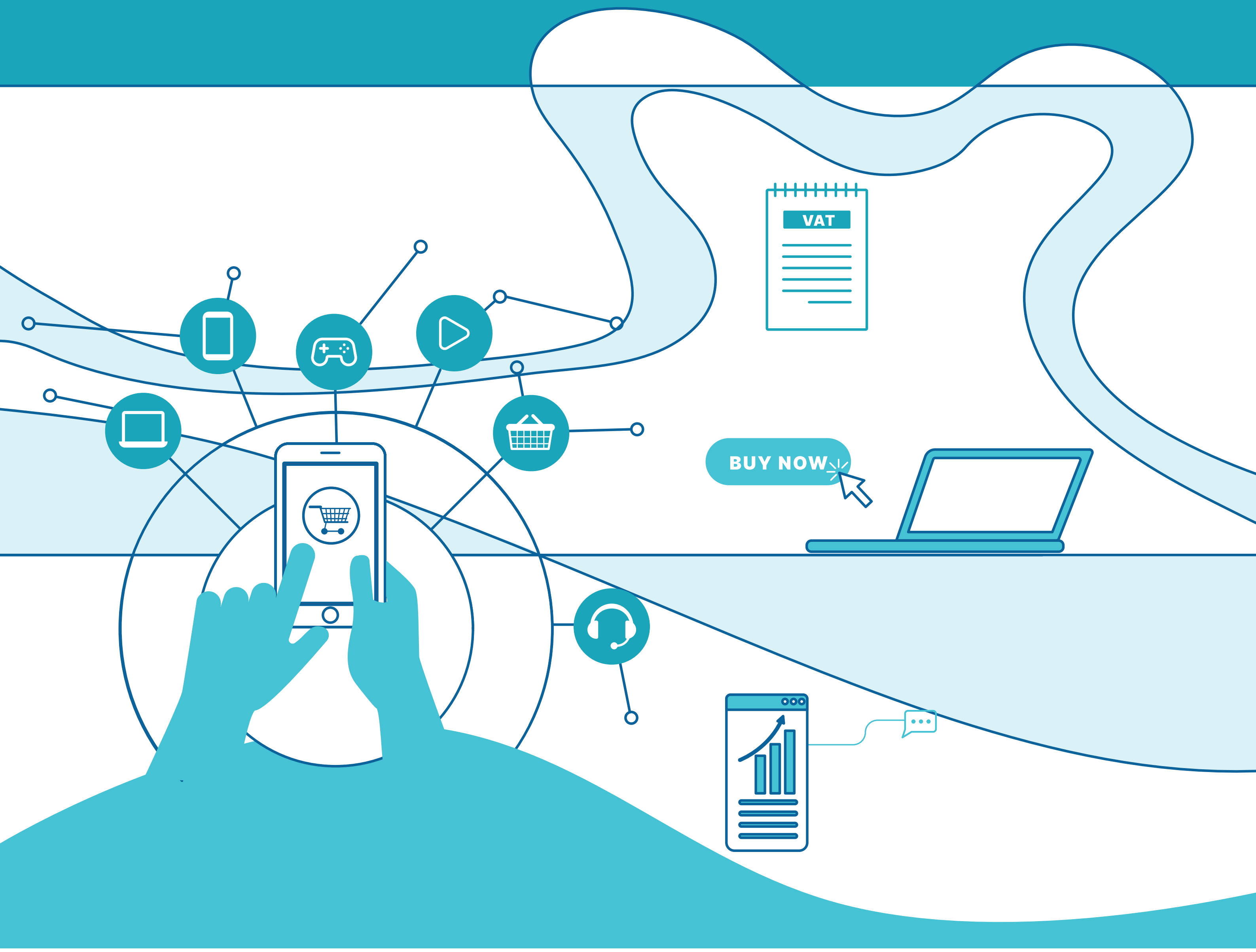
VAT Digital Toolkit for Asia-Pacific

Highlights and key recommendations



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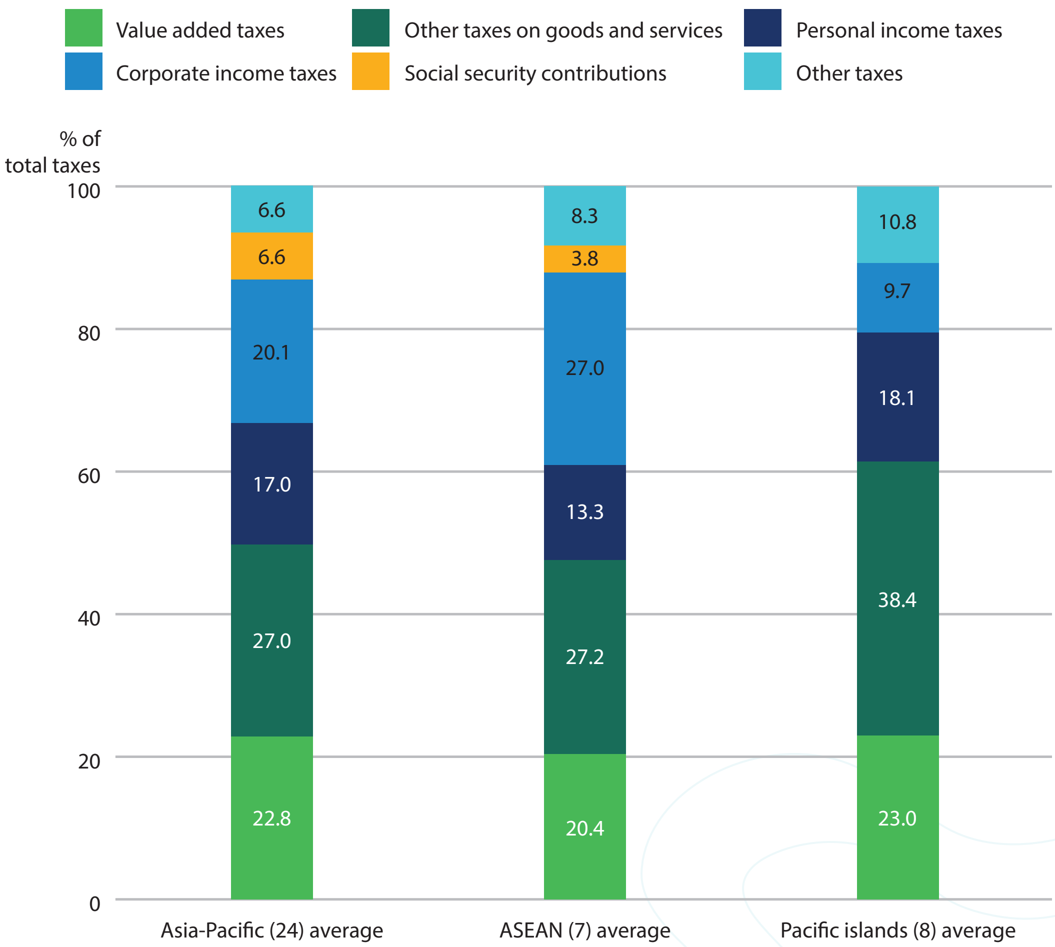
The importance of VAT in the Asia-Pacific region

Value added tax (VAT) is a major revenue source for most jurisdictions in the Asia-Pacific (APAC) region, representing over one fifth of the region's total tax revenues on average, ahead of notably corporate income taxes and personal income taxes.[1] For example, in 2019 VAT revenues amounted to 22.8% of total tax revenues across the 24 economies that featured in the OECD's *Revenue Statistics in Asia and the Pacific* series in 2021 (see Figure 1). Substantial reliance on VAT revenues in 2019 was also seen in other economies across the APAC region, for example, in Armenia (33.9%), Azerbaijan (37.8%), Bangladesh (52.9%), Georgia (44.7%), the Kyrgyz Republic (36.0%), Pakistan (32.8%), and Tajikistan (42.6%).[2]

Safeguarding these crucially important VAT revenues in economies that are being transformed by digitalisation and globalisation is a priority for many governments in the APAC region. Action is required not only to generate the revenues necessary to finance sustainable development and to strengthen domestic resource mobilisation after the COVID-19 crisis, but also to minimise competitive distortion between foreign online sellers and local physical stores.

Figure 1. **Tax structure in Asia-Pacific, ASEAN and Pacific Island economies in 2019**



Note: Asia-Pacific (24) average: Unweighted average of the 24 Asian and Pacific economies included in the OECD's *Revenue Statistics in Asia and the Pacific 2021*, i.e. Australia, Bhutan, People's Republic of China, the Cook Islands, Fiji, Indonesia, Japan, Kazakhstan, the Republic of Korea, Lao People's Democratic Republic, Malaysia, the Maldives, Mongolia, Nauru, New Zealand, Papua New Guinea, the Philippines, Samoa, Singapore, the Solomon Islands, Thailand, Tokelau, Vanuatu and Viet Nam.

ASEAN (7) average: Unweighted average of 7 ASEAN economies that include Indonesia, Lao People's Democratic Republic, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam.

Pacific islands (8) average: Unweighted average of 8 Pacific Island economies that include the Cook Islands, Fiji, Nauru, Papua New Guinea, Samoa, the Solomon Islands, Tokelau and Vanuatu.

Source: OECD (2021), *Revenue statistics in Asia and the Pacific 2021: Emerging challenges for the Asia-Pacific region in the COVID-19 era* at https://doi.org/10.1787/ed374457-en.

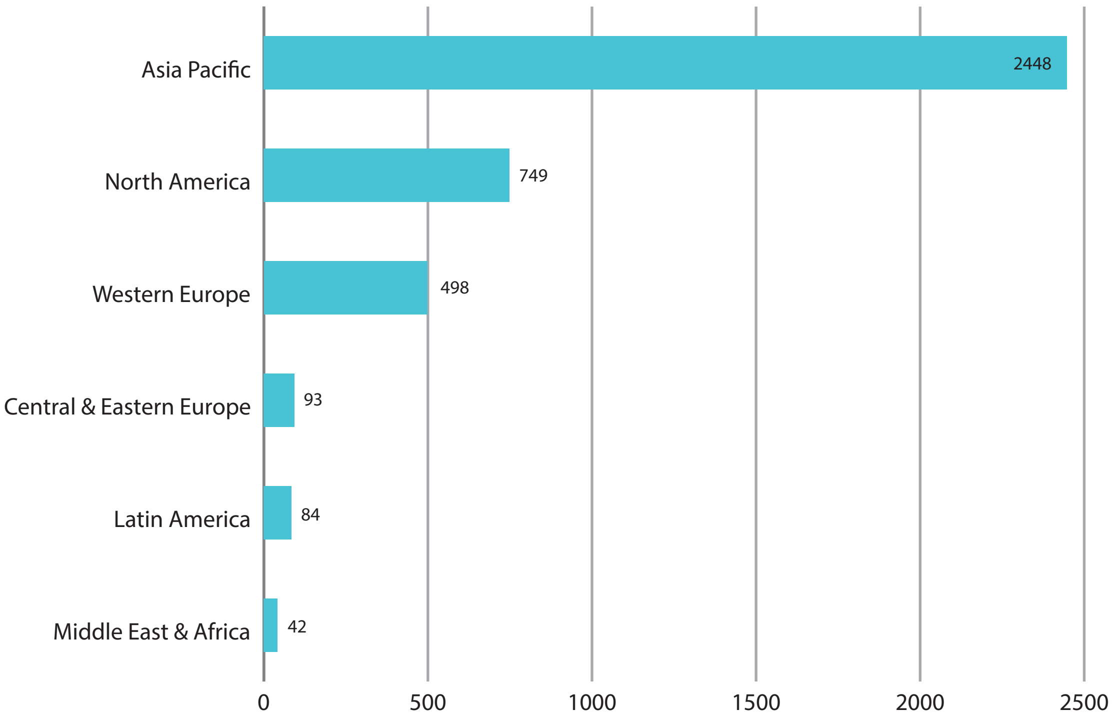
1 OECD (2021), *Revenue statistics in Asia and the Pacific 2021: Emerging challenges for the Asia-Pacific region in the COVID-19 era* at https://doi.org/10.1787/ed374457-en.

2 ADB (2022), *A Comparative Analysis of Tax Administration in Asia and the Pacific* (2022 edition, forthcoming).

Significance and growth of digital trade in APAC

The APAC region represents the largest share of global e-commerce by far and e-commerce sales continue to increase considerably across the region. The APAC region has been estimated to represent more than 60% of the global e-commerce market in 2020 with e-commerce sales in the region amounting to approximately USD 2.4 trillion (see Figure 2). China accounts for the majority of these sales.

Figure 2. **E-commerce sales worldwide by region, 2020 (USD billions)**



Note: For this graph, e-commerce includes products or services ordered using the Internet via any device, regardless of the method of payment or fulfilment. It excludes, for instance, travel and event tickets, payments such as taxes or money transfers, food or drink services, and gambling.

Source: eMarketer (2020), *Global Ecommerce 2020* at https://www.emarketer.com/content/global-ecommerce-2020.

The outbreak of the COVID-19 pandemic has been an important driver for continued strong e-commerce growth in the APAC region. Online shopping via digital platforms grew already faster in the APAC region than in the rest of the world, on average, before the pandemic (see Figure 3). Research indicates that COVID-19 has further accelerated this trend. A survey by the ADB showed that large shares of the consumer population further increased their online shopping since the pandemic in many APAC jurisdictions, often significantly so for instance in Viet Nam, Thailand and the Republic of Korea.[3] Research also indicates greater use of digital services, e.g. in Southeast Asia[4] where an estimated one third of all consumers started using such a service for the first time as a consequence of the pandemic.[5] COVID-19 "stay-at-home" restrictions, increased mobile phone ownership and mobile Internet access as well as greater access to digital payment solutions for online shoppers, have been among the main factors fuelling the continued strong e-commerce growth in the region. It has been estimated that the pandemic has accelerated the digitalisation of products and services (either partially or fully digitised) in APAC by more than 10 years.[6]

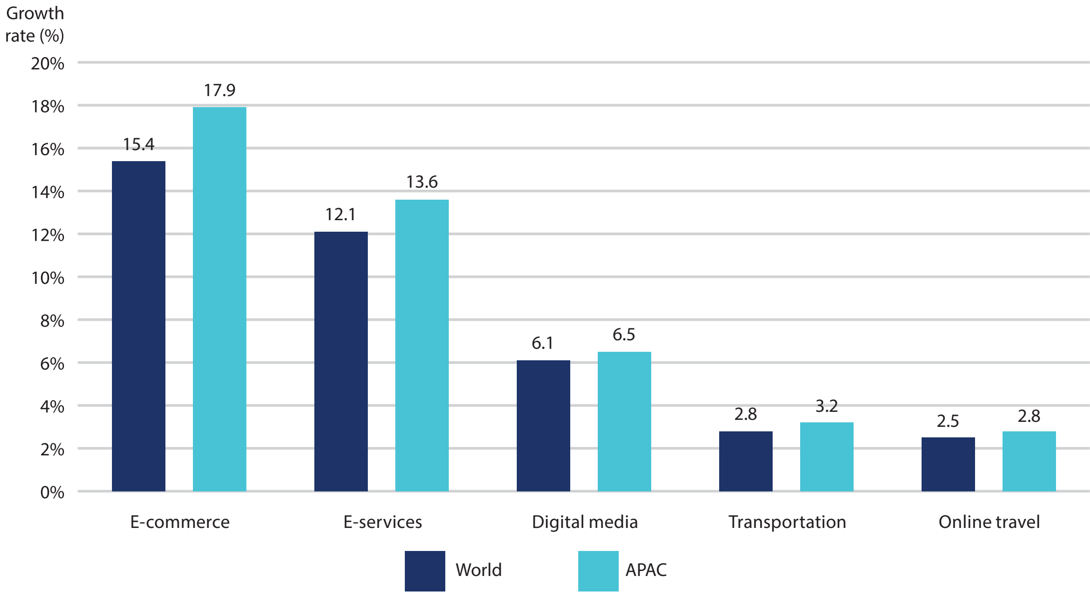
3 ADB (2021), *Asian Economic Integration Report – Making digital platforms work for Asia and the Pacific* at https://www.adb.org/publications/asian-economic-integration-report-2021.

4 The research is mainly based on data from Indonesia, Malaysia, the Philippines, Singapore, Thailand and Viet Nam.

5 Google, TEMASEK and Bain & Company (2020), *e-Conomy SEA 2020* at https://storage.googleapis.com/gweb-economy-sea.appspot.com/assets/pdf/e-Conomy_SEA_2020_Report.pdf.

6 McKinsey & Company (2020), *How COVID-19 has pushed companies over the technology tipping point – and transformed business forever* at https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/how-covid-19-has-pushed-companies-over-the-technology-tipping-point-and-transformed-business-forever.

Figure 3. **Growth rate of users of digital platforms for online shopping (World and APAC; 2018-19)**



Note: For this graph, APAC includes Armenia; Australia; Azerbaijan; Bhutan; Brunei Darussalam; Cambodia; Fiji; Georgia; Hong Kong, China; India; Indonesia; Japan; Kazakhstan; the Kyrgyz Republic; the Lao People's Democratic Republic; Malaysia; Mongolia; Myanmar; Nepal; New Zealand; Pakistan; Papua New Guinea; People's Republic of China; the Philippines; the Republic of Korea; Singapore; Sri Lanka; Tajikistan; Thailand; Timor-Leste; Turkmenistan; Uzbekistan; and Viet Nam.

Source: Based on ADB (2021), *Asian Economic Integration Report – Making digital platforms work for Asia and the Pacific* at https://www.adb.org/publications/asian-economic-integration-report-2021, using data from Statista.

Digital trade growth creates challenges for VAT systems

The strong growth of digital trade has created significant challenges for VAT systems globally and in the APAC region, in particular:

- The strong growth in online sales of services and digital products (applications and "in-app" purchases, streaming of music and on-demand television, gaming, ride-hailing, accommodation rental, etc.) especially by non-resident suppliers to private consumers. Traditional VAT rules often lack effective provisions to impose VAT on supplies that do not require the supplier to be physically present in jurisdiction of its customers, leading to no or inappropriately low amounts of VAT being levied.
- The strong growth of the volume of imports of low-value goods from online sales, on which VAT is not collected effectively under the existing rules and procedures and which therefore often enter jurisdictions untaxed.

Where no effective VAT reform to address these challenges is implemented, the continuous digital trade growth causes increasingly important VAT revenue losses and unfair competitive pressure on domestic businesses that cannot compete against the continuously rising volumes of online sales by non-resident suppliers on which no or an inappropriately low amount of VAT is levied.

Governments worldwide have recognised that the VAT challenges created by the digitalisation of the global economy require a globally co-ordinated response. Only such a response can maximise compliance levels by non-resident online suppliers at minimal cost, support the effective international co-operation in tax administration and enforcement, and minimise the risks of trade distortion.

Addressing the VAT challenges of digital trade – The OECD policy framework

In response, the OECD has delivered a comprehensive internationally agreed policy framework for addressing the VAT challenges of the digital economy, reflecting broad consensus on effective and efficient solutions among tax authorities worldwide. It results from an intense and inclusive policy dialogue among tax authorities from OECD member countries and non-member economies and key international and regional organisations over the course of several years. The core standards and principles that lay the foundation for this policy framework are included in the *International VAT/GST Guidelines* and in *Addressing the Tax Challenges of the Digital Economy: Action 1 - 2015 Final Report*. These standards have been complemented with detailed technical guidance on the design and implementation of mechanisms for the collection of VAT from non-resident online suppliers; on the role of online marketplaces and other digital platforms in the collection of VAT on online sales; and on the VAT treatment of the sharing and gig economy.

These OECD standards and recommendations have already been implemented in over 70 jurisdictions worldwide, including Australia, Georgia, Japan, the Republic of Korea, New Zealand, Singapore, and an increasing number of other jurisdictions in the APAC region. Overall, very positive results have been reported in respect of VAT revenue collected, compliance levels and reduction of competitive distortions between brick-and-mortar businesses and online merchants.

The OECD policy framework for addressing the VAT challenges of digital trade is based on four main pillars

i. Creating the appropriate legal basis for jurisdictions to assert the right to impose VAT on international digital trade. In respect of online sales of services and digital products, this is achieved by implementing the internationally agreed standard for determining the "place of taxation" by reference to the location of the customer.

ii. Ensuring the efficient collection of VAT on online sales of goods, services and digital products from non-resident suppliers through simplified VAT registration and collection mechanisms.

iii. Boosting the efficiency of VAT collection by requiring digital platform operators, which dominate global digital trade, to collect and remit the VAT on sales carried out through their platforms.

iv. Enhancing VAT compliance by non-resident online suppliers and digital platforms through effective communication and by implementing a modern risk-based compliance management and enforcement strategy, supported by robust administrative co-operation.

The VAT Digital Toolkit supports reform for the effective collection of VAT on digital trade in Asia-Pacific

The VAT Digital Toolkit for Asia-Pacific provides comprehensive and detailed guidance for the policy design, implementation and operation of a comprehensive VAT strategy targeted at digital trade in the APAC region. It is based on the internationally agreed OECD policy framework and draws on the expertise and best practices from jurisdictions that have already successfully implemented these standards:

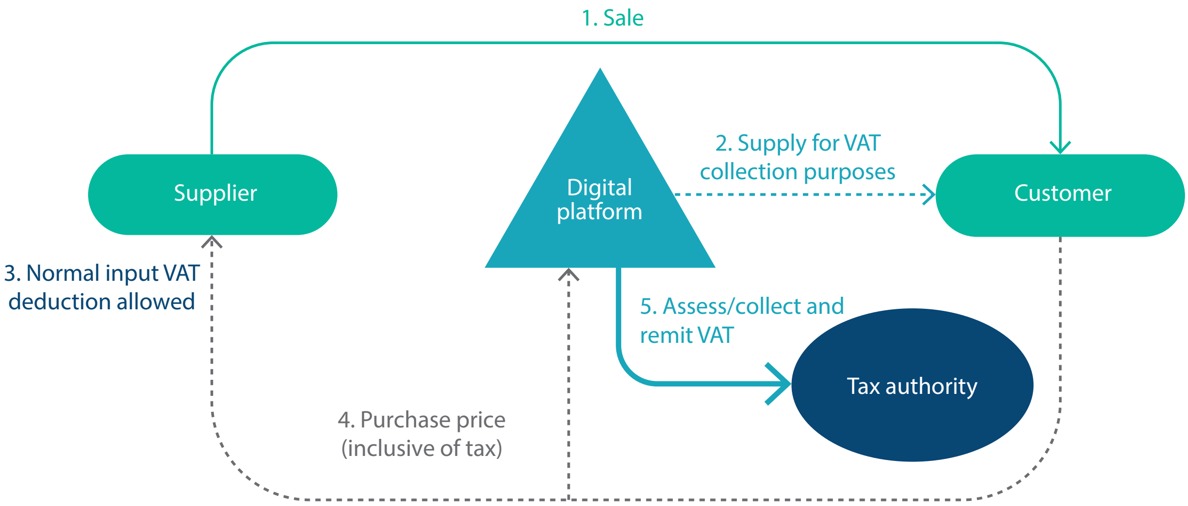
- Sections 2, 3 and 4 of the Toolkit provide a detailed analysis of the various components of the recommended policy framework for the application of VAT to digital trade and practical guidance for their implementation in light of the specific circumstances in the APAC region. They focus respectively on internationally traded services and digital products; on low-value imported goods from online sales; and on the sharing and gig economy.
- Section 5 of the Toolkit presents detailed guidance on the administrative and operational implementation of the recommended policy framework for the collection of VAT on international digital trade. This includes the design of a simplified compliance regime for non-resident online suppliers and digital platforms, the development of an online portal for registration and payment of the VAT by these businesses and the integration of this regime into a tax authority's existing administrative and IT framework.
- Section 6 of the Toolkit advises policymakers and administrators on the implementation of an effective communication strategy and of robust compliance risk management strategies to ensure compliance by non-resident online suppliers and digital platforms with their obligations under the recommended policy framework for the application of VAT to digital trade.

Sections 2, 3 and 4 of the Toolkit present detailed recommendations for the design of an effective VAT policy framework targeted at all types of digital trade

The core recommendations of the policy framework for the application of VAT to digital trade presented in Sections 2, 3 and 4 of the Toolkit include in particular:

- Create the appropriate legal basis for asserting the right to levy VAT on services and intangibles that non-resident businesses provide to private consumers (B2C) in a jurisdiction's territory, by implementing a rule for determining the place of taxation of such supplies by reference to the customer's usual residence. This allows a jurisdiction to impose VAT on these supplies, including sales of digital services and digital products, irrespective of whether or not the supplier is located in that jurisdiction.
- Identify clear criteria and indicia for determining and evidencing a customer's usual residence, by reference to data that are normally available to online suppliers in the normal course of their business (including bank card or other payment data, billing address, and IP address).
- Impose VAT collection obligations on non-resident suppliers making such B2C supplies ("vendor collection regime").
- Implement a requirement for digital platform operators to collect and remit the VAT on the online sales made through their platform by non-resident online suppliers ("full VAT liability regime"; see Figure 4). This can be complemented with reporting requirements, including requirements addressed to sharing and gig economy activities, thus notably creating considerable opportunities for greater visibility of informal economy activity.
- Realise high levels of compliance by implementing a simplified VAT registration and collection regime for non-resident suppliers and digital platforms to fulfil their VAT-collection obligations, supported by online processes and limiting obligations to what is strictly necessary for the effective collection of the VAT.

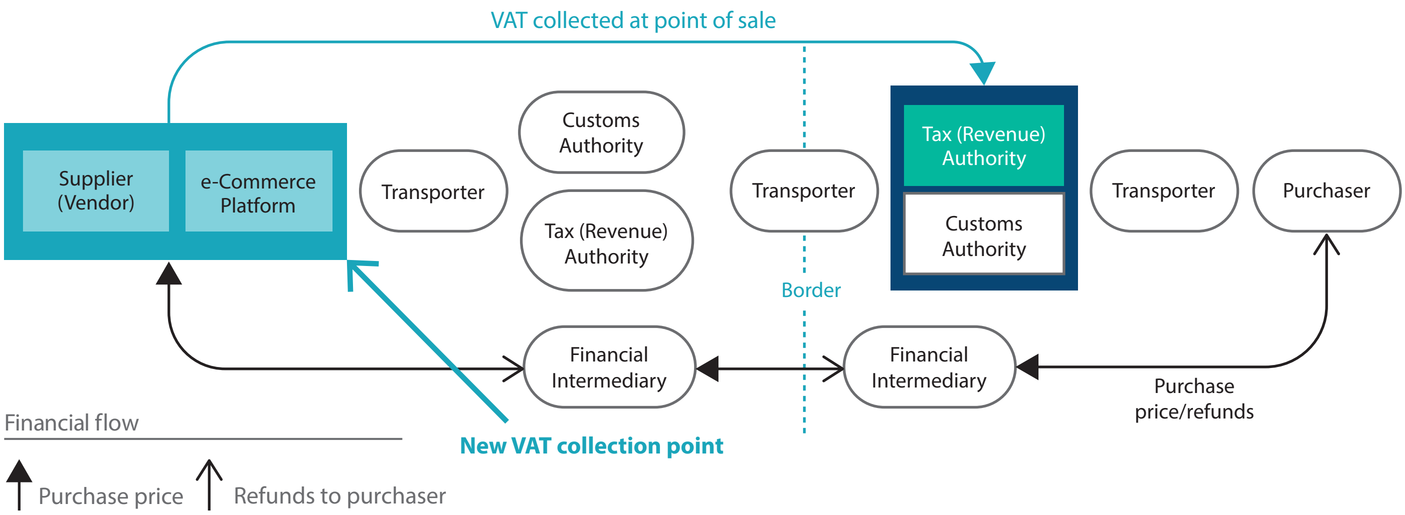
Figure 4. **Basic operation of the full VAT liability regime for digital platforms**



Note: The sequence of numbers assigned in the diagram is for identification only. It is not intended to indicate the timing of a specific step in chronological order.
Source: OECD/WBG/ADB (2022), *VAT Digital Toolkit for Asia-Pacific* at https://www.oecd.org/tax/consumption/vat-digital-toolkit-for-asia-pacific.htm.

- Extend the vendor collection regime with full VAT liability for digital platforms to online supplies of low-value imported goods, by imposing an obligation upon non-resident suppliers and digital platforms to collect the VAT on these supplies at the point of sale and to remit this VAT to the tax authority in the jurisdiction of importation (see Figure 5). Provide access for these non-resident suppliers and digital platforms to the simplified registration and collection regime to facilitate compliance. This allows jurisdictions to ensure that these goods can no longer be imported and/or sold free of VAT (e.g. due to a VAT low-value consignment relief) by non-resident suppliers, while significantly enhancing the efficiency of VAT collection by relieving customs authorities of the burden of collecting VAT at the border and considerably reducing opportunities for fraud from undervaluation of goods at importation.
- Strive for international consistency in designing and administering the above measures to impose and collect VAT on online sales by non-resident suppliers. Greater consistency will facilitate and hence optimise compliance for foreign businesses and digital platforms with multi-jurisdictional obligations, thus ultimately safeguarding and enhancing revenues for governments.

Figure 5. **Overview of VAT collection for low-value imported goods under a vendor collection regime**



Source: OECD/WBG/ADB (2022), *VAT Digital Toolkit for Asia-Pacific* at https://www.oecd.org/tax/consumption/vat-digital-toolkit-for-asia-pacific.htm.

Section 5 of the Toolkit presents detailed guidance for the administrative and operational implementation of the recommended VAT policy framework targeted at digital trade

These core recommendations include the following in particular:

- Sequence the implementation of the VAT reform targeted at digital trade, focusing first on the collection of VAT on services and digital products from non-resident online suppliers and digital platforms and subsequently extending these obligations to the collection of VAT on low-value imported goods. Reform for the collection of VAT on imports of goods from online sales is more complex, particularly due to the connection with customs processes.
- Adopt a project-based approach for the development of the operational and IT infrastructure that is necessary to support the implementation of the reform, with an appropriate governance structure to ensure effective project management and project delivery. Section 5 of the Toolkit includes a detailed roadmap for project organisation, design and implementation (see also Figure 6).
- Implement a simplified VAT registration and collection regime for non-resident online suppliers and digital platforms that limits obligations to what is strictly necessary for the effective collection of the VAT. Core design features of such a regime include:
    - An online portal through which non-resident suppliers and digital platforms carry out their key VAT compliance obligations, particularly registration, return filing and payment of the VAT due. Section 5 provides detailed technical guidance on the design and operation of the key components of such an online portal and on its integration in a tax authority's existing infrastructure.
    - The limited focus on the collection of the VAT only, without making input VAT recovery available to non-resident suppliers and digital platforms under this regime ("pay-only").

- The use of electronic payment methods as a means to facilitate the payment process without requiring a domestic bank account.
- The elimination of invoicing requirements for B2C supplies where this is compatible with the jurisdiction's overall VAT design, as customers in a B2C supply will normally have no right to input VAT deduction.
- The possible application of a revenue-based registration threshold for non-resident suppliers and digital platforms, where this is compatible with the jurisdiction's VAT regime.
- The availability of the option for non-resident suppliers and digital platforms to appoint a third-party service provider to act on their behalf in carrying out certain procedures, such as submitting returns. It is not recommended, however, to require the appointment of a local fiscal representative under a simplified compliance regime.

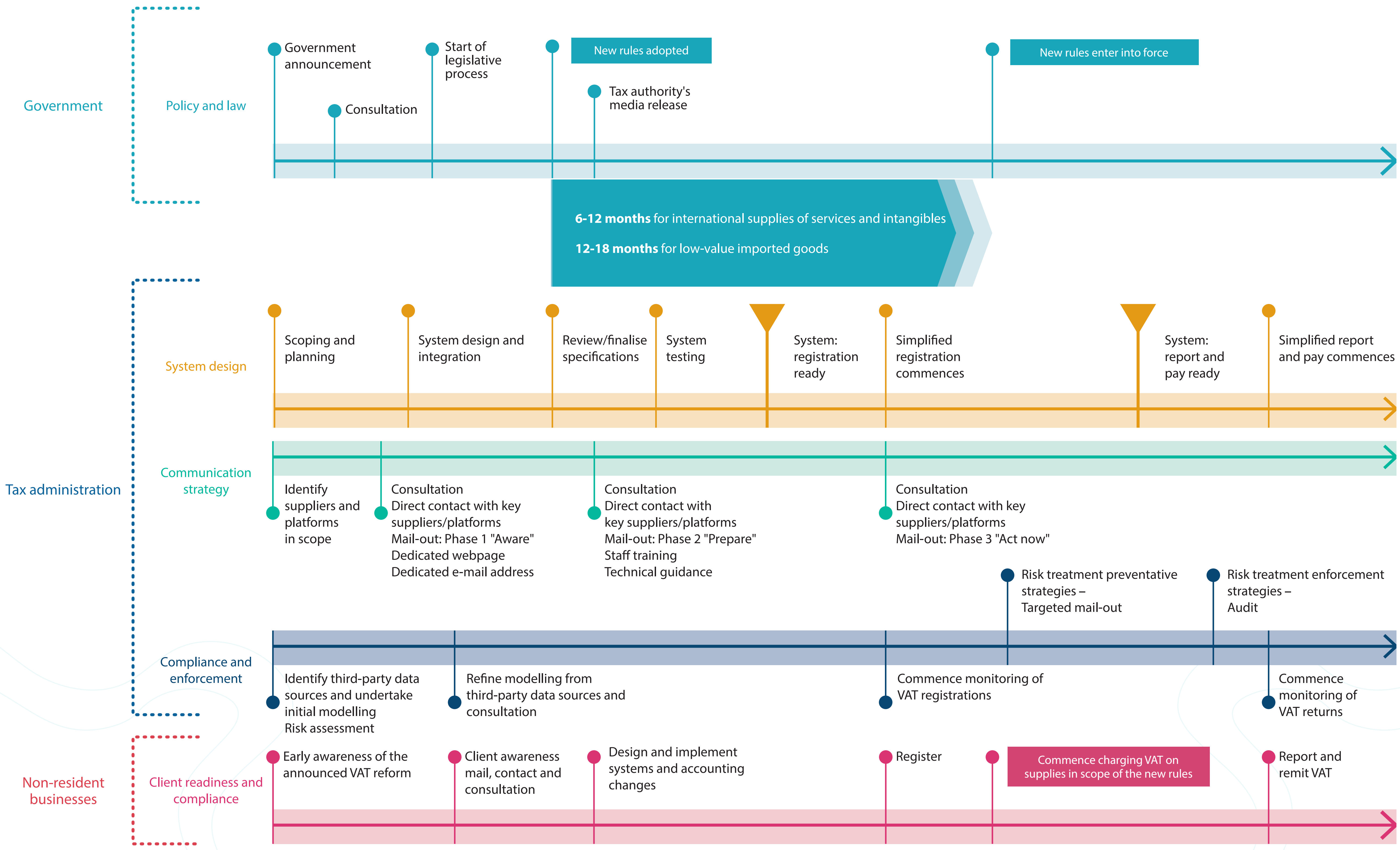
- Ensure the efficient interaction between the VAT vendor collection regime for low-value imported goods and customs processes. This includes measures for the efficient exchange of data and for ascertaining the "VAT-paid" status of low-value imported goods at the time of importation, so as to minimise risks of double taxation and unintended non-taxation and to facilitate customs processes at the border. Early involvement of customs authorities in the design and implementation of such a regime is of particular importance, as well as the timely consultation with key stakeholders such as e-commerce marketplaces and transport intermediaries (incl. postal operators and express carriers).
- Consult throughout the reform process with the business community, including with the non-resident suppliers and digital platforms that are likely to be in the scope of the reform, with international or regional organisations, and with jurisdictions that already have experience in the implementation of the recommended policy framework for the application of VAT to digital trade.
- Provide appropriate lead-time to tax authorities and non-resident businesses to prepare for the entry into force of the reform. A lead-time of 6 to 12 months between the adoption of the reform and its entry into force is considered appropriate for VAT reform directed at online sales of services and digital products. A lead-time of 12 to18 months is generally considered appropriate for VAT reform targeted at low-value imported goods. Close alignment with the recommended OECD framework can considerably shorten these lead-times, as this allows online businesses and tax authorities to leverage solutions and technology that have already been implemented in jurisdictions that have adopted a similar approach. Figure 6 provides an indicative project implementation timeline.

Section 6 of the Toolkit presents strategies to enhance compliance by non-resident suppliers and digital platforms and to strengthen tax authorities' enforcement capacity

These recommendations include the following in particular:

- Implement a well-designed, simple and easy-to-use registration and compliance regime for non-resident suppliers and digital platforms, based on internationally agreed principles as discussed in the previous sections of the Toolkit.
- Apply an effective and proactive multi-channel communication strategy targeted at the non-resident suppliers and digital platforms that are likely to be affected by the VAT reform targeted at digital trade, to ensure early awareness of their obligations under the new regime.
- Provide clear guidance on the scope of the VAT regime for non-resident suppliers and digital platforms, including on the types of services and digital products and/or low-value imported goods in scope; on the treatment of B2B and B2C supplies and on the determination of the customer's status where this is relevant for the operation of the regime; on indicia and criteria for determining and evidencing the customer's location; and on applicable VAT rate(s) and exemptions.
- Further maximise compliance levels by providing clear instructions to non-resident suppliers and digital platforms on all aspects of the operation of the simplified compliance regime, in English and in the language(s) of the jurisdiction's main trading partners, in addition to the jurisdiction's local language(s). Online trade is dominated by a relatively limited number of large online vendors and digital platforms that have been found to be generally compliant with obligations under VAT regimes for non-resident suppliers and digital platforms based on OECD guidance. Close alignment with OECD guidance facilitates compliance for online vendors and e-commerce marketplaces that typically face obligations in multiple jurisdictions, and thus maximises compliance levels and VAT revenues.
- Develop effective strategies to manage compliance risks by non-resident suppliers and digital platforms. Section 6 of the Toolkit gives detailed guidance on the different components of such strategies, including the identification, assessment and prioritisation of risks, the development of targeted treatment strategies and how they can be optimised through the adjustment to the different stages of implementation of the regime (preparation, implementation and maturity phase).
- Make extensive use of third-party data to support a risk-based compliance management strategy, including for identifying the taxpayer population in scope of the regime for non-resident suppliers and digital platforms, for detecting non-registration and for monitoring overall compliance. This third-party information can include data from banks and financial intermediaries; from stakeholders in goods trade (including postal operators and express carriers); from commercial data providers; from "web harvesting" and "web data extraction"; and from tax authorities in other jurisdictions through the exchange of information.
- Enhance tax authorities' enforcement capacity in respect of VAT compliance by non-resident suppliers and digital platforms by making effective use of the available opportunities for international administrative co-operation. In particular, the Multilateral Convention on Mutual Administrative Assistance in Tax Matters is the most comprehensive multilateral instrument available for all forms of administrative co-operation between jurisdictions in the assessment and collection of taxes, including VAT. Such co-operation can encompass the exchange of information, including automatic information exchanges, and assistance in the recovery of foreign tax claims.

Figure 6. **Indicative project implementation timeline**



Source: OECD/WBG/ADB (2022), *VAT Digital Toolkit for Asia-Pacific* at https://www.oecd.org/tax/consumption/vat-digital-toolkit-for-asia-pacific.htm.

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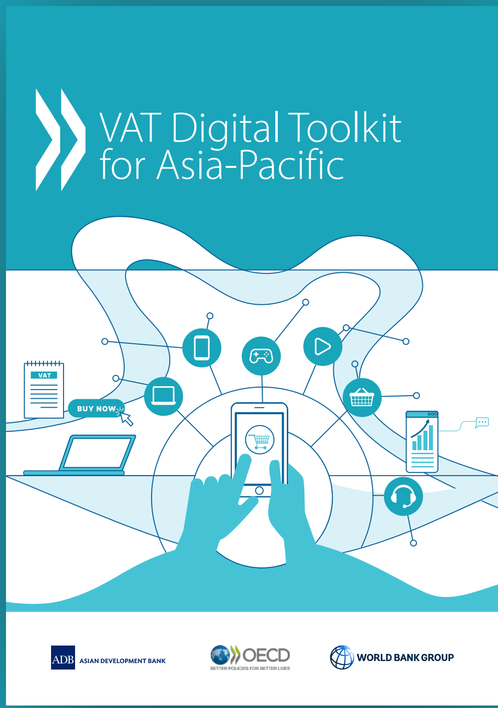

Further reading:

OECD/WBG/ADB (2022), *VAT Digital Toolkit for Asia-Pacific*, OECD, Paris, https://www.oecd.org/tax/consumption/vat-digital-toolkit-for-asia-pacific.htm

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