Your guide to cross-border VAT

A comprehensive guide to current tax trends and upcoming developments in VAT
Contents

→ VAT: Then and now
→ The rise of simplified compliance
  › OSS: A key example of simplified compliance
→ Get ready for e-invoicing
  › A simple guide to the future of e-invoicing
→ VAT and importing
  › How are you importing your goods?
→ VAT and SaaS: Tax in digital industries
→ Avalara: Your essential partner for VAT compliance

DISCLAIMER
Sales tax rates, rules, and regulations change frequently. Although we hope you’ll find this information helpful, this guide is for informational purposes only and does not provide legal or tax advice.
VAT: Then and now

The world was a very different place when value-added tax (VAT) was first created. Initially introduced into the French tax system in 1954, VAT was immediately popular because it spread the burden of tax calculation across all levels of the production process. 2023 marks the 50th anniversary of VAT in the U.K., and the change in the way businesses deal with the tax – compared to 1973 – is staggering.

Fifty years ago, everything was on paper: paper invoices, posting a physical VAT return. Fast-forward to now, we’re seeing those processes change immensely with things like Making Tax Digital and electronic, machine-readable invoices.

Alex Baulf, Senior Director, Global Indirect Tax
In the U.K., the most recent development in the VAT space is the Making Tax Digital (MTD) initiative. MTD is a clear example of how tax is changing: digitisation has made physical paperwork almost entirely extinct, and online portals have replaced the need for direct communication with tax authorities.

Throughout Europe, VAT is being adapted for the future. E-invoicing is set to change the way businesses and tax authorities interact – particularly with the wave of new e-invoicing mandates being introduced within the EU through 2023 and 2024. Simplified compliance processes like the OSS and IOSS help make the digitisation of tax more accessible by eliminating the more complicated and time-consuming requirements.

In addition to changing the processes of paying, calculating, and reporting VAT, modern technology has affected the taxability of products themselves. There’s a mountain of legislation on the differences between VAT for a physical product and VAT for digital goods and services. These differences are particularly relevant during international transactions, in which digital goods can be sold across borders in an instant.

2023 marks the 50th anniversary of VAT in the U.K.

Technology and VAT are rapidly becoming inseparable. In order to stay compliant, it’s vital to keep up with new technologies. Along with gaining a significant advantage over competitors, a tech-focused business can stay ahead of new VAT compliance rules and requirements.

The core topics covered in this guide will have a huge impact on tax regulations in 2023 and beyond, so read on to prepare your business for the tax year ahead. We’ll also help you gain an in-depth understanding of some of the more complex aspects of VAT, such as e-invoicing, import VAT, and simplified compliance.
The rise of simplified compliance

Traditionally, VAT compliance becomes more difficult the more cross-border sales a company makes. The difficulty comes from the need for multiple VAT returns to be submitted to each relevant tax authority.

The world is changing – tax offices are getting rid of large barriers to entry like complicated VAT registrations, specifically for low-value consignment goods.

Matthew Harrison, Senior Director, VAT Solutions
The rise of simplified compliance

So under typical compliance procedures, a European business selling a large number of low-value goods to its neighbours within the EU single market would need to register for VAT in each country and provide a VAT return to each. Doing so makes it necessary for the tax team within the business to understand and comply with the tax rules of each individual country, which can get very complicated.

The simplified compliance rules put in place by various tax authorities seek to remove these complexities. After all, if the process for reporting and paying VAT is overly complicated, the tax authority is the one that suffers most when returns fail to be submitted or are done so incorrectly. Simplified compliance exists to help overcome the tax challenges faced by international businesses.

Low-value consignment goods

Simplified compliance rules are generally aimed at businesses that sell low-value consignment goods across borders. But how are these goods defined?

During a cross-border sale, you need to be aware of both the import VAT threshold and the customs duty threshold for the country you’re selling into. Although there may be exceptions based on the regulations of a particular tax authority, goods worth below a customs threshold but above the VAT threshold are considered low-value consignment goods, so sellers of those goods should register for simplified compliance.

Note that for some territories (such as the EU), VAT is charged on almost every product, so the only goods below the VAT threshold would be those specified as VAT exempt.

Simplified VAT compliance for low-value distance sales (i.e. cross-border sales) is an indirect tax trend that stems from the rising popularity of ecommerce. The EU’s IOSS scheme, one of the most impactful simplified compliance schemes, came into force in 2021 following the ecommerce boom during the COVID-19 pandemic.
The rise of simplified compliance

If your business sells to any of the following, be aware that there is either a simplified VAT or GST compliance system in place (or will be soon):
→ United Kingdom
→ European Union
→ Norway
→ Australia
→ Switzerland
→ Singapore
→ Malaysia
→ Nigeria

Although simplified VAT processes are increasingly becoming mandatory, it’s important to understand how to register for the simplified system, as it could save your business significant amounts of time and money. In regions where using a simplified compliance system is mandatory, understanding how to register is a matter of avoiding noncompliance penalties.

OSS: A key example of simplified VAT compliance

Retailers selling throughout the EU (both from within and from abroad) should be well aware of the OSS (One-Stop Shop) and IOSS (Import One-Stop Shop) VAT simplification schemes. Introduced in 2021, the systems allow your business to submit a single VAT return for your cross-border sales instead of having to submit returns to the tax authorities of each country you sell to.

Using the OSS schemes can provide a significant advantage to your business, but be mindful of potential changes being developed as the EU works out any issues in what is a fairly new system.

For example, there’s a strong possibility IOSS will become mandatory in the near future, so non-EU businesses would have to register or risk becoming noncompliant. Additionally, the OSS may be expanded to include VAT registration as well as returns, meaning you’d only need to register in a single EU country to sell to anywhere in the union.

Interested in more information?
Check out our webinar on the EU’s VAT in the Digital Age reforms, where we examine upcoming changes to the EU VAT system.

“The mainstream theme is that tax offices are trying to reduce the burdens around compliance, and are trying to increase both their revenue and the number of businesses providing VAT reports. However, a lot of businesses don’t actually know that this is going on.”

Matthew Harrison
Senior Director, VAT Solutions
Get ready for e-invoicing

Invoices are arguably the most important element in a VAT system because of their role in auditing and reporting, as well as their effect on tax calculation. E-invoicing generally refers to the use of digital documentation for invoicing.

E-invoicing becomes more of a headache the more countries a company operates in, and the more invoices they send and receive. Businesses need to find a single, scalable, global solution for e-invoicing compliance.

Alex Baulf, Senior Director, Global Indirect Tax
However, when it comes to VAT and tax compliance, e-invoicing also involves some form of authentication or authorisation by a government or third-party intermediary. Encouraging companies to use e-invoicing, or mandating its use, is a growing trend among tax authorities. But why?

Different tax authorities have different motivations for introducing the practice. For some, it’s as simple as trying to popularise digitisation, which can save businesses vast sums that would otherwise be spent on printing or maintaining physical archives.

**Mind the VAT gap**
For the tax authorities in other countries, it’s about eliminating a VAT gap: the difference between a country’s expected VAT revenue and the actual amount collected. Large VAT gaps are usually due to widespread fraud or poor accounting. Italy and Romania have some of the highest VAT gaps, at 20% and 35% respectively, and both have introduced e-invoicing or (are set to introduce) large-scale e-invoicing mandates.

**Fraud-free finances**
E-invoicing helps reduce fraud because an e-invoicing mandate includes some form of authorisation, either from a government-approved third party (known as a decentralised model) or the tax authorities themselves (called a centralised model). Mandates also generally include some form of archiving requirements (e.g. businesses must keep 10 years’ worth of records), which increases the effectiveness of tax audits because of the accessibility of digital files.

**Smarter standards**
E-invoicing mandates also include rules for the standardisation of digital invoices, which are designed to help businesses avoid common tax invoicing pitfalls: translation difficulties, the inclusion of digital signatures, and having a machine-readable format.

**The next big thing: Real-time reporting**
Another key aspect of e-invoicing is real-time reporting. Some countries currently require VAT invoices to be sent to a tax authority prior to being sent to a customer. A real-time reporting system would extend this principle to replace periodical VAT reports. Essentially, tax authorities would receive your business’s tax data in real time, allowing for a more up-to-date picture of VAT income and economic trends.

Although there are no concrete plans in place, the EU VAT in the Digital Age reforms propose an EU-wide move to real-time reporting.
Get ready for e-invoicing

**January: Albania** introduces mandatory e-invoicing for B2G transactions. B2B and B2C e-invoicing were made mandatory in July and September, respectively.

**April: Bulgaria** announces public consultation on mandatory e-invoicing – an extension of the current voluntary system.

**January: Bulgaria** rolls out mandatory e-invoicing under the CTC model via the Sistem E-Faktura.


**No set date: Denmark** to announce revised plans for its e-invoicing mandate. Originally, mandatory B2B e-invoicing was to have a phased introduction throughout 2024 and 2025.

**January: EU member states** will no longer require permission from the EU to introduce mandatory e-invoicing.

**January: Finland** allows businesses to require e-invoices for B2B transactions. Mandatory B2G invoicing has been in place since 2019.

**April: Finland** allows businesses to require e-invoices for B2B transactions. Mandatory B2G invoicing has been in place since 2019.

**July: Italy** extends its existing e-invoicing mandates to include small businesses and cross-border transactions. Mandatory domestic B2B invoicing has been in place since 2019.

**September: Greece** publishes Law 4972/2022, which makes B2G e-invoicing mandatory.

**January: Serbia** rolls out mandatory e-invoicing under the CTC model via the Sistem E-Faktura.

**January: Poland** to make B2B e-invoicing mandatory. Voluntary e-invoicing has been in place since 2022 via the KSeF platform.

**January: Slovakia** to introduce mandatory B2G e-invoicing. Voluntary e-invoicing has been in place since 2022.

**July: France** to begin its phased rollout of mandatory B2B e-invoicing, starting with large enterprises (revenue over €1.5B). The rollout extends to medium companies (revenue over €50M) on January 1, 2025, and all remaining companies on January 1, 2026.

**July: Spain** to begin a phased rollout of mandatory B2B e-invoicing, starting with large businesses (revenue over €8M). For smaller businesses, the mandate will apply from January 2026.

**September: Greece** publishes Law 4972/2022, which makes B2G e-invoicing mandatory.

A simple guide to the future of e-invoicing

In this timeline graphic, we’ve outlined which countries are set to introduce e-invoicing mandates in the next few years. Staying aware of these mandates is crucial, and not just so you know the dates they’ll be introduced – it’s likely the mandates will be phased rollouts or go through multiple updates and changes not long after being introduced.
For instance, the French e-invoicing mandate has three separate dates for introduction (July 1, 2024; January 1, 2025; and January 1, 2026) depending on the annual revenue of the business in question. Similarly, Belgium’s e-invoicing rollout has been delayed until July 2024, and even then will be a phased rollout between 2024 and 2025.

Another important point to remember is that each authority has different motivations for the introduction of their e-invoicing mandates. So there may be certain tasks to prioritise when it comes to compliance, for example:

- Denmark’s mandate (originally scheduled to be implemented in January 2024, now delayed to 2025) is focused on digitisation and online record-keeping.
- Germany is seeking to introduce B2B e-invoicing as soon as possible to combat rising VAT fraud, though no formal plans are in place yet.
- The European Union has a set of digital reporting requirements (which must be achieved by member states by 2028) that aren’t focused on combating a particular VAT issue but are instead designed to harmonise the different invoicing systems of various countries.

Get ready for e-invoicing

Interested in more information on what the rise of e-invoicing could mean for your company?

Download our guide to The Future of E-invoicing.
VAT and importing

Trading goods internationally can be a complex prospect. In addition to managing the customs rules of each country you sell to, you’ll need to account for their VAT rules, since import VAT is due when you bring goods across borders. Compliance errors when importing can lead to unnecessarily high VAT and duty fees, so it’s vital you know how to stay compliant when importing goods.
The all-important EORI number
If you’re performing a compliance audit, a great place to start is the Economic Operators Registration and Identification (EORI) number, which is an essential piece of identification any business needs for selling goods into or out of the EU. Just as your business has an identification number for all VAT-related interactions, the EORI number is used when dealing with European customs (as well as customs in the U.K. and Northern Ireland to a certain extent).

If you’re VAT registered in the EU, you’ll automatically receive an EORI number during registration. However, if you’ve only just reached the VAT registration threshold, you may need to take steps to link your new VAT number with your EORI number. Doing so allows you to link your customs declarations with your VAT reporting, which can simplify compliance greatly.

Double-check your HS codes
A common customs compliance error is in the application of Harmonised System (HS) codes. HS codes can be a weak spot for many businesses as each type of product has its own unique numerical code, and some businesses may not even be aware they’re applying incorrect or incomplete codes.

Using the wrong HS codes can significantly impact your revenue, as you’ll be charged the maximum possible customs duty for your shipment, and you may even face an additional fine on top of that. Incorrect HS codes can also delay your shipments, leading to unhappy customers.

Luckily, technology offers a simple solution to the problem of incorrect HS codes. Tools like Avalara’s Item Classification software can automatically identify and apply HS codes to your goods, helping reduce customs duty and improving the customer experience.
VAT and importing

Import now, pay VAT later

Most countries try to encourage international trade, rather than block it by creating difficult or complex tax barriers. Postponed VAT accounting (PVA) is a great example of how tax authorities can make cross-border trade easier for businesses. Historically, import VAT would need to be paid before customs would release goods back to a business. With PVA, goods can be released immediately, and paying the import VAT can be delayed until the business files a VAT return.

Keep in mind that even in the EU, PVA is not available in every country. Additionally, there may be prerequisites to using PVA or a registration process. For example, the U.K. PVA system requires businesses to be VAT registered in the U.K. and to be registered with the Customs Declaration Service. Although registration can take time, the improved cash flow and streamlined import process that PVA creates can be well worth it.

How are you importing your goods?

“It’s important to know what options are there for your business, as bonded facilities and freeport mean you can suspend both duty and VAT until a final sale goes through.” – Lyndsey Robinson, Customs Manager, EMEA Compliance Development

Despite their importance, VAT and customs compliance are often low on the priority list for businesses because they don’t directly increase revenue. However, international businesses can significantly reduce the cost of cross-border trade if they have a solid understanding of customs compliance.

For example, both import VAT and customs duty can be minimised by leveraging the EU customs union. The customs union allows for goods to be transported freely within the EU, meaning no customs duty is due on trade between member states. If you import significant shipments into multiple countries, look into how your shipping costs stack up against your customs fees: it may be cheaper to import goods into a single country and have goods transported across internal EU borders from there.

Similarly, customs warehouses and free trade zones can provide significant savings opportunities for your business. By importing your goods into a customs warehouse (or bonded warehouse), you can delay the payment of import VAT and customs duty until the sale of your goods is finalised. However, keep in mind that you do need to apply for the use of a customs warehouse and that the application has several requirements.

A free trade zone (or freeport) offers the same benefit (i.e. delayed tax and duty payments) but extends further than a single building. Businesses can set up offices or even manufacturing facilities within a free trade zone and are often offered substantial tax incentives to do so.

Using the OSS schemes can provide a significant advantage to your business
VAT and SaaS: Tax in digital industries

VAT for digital goods works differently than it does for other products. Much of the distinction is based on the fact that digital goods and services can be sold instantaneously across borders, so traditional rules for importing and the point of sale do not apply.
It’s crucial for digital service providers to identify who they’re selling to and where that customer is based, as both factor heavily into the application of VAT. For instance, if an EU business sells digital services to another business (i.e. B2B transactions) then the customer must account for VAT, and the reverse charge rule applies.

When an EU business sells digital services to an individual, then the important part is identifying where the customer is, as VAT rates are calculated based on the customer’s location. Locating customers is a common VAT issue for digital service providers: knowing a customer’s location is essential for VAT calculation and reporting, but the speed and anonymity of B2C digital sales makes gathering information difficult.

Additionally, digital service providers in the EU should be aware that they’ll use the same simplified compliance scheme as any other business (the OSS). Until 2021, digital service providers used MOSS (Mini One-Stop Shop) for VAT returns. This service has now been phased out, and companies selling digital services have been redirected to use the new OSS instead.
Avalara: Your essential partner for VAT compliance

At Avalara, we strive to simplify VAT compliance, so you can spend less time figuring out tax law and more time running your business. If you’re looking for additional resources, we have a huge library of webinars, guides, and blog articles that can broaden your tax knowledge and help your business stay tax compliant, wherever you’re based.
If you’re struggling with any of the VAT challenges we’ve mentioned above – such as e-invoicing, simplified compliance, or customs duty – be sure to look into our premier digital solutions:

- **Accelerate tax calculations**: Distance selling makes it difficult to price your goods because you need to account for variables like import VAT and customs duty. Avalara AvaTax calculates the relevant tariffs instantly, allowing you to provide a more accurate final landed price for your customers. Learn more here.

- **Streamline e-invoicing**: With multiple e-invoicing mandates set to be introduced across Europe, international businesses need to get ready. Avalara e-Invoicing offers a solution that’s frequently updated and compatible with the regulations of over 60 countries. Learn more here.

- **Simplify VAT reporting**: Although IOSS means only a single VAT report is needed for businesses selling to multiple EU countries, it’s still important to have a way to generate more accurate and compliant reports. We offer a comprehensive digital solution with Avalara VAT Reporting software, as well as Avalara Managed VAT Reporting for larger companies. Learn more here.

Regardless of the tax challenges your company faces, Avalara is here to help. If you’re looking to expand your business internationally and need help understanding VAT, we’re here to support you. To find out exactly how we can assist, contact our experts today.
1. Bumblebees are taxed under VAT, but honeybees are VAT exempt – this is because food for human consumption is usually zero-rated. We assume the food referred to in this law is the honey produced and not the bees themselves, but you never know!

2. Drink manufacturer Innocent applied to have their smoothies become VAT exempt based on the argument that they’re not actually smoothies (which are classified as beverages and are taxable) but are instead “liquified fruit salads” (since fruit is zero-rated). The application failed, but points for trying.

3. In 2010, Swedish tax authorities ruled that VAT must be applied to the sale of illegal counterfeit goods. This polite request for active criminals to stay VAT compliant seems like a very optimistic move on their part.

4. Are taxes impacting your revenue? Looking for a cheap, popular, all-purpose product that’s VAT exempt? Try military aircraft! All military aeroplanes over 8,000kg are free from VAT.

5. If your products are stolen, you might still need to pay VAT on them – if you’ve invoiced a customer for the stolen goods, they’re liable for VAT even if payment hasn’t been received. In legal circles, this is known as “adding insult to injury.”

6. A famous piece of VAT trivia is the Jaffa Cakes Tribunal of 1991. U.K. biscuit manufacturer McVitie’s argued against HMRC’s decision to tax Jaffa Cakes (a McVitie’s product) as a luxury, more specifically as a chocolate-covered biscuit.

McVitie’s argued that (despite the fact Jaffa Cakes are marketed as biscuits) they are, in fact, cakes solely because they go hard when stale – by contrast, stale biscuits become soft. Since chocolate-covered cakes are not defined as luxuries, they are VAT exempt.

To prove this point, McVitie’s presented a 12-inch-wide giant Jaffa Cake to demonstrate the food’s cake-like characteristics on a larger scale. The court ruled in their favour, the taxation was removed, and the giant Jaffa Cake presumably disappeared into the HMRC break room.
Avalara helps businesses of all sizes achieve compliance with transactional taxes, including IPT, VAT, sales and use, excise, communications, and other tax types.

Our comprehensive, automated, cloud-based solutions that are fast, accurate, and easy to use. Our Compliance Cloud™ platform helps customers manage complicated and burdensome tax compliance tasks imposed by state, local, and other taxing authorities throughout the world. Avalara offers more than 500 pre-built connectors into leading accounting, ERP, ecommerce and other business applications. Each year, we process billions of indirect tax transactions, file hundreds of thousands of tax compliance documents and tax returns, and manage millions of exemption certificates and other compliance-related documents.

Avalara’s headquarters are in Seattle, WA, and we have offices across the US, UK, Brazil, Belgium, Germany, Italy, France, Turkey and India.

More information at: avalara.com/eu