
VAT: New e-commerce rules in the EU will simplify life for traders and introduce more transparency for consumers

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[New Value-Added Tax \(VAT\) rules](#) for online shopping enter into force later this week* as part of efforts to ensure a more level playing field for all businesses, to simplify cross-border e-commerce and to introduce greater transparency for EU shoppers when it comes to pricing and consumer choice.

The EU's VAT system was last updated in 1993 and has not kept pace with the rise in cross-border e-commerce that has transformed the retail sector in recent years. The Coronavirus pandemic has also further accelerated the boom in online retail, and again underlined the need for reform to ensure that the VAT due on online sales gets paid to the country of the consumer. The new rules also respond to the need to simplify life for shoppers and traders alike.

The new rules come into force on 1 July and will affect online sellers and marketplaces/platforms both inside and outside the EU, postal operators and couriers, customs and tax administrations, as well as consumers.

What is changing?

As of 1 July 2021, a number of changes will be introduced to the way that VAT is charged on online sales, whether consumers buy from traders within or outside the EU:

- Under the current system, goods imported into the EU valued at less than €22 by non-EU companies are exempt from VAT. As of Thursday, **this exemption is lifted** so that VAT is charged on all goods entering the EU – just like for goods sold by EU businesses. Studies and experience have shown that this exemption is being abused, with unscrupulous sellers from outside the EU mislabelling consignments of goods, e.g. smartphones, in order to benefit from the exemption. This loophole allows these companies to undercut their EU competitors and costs EU treasuries an estimated €7 billion a year in fraud, leading to a bigger tax burden for other taxpayers.
- Currently, e-commerce sellers need to have a VAT registration in each Member

State in which they have a turnover above a certain overall threshold, which varies from country to country. From 1 July, these different thresholds will be replaced by one **common EU threshold of €10,000** above which the VAT must be paid in the Member State where the goods are delivered. To simplify life for these companies and to make it much easier for them to sell into other Member States, online sellers may now register for an electronic portal called the **'One Stop Shop'** where they can take care of all of their VAT obligations for their sales across the whole of the EU. This €10,000 threshold is already applicable for electronic services sold online since 2019.

Rather than grappling with complicated procedures in other countries, they can register in their own Member State and in their own language. Once registered, the online retailer can notify and pay VAT in the One Stop Shop for all of their EU sales via a quarterly declaration. The One Stop Shop will take care of transmitting the VAT to the respective Member State.

- In the same vein, the introduction of an **Import One Stop Shop** for non-EU sellers will allow them to register easily for VAT in the EU, and will ensure that the correct amount of VAT makes its way to the Member State in which it is finally due. For consumers, this means a lot more **transparency**: when you buy from a non-EU seller or platform registered in the One Stop Shop, VAT should be part of the price you pay to the seller. That means no more calls from customs or courier services asking for an extra payment when the goods arrive in your home country, because the VAT has already been paid.

Already, businesses outside the EU have been registering in large numbers for the Import One Stop Shop, including the biggest global online marketplaces.

Background

Current EU VAT rules were last updated in 1993 – long before the digital age – and are ill-suited to the needs of businesses, consumers and administrations in an era of cross-border internet shopping. In the meantime, the online shopping boom has transformed retail across the world, and has accelerated even further during the pandemic.

While the new rules represent a big change in the way EU online businesses deal with their VAT needs, it will bring untold benefits when it comes to ease of doing business, cutting down on fraud and improving the consumer experience for online shoppers in the EU.

A similar 'Mini One Stop Shop' for VAT has already been running successfully since

2015 for cross-border sales of electronic services. Its extension to online sales of goods will offer even more advantages for online retailers and consumers in the EU. Similar reforms have been put in place and are working well in other jurisdictions such as Norway, Australia and New Zealand.