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COUNCIL

Council

REPORT ON THE IMPLEMENTATION OF THE OECD RECOMMENDATION ON THE APPLICATION OF VALUE ADDED TAX / GOODS AND SERVICES TAX TO THE INTERNATIONAL TRADE IN SERVICES AND INTANGIBLES

(Note by the Secretary-General)

JT03492797

1. This document presents, in its Annex, the Report by the Committee on Fiscal Affairs (CFA) on the implementation, dissemination and continued relevance of the OECD Recommendation on the Application of Value Added Tax/Goods and Services Tax to the International Trade in Services and Intangibles [OECD/LEGAL/0430] (hereafter the "Recommendation") and its conclusions on whether it requires an update.

2. The Report was approved by the CFA's Working Party No. 9 on Consumption Taxes (WP9) at its meeting on 22-24 November 2021 [CTPA/CFA/WP9(2021)4, CTPA/CFA/WP9/M(2021)2] and by the CFA, under the written procedure, on 28 February 2022 [CTPA/CFA(2021)18].

Background

3. Governments worldwide have recognised that the Value Added Tax[1] (VAT) challenges of international trade as exacerbated by the digitalisation of the economy require a globally coordinated response. Against this background, the CFA launched a project in January 2006 to develop an internationally agreed standard that contributes towards ensuring that national VAT systems interact consistently so that they facilitate rather than distort international trade [CTPA/CFA(2006)9]. The International VAT/GST Guidelines (hereafter "the Guidelines") were approved by the CFA on 7 July 2015 [CTPA/CFA(2015)57]**.**

4. On 5-6 November 2015, the high-level officials of 104 jurisdictions and international organisations that participated in the third meeting of the Global Forum on VAT endorsed the Guidelines as a global standard for the VAT treatment of international trade in services and intangibles. This endorsement positions the Guidelines as a reference point for designing and implementing legislation with a view to minimising the potential for double taxation and unintended non-taxation. Participants welcomed the prospect of the Guidelines' embodiment in a Recommendation of the Council..

5. The Recommendation was adopted by the Council on 27 September 2016 [C(2016)120 and C/M(2016)13, Item 185] on the proposal of the CFA. It is the first OECD legal instrument in the area of VAT. It also constitutes the first internationally agreed framework of common principles for the application of VAT to cross-border trade that aspires to global coverage. It is open for adherence to all OECD Members and non-Members (which are together referred to as "Adherents"). There are currently 38 Adherents to the Recommendation, which are all OECD Members. To date, no non-Members have adhered to it, although, as the Report outlines further, many non-Members have taken steps to align their VAT frameworks with the Recommendation and many others are considering reforms to do so, which may ultimately result in requests for adherence to the Recommendation.

6. The Recommendation recommends that Adherents take due account of the Guidelines, which are set out in the Appendix to the Recommendation and form an integral part thereof, when designing and implementing legislation with a view to minimising the potential for double taxation and unintended non-taxation in the application of VAT to the international trade in services and intangibles. The Guidelines are structured in four

[1] In accordance with the Recommendation, "Value Added Tax" and "VAT" refer to any national tax by whatever name or acronym it is known, such as Goods and Services Tax (GST), which embodies the basic features of a value added tax, i.e. a broad-based tax on final consumption collected from, but in principle not borne by, businesses through a staged collection process, whatever method is used for determining the tax liability (e.g. invoice-credit method or subtraction method).

chapters. In particular, in addition to the core features of the VAT described in Chapter 1, the Guidelines address the fundamental principles of VAT that apply to cross-border trade i.e. the neutrality of the tax (in Chapter 2); the definition of the place of taxation for cross-border trade in services and intangibles between businesses, and between businesses and final consumers (in Chapter 3); and mechanisms for supporting successful implementation of the Guidelines in practice, including mutual co-operation, dispute minimisation and application in cases of evasion and avoidance (in Chapter 4).

7. In line with the usual practice, the Recommendation instructs the CFA, through its WP9, to monitor the implementation of the Recommendation and report to the Council no later than five years following its adoption and as appropriate thereafter.

Methodology

8. The Report builds on extensive consultation with, and feedback from, the Adherents to the Recommendation, notably via a survey that was submitted to all Adherents in January 2021 (hereafter the "2021 Adherent Survey") [CTPA/CFA/WP9(2021)1, CTPA/CFA/WP9(2021)5].

9. The outcomes of this consultation were complemented with information received from the international business community as a key stakeholder. This feedback was collected through an intensive process of consultation with businesses globally by WP9 and its Technical Advisory Group (TAG) since the adoption of the Recommendation and through a comprehensive and detailed business survey [CTPA/CFA/WP9(2020)9].

10. Additional sources of information for the preparation of the Report include:

- Information collected in the context of the 2020 edition of Consumption Tax Trends, the OECD's flagship publication on indirect taxation policy, as well as the information supporting the annual progress reports of the OECD/G20 Inclusive Framework on BEPS on the progress made in the implementation of the BEPS measures including to address the VAT challenges of the digital economy.
- The deliberations at the 2017, 2019 and 2021 meetings of the Global Forum on VAT, which were each attended by representatives from over 100 jurisdictions and regional and international organisations.
- Numerous workshops and consultations with government officials and stakeholders that have taken place since the adoption of the Recommendation.

Process

11. The development of the Report was discussed by WP9 at its November 2019 and December 2020 meetings [CTPA/CFA/WP9(2019)6, CTPA/CFA/WP9(2020)9]. The Report was approved by WP9 at its meeting on 22-24 November 2021 [CTPA/CFA/WP9(2021)4, CTPA/CFA/WP9/M(2021)2] and by the CFA, under the written procedure, on 28 February 2022 [CTPA/CFA(2021)18].

12. The Council is now invited to note and declassify the Report. A link to the Report will be included on the public webpage of the Recommendation in the online Compendium of OECD Legal Instruments.

Dissemination

13. The Recommendation invites the Secretary-General and Adherents to disseminate the Recommendation and also invites Adherents to support efforts for capacity building and assistance notably to developing countries so that they may be able to participate in and enjoy the benefits of these Guidelines.

14. So far, this has been achieved through the following actions:

- *The creation by the Secretariat of promotional material* that has been included on the OECD website, in particular on the Compendium page of the Recommendation.
- *The development and publication of technical guidance in relation to the content of the Recommendation*, by the Secretariat and Adherents, through the CFA and WP9, to support a consistent implementation of the principles and mechanisms set out in the Recommendation ("implementation packages").[2]
- *The development of bespoke technical guidance for economies in developing regions of the world*. The OECD, via the CFA, is leading a project to develop regionally tailored toolkits that will provide detailed guidance on the design and operation of a comprehensive VAT strategy to address the challenges of digital trade taking into account specific regional perspectives.[3]
- *The development of e-learning modules*. Three e-learning modules have been developed so far by the Secretariat. These target officials in tax administrations and aim at supporting Adherents and non-Adherents, in particular developing countries, in acquiring a common understanding of the principles and mechanisms set out by the Recommendation and of effective approaches for implementing them.
- *Two in person meetings and one online meeting of the Global Forum on VAT took place after the adoption of the Recommendation*, in 2017, 2019 and 2021. These discussions, attended by over 100 jurisdictions, included the intense sharing of analysis and experiences on best practice approaches for the alignment with the Recommendation.
- *The organisation of seminars, workshops and outreach activities* targeted especially at developing countries from all regions around the world. These seminars and workshops have often been organised by, or in cooperation with, regional organisations and development banks.[4]

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[2] Three reports have been developed to date providing guidance on: Mechanisms for the Effective Collection of VAT/GST; The Role of Digital Platforms in the collection of VAT/GST on online sales; The Impact of the Growth of the Sharing and Gig Economy on VAT/GST Policy and Administration.

[3] This project is being developed with the World Bank Group as a strategic partner and in cooperation with regional multilateral bodies. It aims to provide the support and technical assistance that interested developing economies need to align their VAT frameworks with the Recommendation and involves the development of three regional "VAT Digital Toolkits": for Latin America and the Caribbean (published in June 2021), Asia-Pacific (published in March 2022) and Africa (currently under development and scheduled for completion by mid-2022).

[4] A significant number of Adherents, notably Australia, Austria, Belgium, Canada, Chile, Colombia, Costa Rica, Japan, Mexico, Netherlands, New Zealand, Norway, Spain, Sweden and the United Kingdom, have been (and indeed continue to be) actively involved in these workshops and seminars through their provision of subject matter experts to share national perspectives and experiences.

- *In terms of linguistic outreach to non-English and non-French speakers*, the Recommendation has already been translated into German and Spanish.

15. While effective dissemination of the Recommendation has been achieved by both the Secretariat and Adherents, additional work can be carried out to further stimulate such dissemination. In order to support further dissemination of the Recommendation, the Report will also serve as a point of reference, as appropriate, in the context of future WP9/CFA work and as an effective tool to demonstrate the success of the Recommendation to non-Adherents and the considerable benefits of adherence and alignment with its principles and mechanisms.

Summary and conclusions

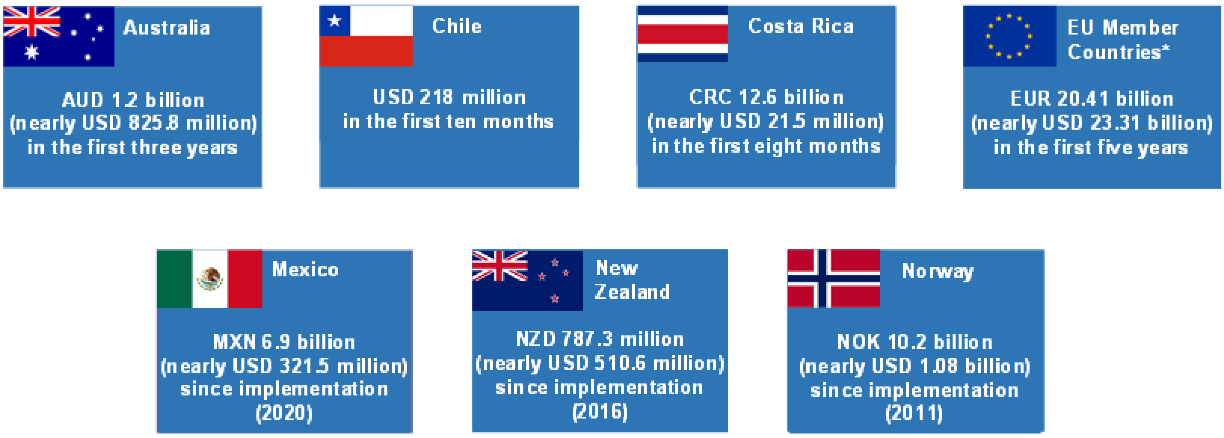
16. The Report shows that the Recommendation has been and continues to be of great relevance to Adherents and that they have made substantial efforts to apply and incorporate the principles and mechanisms set out in the Recommendation in their national VAT systems. It is also a key reference source for VAT policy design and operation in jurisdictions worldwide, enhancing the effectiveness and consistency of VAT policies across jurisdictions with a view to protecting VAT revenues, minimising risks of double taxation and unintended non-taxation and risks of trade distortion.

17. On the principles of VAT neutrality, the Report highlights that all Adherents have put in place measures to ensure that the burden of VAT does not lie on taxable businesses except where explicitly provided for in legislation. The vast majority of Adherents now also operate mechanisms to relieve non-resident businesses of input VAT that they incur in the respective Adherents' jurisdictions as a part of making taxable supplies. Several Adherents have taken steps to establish new, more effective refund mechanisms for non-resident businesses, or to improve the efficiency of their existing ones, in direct response to the recommended approaches presented by the Recommendation.

18. On the destination principle, the Recommendation, and the follow-up work carried out by the CFA, is playing a particularly important role in the design of effective policy responses to the VAT challenges of digital trade and in the consistent implementation of these responses across jurisdictions. The principles and mechanisms for the effective collection of VAT on the continually growing volume of online supplies by non-resident suppliers and digital platforms have now been implemented by the vast majority of Adherents that operate a VAT, with considerable success in terms of revenues collected and compliance levels as illustrated by Figure 1 below.

These workshops have benefitted considerably from the frequent participation of Business at OECD (BIAC).

Figure 1. Overview of available revenue results from measures that Adherents have undertaken for the effective collection of VAT on online international supplies of services and intangibles



Note: *Please note that these VAT revenues for European Union (EU) Member States represent an aggregate figure for the whole EU, including the 22 Member States that are OECD Members and Adherents to the Recommendation.
Source: OECD research and 2021 Adherents Survey

19. The implementation of the Recommendation by Adherents has minimised risks of competitive distortion between non-resident businesses selling online from foreign jurisdictions and traditional, “bricks-and-mortar” domestic businesses. It acts as a safeguard against such distortions by affirming that the jurisdiction where the customer is located has the right to impose VAT on services and intangibles even where these are provided by non-resident suppliers, in accordance with the destination principle, and by implementing the Recommendation for the application of this principle in practice.

20. The consistent implementation of the Recommendation by Adherents was found to facilitate and ultimately enhance compliance, especially for businesses that face obligations in multiple jurisdictions. Furthermore, the follow-up work by the CFA to complement the Recommendation with additional guidance has been particularly important in supporting Adherents’ VAT policy responses to the challenges and opportunities created by the continually and rapidly evolving digital economy.[5]

21. The role of the CFA’s WP9, its Technical Advisory Group and the Global Forum on VAT was highlighted as particularly valuable and important in achieving consistency with the principles and mechanisms promoted by the Recommendation across jurisdictions. The Global Forum on VAT, in particular, has provided an important means for an inclusive process involving an increasing number of non-Members in shaping the outcomes of guidance associated with the Recommendation

[5] This includes, in particular, the guidance on the role of electronic marketplaces and other digital platforms in the collection of VAT on digital trade and the guidance on the application of VAT to the sharing and gig economy.

22. The Recommendation has achieved considerable success in supporting the design of effective policy responses to the VAT challenges of digital trade in a growing number of jurisdictions, including developing economies, over and above Adherents.[6] The Recommendation and the OECD's expertise in supporting its implementation are increasingly in demand from developing economies.

23. The effective assertion of the right to collect VAT on services and intangibles acquired from suppliers in foreign jurisdictions and the establishment of mechanisms for the effective collection of the VAT on these supplies have become an even greater priority for jurisdictions as a result of the COVID-19 pandemic that has fuelled a high surge in online shopping. The role of the Recommendation thus remains as important as ever.

24. The Report shows that the Recommendation remains highly relevant and up to date and that it does not therefore require any revision in the short-to-medium term. It is however important that efforts continue to further disseminate the Recommendation, to support its effective and consistent implementation by Adherents and to seek adherence by non-Members that have aligned their VAT framework with the Recommendation. It is equally important to continue monitoring evolutions in international trade and in the design and administration of VAT systems, notably as a result of technological innovation, and to develop new work where appropriate to address emerging challenges so as to ensure the continued relevance of the Recommendation.

25. Against this background, the work strands that are currently being undertaken, or that have been planned, to further disseminate the Recommendation and to support its effective and consistent implementation include the following:

- **Enhancing tax authorities' capacity to tackle VAT fraud and non-compliance.** This includes analysis, experience sharing and the development of guidance on robust enforcement strategies to support the effective collection of VAT on digital trade.
- **Supporting the efficient use of technology to facilitate the operation in practice of principles and mechanisms included in the Recommendation.** New digital tools, communication channels and ever more readily available internally and externally sourced data are (can be) used by tax authorities, notably to support the collection of VAT on internationally traded services and intangibles in accordance with the Recommendation, and particularly in respect of online sales made by foreign suppliers and digital platforms.
- **Supporting developing economies as they address the VAT challenges of growth in digital trade.** A comprehensive capacity building programme is being established to assist developing economies interested in aligning their VAT systems with the Recommendation.
- **Updating and complementing e-learning modules.** to reflect the further guidance developed to support the implementation of the Recommendation.

26. WP9 and the Global Forum on VAT will continue to develop work to improve clarity and certainty in the application of the Guidelines set out in the Recommendation and consider work in related areas that have emerged since its adoption. This work will

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[6] Among the 170 jurisdictions that have implemented a VAT system, at least 76 jurisdictions have already enacted VAT reforms to achieve more effective taxation of international digital trade in accordance with the Recommendation; an additional 2 have legislated for measures that will come into force in 2022; and sources identified a further 34 jurisdictions either in the process of enactment or actively considering commencement of reforms.

continue to be carried out in a truly inclusive manner, with the active involvement of all interested jurisdictions in addition to Adherents and other relevant stakeholders, to support and further enhance the relevance of the Recommendation as the leading global standard for the application of VAT to the international trade in services and intangibles.

Proposed action

27. In light of the preceding, the Secretary-General invites the Council to adopt the following draft conclusions:

THE COUNCIL

a) noted document C(2022)83, in particular the Report set out in its Annex, and agreed to its declassification;

b) encouraged Adherents to the Recommendation to continue disseminating and implementing the Recommendation, including through their active engagement in the work of WP9 and the Global Forum on VAT;

c) invited the Committee on Fiscal Affairs, in particular through its Working Party No. 9 and the Global Forum on VAT, to:

   i. develop further work to improve clarity and certainty in the application of the Guidelines and to support dissemination and implementation of the Recommendation, focusing in particular on the key areas for potential future work identified in the Report;

   ii. continue reviewing the Recommendation and developing proposals for its revision, as appropriate, in light of experience gained by Adherents and in consultation with relevant stakeholders;

   iii. report to the Council on the implementation, dissemination and continued relevance of the Recommendation in five years.

ANNEX. Report on the implementation of the OECD Recommendation on the Application of Value Added Tax/Goods and Services Tax to the International Trade in Services and Intangibles [OECD/LEGAL/0430]

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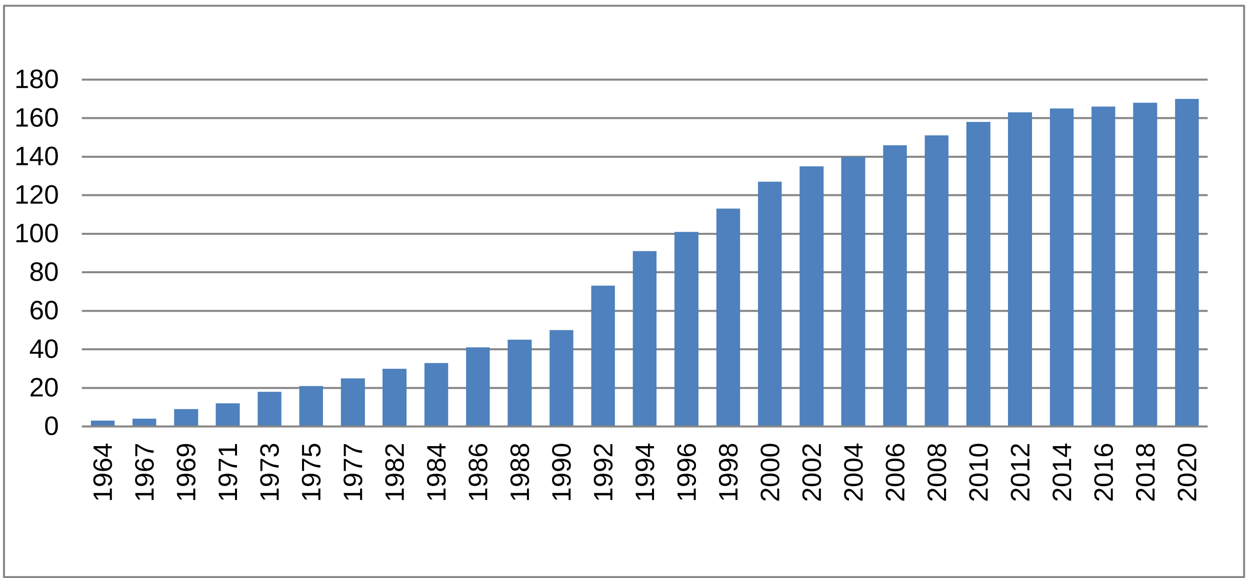
I. BACKGROUND

1. The spread of Value Added Tax[1] (VAT) has been among the most important international developments in taxation over the last half century. Limited to less than 10 jurisdictions in the late 1960s, it is today an important source of revenue in 171 jurisdictions worldwide. The domestic and international neutrality properties of VAT have encouraged its global spread. A VAT is operated in 37 of the 38 OECD Members, the only exception being the United States. The following figure illustrates the rapid spread of VAT throughout the world since the 1960s.

Figure 1. Evolution of the number of jurisdictions with VAT from 1960 to 2020



Source: OECD (2020), *Consumption Tax Trends 2020*. (OECD, 2020[1])
StatLink 2 https://doi.org/10.1787/888934219907

2. This global spread of VAT coincided with the rapid expansion of international trade in goods and services in an increasingly globalised and digitalised economy. Most international trade is now subject to VAT and the interaction of national VAT regimes can therefore have a major impact in either facilitating or distorting trade. Against this background, the historical absence of an internationally agreed framework for the application of VAT to international trade created growing risks of double taxation and non-taxation, resulting in trade distortions and a loss of revenue for governments. In fact as far back as 2004, the Committee on Fiscal Affairs (CFA) had analysed the key challenges that confronted jurisdictions in the coherent imposition and collection of VAT on international supplies of services (OECD, 2004[2]). This analysis noted in particular the distortions to

[1] In accordance with the Recommendation, "Value Added Tax" and "VAT" refer to any national tax by whatever name or acronym it is known, such as Goods and Services Tax (GST), which embodies the basic features of a value added tax, i.e. a broad-based tax on final consumption collected from, but in principle not borne by, businesses through a staged collection process, whatever method is used for determining the tax liability (e.g. invoice-credit method or subtraction method).

trade and fair competition that were resulting from the then complete absence of a recognised international framework for the application of VAT to cross-border trade in services and intangibles based on broad global consensus.

3. The digitalisation of the economy in particular, has rapidly exacerbated existing, and created new, VAT challenges that similarly result in increasingly important risks of distortion of competition for traditional businesses and loss of tax revenues. This has become especially problematic with respect to international trade in services and intangibles, which has shown a particularly strong growth in the globalised digital economy. Box 1 below sets out the main VAT challenges resulting from the digitalisation of the economy as they have been identified in the context of the OECD/G20 Project on Base and Erosion and Profit Shifting (the BEPS Project).

Box 1. Key VAT challenges resulting from the digitalisation of the economy

1) The challenges of allocating and asserting taxing rights on international supplies of services and intangibles

The overarching purpose of VAT as a tax on final consumption, coupled with its central design feature of a staged collection process, lays the foundation of the core VAT principles bearing on international trade, i.e. the destination and the neutrality principles. Under the destination principle, tax is ultimately levied only in the jurisdiction where final consumption occurs. VAT systems use place of taxation rules to determine the place where such consumption is deemed to occur and, thus, to determine which jurisdiction has the right to levy VAT on the item that is supplied for consumption.

Historically, before the advent of the globalised digital economy, VAT systems were able to rely exclusively on place of taxation rules that utilised the place where the supplier performed the service or where the supplier was located as the basis for asserting their taxing rights over supplies of services and intangibles. A place of taxation rule by reference to the place of performance or to the supplier's location usually led to an appropriate taxing result as most customers used or consumed services at the same time and place as where the supplier performed the supply, which in turn was often in the jurisdiction where the supplier had its main place of business establishment or another fixed establishment. Such a place of taxation rule was also relatively easy to operate and to administer in practice.

However, the rapid advance of information and communications technology (ICT) made it possible to supply an increasingly wide range of services to consumers through remote delivery channels, notably broadcasting and telecommunications services and an ever-growing range of electronic, internet-based services. Globalisation and trade liberalisation made it easier for such services to be delivered across international borders by suppliers located in one jurisdiction to consumers anywhere in the world, without any need for the supplier to have a physical presence in the jurisdiction where their consumers are located.

For those services that suppliers can deliver remotely form one location to consumers anywhere in the world, the use of a place of taxation rule based on their "place of performance" or on the "location of the supplier" is ineffective for determining the place of their consumption and hence for the effective allocation of jurisdictions' rights to levy VAT on such services. Continued use of these historical place of taxation rules for such remotely deliverable services led to increasingly significant competitive distortions and revenue losses, as technological progress led to growing volumes of services, and intangibles, that non-resident businesses could supply free of VAT by electronic means into jurisdictions of consumption in which they had no physical presence. Consequently, jurisdictions had a pressing need to adapt rules for asserting their taxing rights over supplies of services and intangibles in a digitalised economy to reflect that the place of performance and the supplier's location often no longer equate to the place of consumption. An internationally coordinated response to this challenge was needed to ensure a consistent approach for allocating taxing rights for VAT on internationally traded services and intangibles between jurisdictions, so as to minimise risks of double taxation and unintended non-taxation and related risks of trade distortion.

2) The challenges of VAT collection on supplies by foreign (i.e. non-resident) suppliers

Even if a jurisdiction succeeds in designing its place of taxation rules to assert its right to tax supplies of services and intangibles by non-resident suppliers in line with the destination principle, there is a further challenge of collecting the VAT due in an effective way, especially on supplies that non-resident suppliers make to household consumers in a jurisdiction. Jurisdictions cannot rely on physical controls at the border to enforce VAT collection on international cross-border supplies of services and intangibles in the way that they can, at least to some extent, with respect to imported goods. Tax administrations also cannot realistically look to the private consumer to remit VAT on its purchases from non-resident suppliers, even though the private consumer is located in the jurisdiction of taxation.

The challenges for tax administrations in the jurisdiction of taxation may include:

- Establishing that the non-resident supplier has made supplies that are subject to VAT in their jurisdiction.
- Enforcing collection and remittance of VAT by non-resident suppliers

As international trade in services and intangibles continues to grow, tax administrations face the challenge of having to ensure compliance by increasingly large numbers of foreign businesses with VAT obligations in the jurisdiction of consumption but which have no physical presence in that jurisdiction.

4. Governments worldwide have recognised that the VAT challenges of international trade as exacerbated by the digitalisation of the economy require a globally coordinated response. The absence of such a response would lead to rapidly growing VAT revenue losses, as well as growing unfair competitive pressure on domestic businesses that are increasingly incapable of competing against the continually rising volumes of VAT-free online supplies. These unfair competitive pressures on domestic businesses can also have associated negative impacts on domestic employment and potentially other tax revenues, including on personal income taxes and local business taxes. Moreover, from a business perspective, ineffective VAT laws and collection mechanisms can render compliance unduly burdensome or, in extreme cases, even impossible. This applies to large enterprises and even more so for small-and-medium-sized enterprises (SMEs), particularly when requirements for compliance arise in multiple jurisdictions. Only a globally coordinated response will maximise compliance levels at minimal cost, support effective international co-operation in tax administration and enforcement, and also minimise the significant risks of trade distortion that these challenges cause.

5. Against this background, the CFA recognised that jurisdictions would greatly benefit from an internationally agreed standard that contributes towards ensuring that national VAT systems interact consistently so that they facilitate rather than distort international trade. The CFA therefore launched a project in January 2006 to develop *International VAT/GST Guidelines* (hereafter "the Guidelines") [CTPA/CFA(2006)9]. The objective of these Guidelines was to address uncertainty and risks of double taxation and unintended non-taxation that result from inconsistencies in the application of VAT to international trade in services and intangibles. The Guidelines would set the standard for

countries when designing and administering their domestic rules, in particular in shaping the impacts of such rules on international transactions.

6. Recognising the growing need to strengthen the involvement of non-OECD Members in the development of the Guidelines, the CFA launched the Global Forum on VAT in 2012 as a platform for a structured VAT policy dialogue with non-Members and other relevant stakeholders [CTPA/CFA(2012)40]. The events of this Global Forum provided the opportunity for non-Members, particularly developing economies, to contribute actively to the development of the Guidelines. At its first meeting on 7-8 November 2012, this Global Forum agreed that the Guidelines should be the basis for the much-needed global standard on the application of VAT to the international trade in services and intangibles. The Global Forum agreed at this meeting that its key objective would be to build the widest possible international consensus on these Guidelines with a view to achieving their endorsement as the international standard [CTPA/CFA(2013)17/CONF].

7. The complete set of Guidelines that resulted from this work was approved by the CFA on 7 July 2015 [CTPA/CFA(2015)57].[2] Box 2 below recalls the key components of the Guidelines.

Box 2. The International VAT/GST Guidelines (OECD, 2017[3]) – Key features

The complete set of the International VAT/GST Guidelines as approved by the CFA on 7 July 2015 [CTPA/CFA(2015)57] includes the following key features:

- They set forth common principles for the consistent VAT treatment of the most common types of international transactions, focusing on trade in services and intangibles.
- They build on the generally accepted principles of VAT neutrality and on the destination principle for determining the place of taxation.
- They include the recommended principles and mechanisms to address the challenges for the collection of VAT on cross-border sales of digital services and products that had been identified in the context of the OECD/G20 Project on Base and Erosion and Profit Shifting (the BEPS Project) (OECD, 2015[4]).[3]
- They do not aim at detailed prescriptions for national legislation but provide guidance to jurisdictions in developing national legislation with a view to facilitating a coherent application of national VAT systems to international trade, taking into account jurisdictions' specific economic, legal, institutional, cultural and social circumstances and practices.

[2] Germany has made a reservation to paragraphs 2.30 and 2.54 of the Commentary on the Guidelines set out in Chapter 2, Section D of the Appendix to the Recommendation.

[3] These elements have also been included in the Final Report on OECD/G20 BEPS Action 1, "Addressing the Tax Challenges of the Digital Economy". This report, which is part of the BEPS package, was endorsed by the OECD Council on 1 October 2015 [C(2015)125/ADD1] and was subsequently delivered to and endorsed by G20 Leaders during their Summit in Antalya on 15-16 November 2015.

8. On 5-6 November 2015, the high-level officials of 104 jurisdictions and international organisations that participated in the third meeting of the Global Forum on VAT endorsed the Guidelines as a global standard for the VAT treatment of international trade in services and intangibles. This endorsement positions the Guidelines as a reference point for designing and implementing legislation with a view to minimising the potential for double taxation and unintended non-taxation.[4] All Global Forum participants welcomed the active involvement of an increasing number of jurisdictions beyond the OECD and G20 and of the global business community in shaping the outcomes of this work, notably through participation in consultations on discussion drafts, in seminars and workshops and in the meetings of the Global Forum on VAT. Participants finally also welcomed the prospect of embodying the Guidelines into a Recommendation of the OECD Council that would be open to adherence by all interested economies.

Purpose and scope of the Recommendation

9. The Guidelines represent the political will of OECD Members to strive towards an effective and efficient application of VAT to the international trade in services and intangibles, with a view to addressing the risks of double taxation and unintended non-taxation that result from the uncoordinated application of VAT in a cross-border context. This political will was further demonstrated by the embedment of the Guidelines into an OECD Recommendation open for adherence to all OECD Members and non-Members, as a result of the work carried out by the CFA.

10. The OECD Recommendation on the Application of Value Added Tax/Goods and Services Tax to the International Trade in Services and Intangibles [OECD/LEGAL/0430] (hereafter the "Recommendation") was adopted by the OECD Council on 27 September 2016 [C(2016)120 and C/M(2016)13] on the proposal of the CFA. It is the first OECD legal instrument in the area of VAT. It constitutes the first internationally agreed framework of common principles for the application of VAT to cross-border trade that aspires to global coverage.

11. The Recommendation is addressed to OECD Members and non-Members having adhered to it (hereafter the "Adherents"). There are currently 38 Adherents to the Recommendation, which all are OECD Members, i.e. to date no non-Members have adhered to it, although, as the Report will outline further, many non-Members have taken steps to align their VAT frameworks with the Recommendation and many others are considering reform to do so, which may ultimately results in requests of adherence to the Recommendation.

12. In terms of its content and structure, the Council set out the Recommendation in six parts as follows:

Part (I) defines certain key terms employed in the Recommendation.

Part (II) *recommends* that Adherents take due account of the Guidelines which are set out in the Appendix to the Recommendation and form an integral part thereof and in particular:

i. pursue efforts to implement the principles of VAT neutrality and the principles for determining the place of taxation of cross-border supplies in accordance with the

[4] See the Statement of Outcomes of the Global Forum on VAT of 2015, which is available at: https://www.oecd.org/tax/consumption/statement-of-outcomes-on-vat-gst-guidelines-2015.pdf

destination principle set forth in the Guidelines when developing VAT legislation; and

ii. use the Guidelines as a source of reference when applying the principles of VAT neutrality and the destination principle in practice, with a view to facilitating a coherent application of national VAT legislation to international trade.

Part (III) *invites* Adherents and the Secretary-General to:

disseminate this Recommendation widely and utilise it as a tool for knowledge and experience sharing, regional co-operation programmes and dialogues and multilateral discussions on international VAT-related policies.

Part (IV) *invites* non-Adherents to take due account of, and to adhere, to the Recommendation.

Part (V) *invites* Adherents to:

support efforts for capacity building and assistance notably to developing countries so that they may be able to participate in and enjoy the benefits of these Guidelines.

Part (VI), in line with the usual practice of the OECD Council, *instructs* the CFA, through WP9, to:

i. monitor the implementation of the Recommendation and report to Council no later than five years following its adoption and as appropriate thereafter;

ii. review and propose amendments of the Guidelines to Council, as appropriate, in the light of experience gained by Adherents and in consultation with relevant stakeholders;

iii. seek to improve clarity and certainty in the application of the Guidelines and consider work in related areas that have emerged in the course of the development of the Guidelines.

13. As is evident from the instructions in Part (VI) above, the Recommendation also foresees that the CFA, through WP9, will continue work to support the effective and consistent implementation of the Guidelines, notably by improving clarity and certainty in the application of the Guidelines and by developing work in related areas where appropriate. This work has notably included the development of guidance to support the coherent implementation and application of the Guidelines ("implementation packages").

Economic and VAT policy landscape following the adoption of the Recommendation

14. As the introductory passages above have explained, the development and adoption of the Recommendation was in large part a response to the rapid growth of the international trade and the heightened VAT challenges that this created , most notably in the area of 'digital services', 'digital products' and remote sales of services and intangibles facilitated by technological innovation more broadly to household consumers. The following passages set out a number of economic and VAT policy developments since the adoption of the Recommendation that will help to further frame its continued relevance and importance.

Continual and rapid advancement of information and communications technology (ICT) changing the landscape of international trade

15. The continual and rapid advancement of information and communication technology (ICT) over recent decades lies at the heart of the digitalisation of the economy and the growth in the trade in services and intangibles. This advancement and growth has

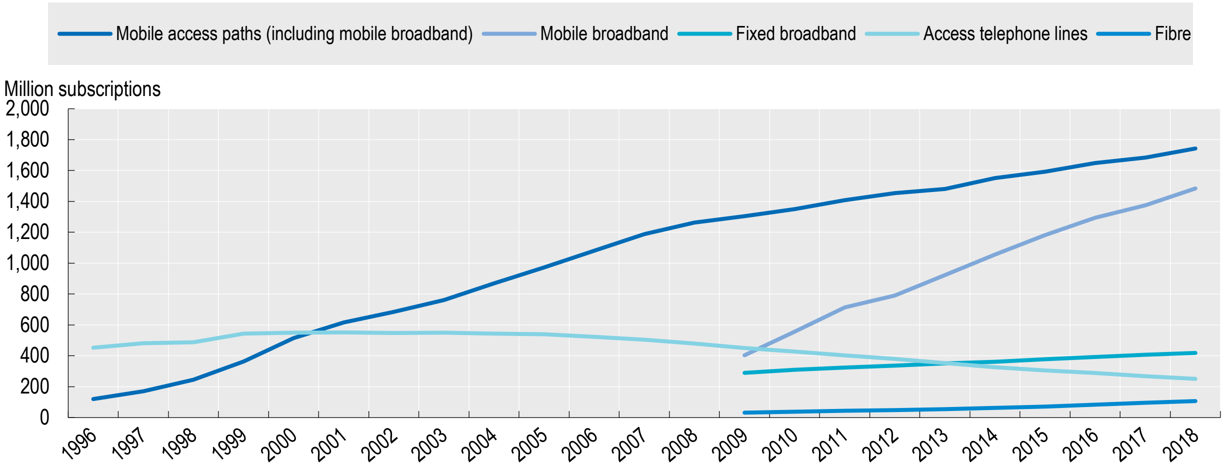
continued at pace since the Council adopted the Recommendation, which means that the necessity has only grown stronger for jurisdictions to coordinate the assertion of their right to levy VAT over international trade in services and intangibles upon the basis of common principles and standards.

16. A key economic and societal manifestation of this digital revolution are the numerous Internet-based tools that businesses and their customers can now use to communicate and transact with one another, and the related emergence of novel business models and transformation of traditional ones. A substantial proportion of the world's population now has access to increasingly ubiquitous and inexpensive digital devices and hardware (smartphones, tablets, laptops), Internet connectivity and "smart technology" (e.g. household appliances that consumers can interact with and control through the internet). Underpinning this digital revolution is a powerful and sophisticated communications infrastructure that links markets all over the world through the internet and telecommunications networks, including Internet server hubs, fibre-optic cables for high-speed, fixed-location broadband, telephone masts for mobile broadband, and so on. Of course, the increasing sophistication of computing hardware and communications infrastructure in turn drives further innovation in software applications, usage of data and the availability of cloud-based services.

17. By way of statistical illustration of the extent to which businesses and consumers now utilise the internet, including notably to make online sales and purchases, 93% of businesses in OECD Members had a broadband connection by 2019 with 70% to 95% of all adults enjoying an Internet access point in some form. These are percentages that in 2021 are no doubt even closer to 100% (OECD, 2020[5]). The growth of mobile broadband penetration in particular is high in the economies of many non-OECD Members[5] as mobile broadband fills a connectivity gap due to relatively low levels of fixed broadband infrastructure in many developing regions of the world (OECD, 2020[5]). By 2020, approximately half of the world's population was using mobile Internet (4 billion mobile Internet subscribers) and smartphone adoption is expected to reach 75% of the world's population by 2022 (GSMA Intelligence., 2020[6]). The following figure, Figure 2, illustrates trends over the past two decades in adoption of different paths to Internet and telecommunications access.

[5] These include non-OECD Members that responded to the 2019 OECD Digital Economy Policy questionnaire on national digital strategies and policies, including Brazil, the Russian Federation, Singapore and Thailand.

Figure 2. Trends in communications access paths in OECD Members, 1996-2018



Source: OECD (2020), *OECD Digital Economy Outlook 2020*, OECD Publishing, Paris, https://dx.doi.org/10.1787/bb167041-en

18. These developments have greatly increased the ease with which businesses, especially small and medium-sized enterprises (SMEs), can reach global markets, doing so with lower costs and greater flexibility and efficiency than ever before. Business are also integrating new technologies within their internal systems and processes to promote more efficient management of production and delivery processes and to respond more readily to changes in consumer preferences, while consumers benefit from access to greater choices of products and services and more convenient delivery channels.

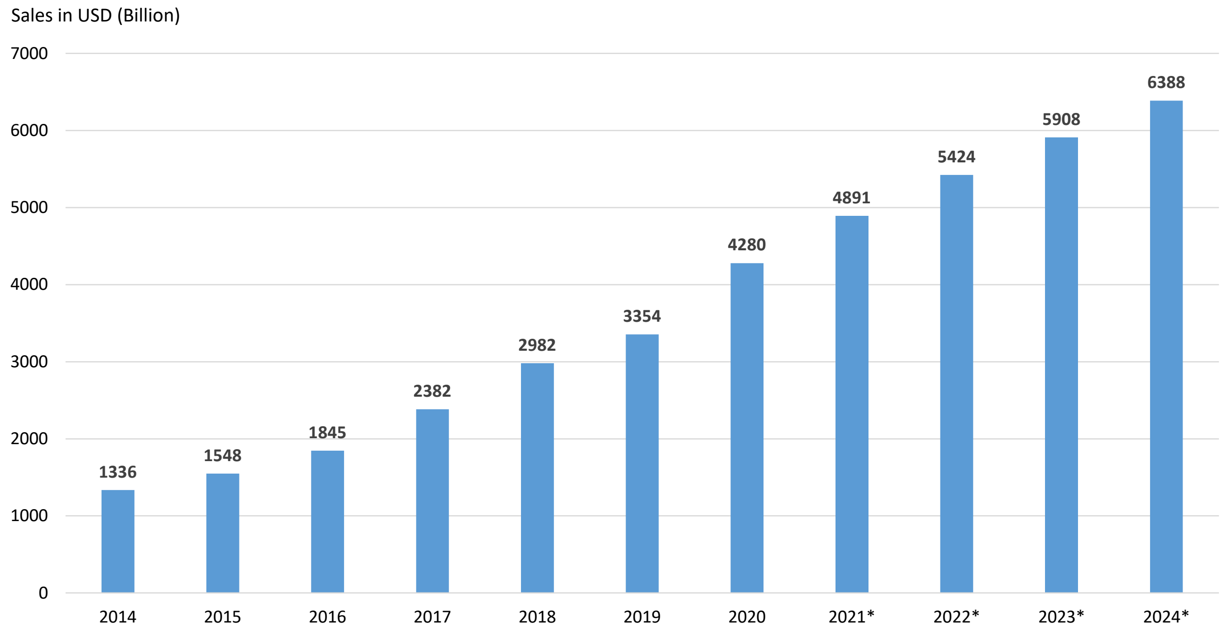
Ever growing importance of digital trade at global level

19. Digital trade includes a wide range of activities, products and services, which can make it difficult to delineate its scope and measure its size.[6] These limitations and challenges notwithstanding, the data that is available all points towards the ever-growing importance of digital trade globally.

20. As an illustration, the value of global business-to-consumer (B2C) e-commerce sales has increased by 220% between 2014 and 2020, with a five-fold increase expected by 2024 compared to 2014 (see Figure 3). Similarly, e-commerce's share of total global retail sales is steadily increasing, accounting for 18% of total sales in 2020 compared to 7.4% only five years ago (see Figure 4).

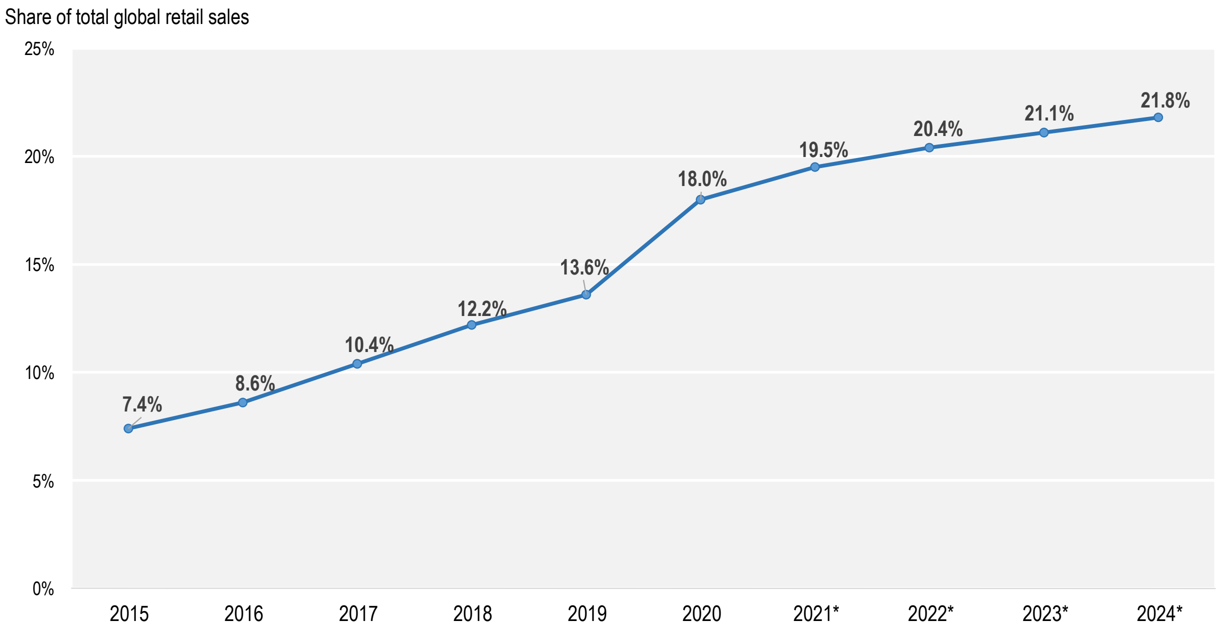
[6] For the purposes of this report the term "digital trade" is used to encompass a broad range of digitally enabled sales or purchases of services, intangibles and (physical) goods that can be either digitally or physically delivered, involving both private individuals (consumers) and businesses. Unless the context of a particular discussion specifies otherwise, this report utilises the term "digital trade" interchangeably with "e-commerce".

Figure 3. The growth of global e-commerce sales (2014-2024)



Note: *Forecast. E-commerce sales include services and products ordered using the Internet via any device, regardless of the method of payment or fulfilment. Travel and event tickets are excluded.
Source: Statista (2020), *Retail e-commerce sales worldwide from 2014 to 2024 (in billion US dollars)* at https://www.statista.com/topics/871/online-shopping/#dossier-chapter1

Figure 4. E-commerce share of total global retail sales (2015-2024)



Note: *Forecast.
Source: Statista (2021), E-commerce share of total global retail sales from 2015 to 2024 at https://www.statista.com/statistics/534123/e-commerce-share-of-retail-sales-worldwide/

21. On a broader scale that also includes business-to-business (B2B) sales, global e-commerce sales have recently been estimated at USD 26.7 trillion in 2019, up 4% from 2018, and equivalent to 30% of global gross domestic product (GDP) that year (UNCTAD, 2021[7]). UNCTAD estimated B2C e-commerce sales specifically at USD 4.9 trillion in 2019 (approximately one-fifth of all e-commerce), up 11% over 2018 (UNCTAD, 2021[7]). Of these total B2C e-commerce sales, cross-border sales were responsible for USD 440 billion in 2019, an increase of 9% over 2018 (UNCTAD, 2021[7]).

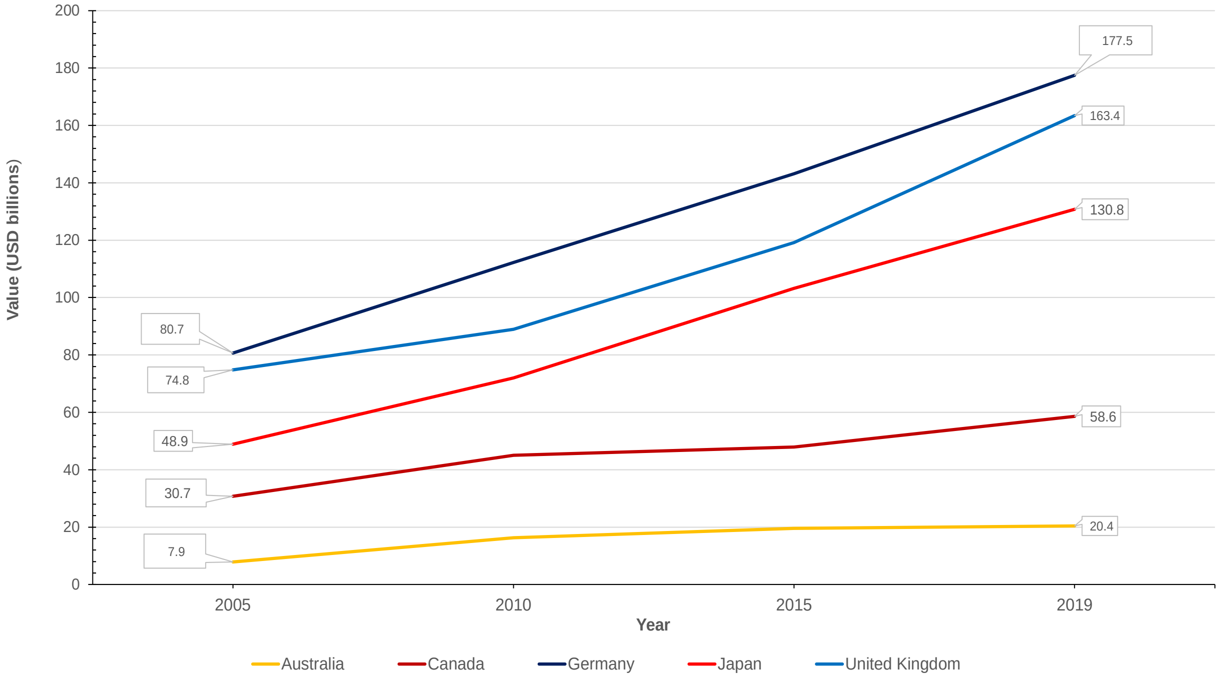
22. In terms of market penetration of e-commerce globally, 1.48 billion people, or over one quarter of the world's population aged 15 and older, made purchases online in 2019 (UNCTAD, 2021[7]), a rise of 7% on 2018, with estimates suggesting that the share of online shoppers that make international purchases rose from 20% in 2017 to 25% in 2019 (UNCTAD, 2021[7]). A different set of estimates suggests that there could be as many as 2.14 billion online consumers by 2021 (Statista, 2020[8]).

23. Initial estimates for 2020 indicate an increase in online retail sales as a share of total retail sales of 3 percentage points (from 16% to 19%) compared to a two-percentage point rise between 2018 and 2019 (UNCTAD, 2021[7]). This increase will in part be due to the effects of COVID-19 in generating an increase in demand for online purchases of physical goods due to quarantine restrictions in many countries (UNCTAD, 2021[7]). Yet research by UNCTAD also indicates that the Covid-19 pandemic has also prompted "substantial increases in consumption of services and intangibles, notably online conferencing services, gaming and entertainment". In other words more people are engaging in e-commerce more often across a wide range of product categories (UNCTAD, 2021[9]) . Digital trade is likely to grow to occupy even more critical significance in all economies globally in the coming years, with a number of factors influencing this. A further economic effect of the Covid-19 pandemic is that mandatory lockdowns have made customers more comfortable purchasing items online. A related development is the increasing availability of technology-enabled payment solutions, including mobile payments. These financial and payment innovations are expanding the financial inclusion of those who have not previously had access to the traditional financial system, opening up opportunities for them to engage in digital trade.

24. The volume of digital trade is likely to continue to grow rapidly in the near and long term. Increasing Internet penetration worldwide through the rising use of personal digital devices (smartphones and tablets) is expected to be a key driver to the strong future digital trade growth . By 2025, the number of mobile Internet users is expected to reach 5 billion globally and smartphone adoption will account for approximately 80% of total connections (GSMA Intelligence., 2020[6]).

25. As previous passages have stated, the growth of the digital economy has enabled businesses, including SMEs, to greatly expand their international reach to new markets without the need for a physical presence outside their own jurisdiction of establishment. No more is this true than in the case of remote and digital sales of services and intangibles, as Figure 5 and Table 1 below illustrates. This figure and supporting table show the value of inbound (or "imported") international services, i.e. services acquired from suppliers abroad, in select jurisdictions from different regions of the world during the years 2005 to 2019, illustrating the significant size and steady growth in this particular area of international digital trade (USD 3.2 trillion by 2019).

Figure 5. Value of imports of digitally deliverable services* in select OECD Members (USD billions), 2005 to 2019



*Please note that the numbers that this graph cites include all supplies of digitally deliverable services, both B2B and B2C. The terms "digitally-deliverable services" also includes insurance, pension and financial services, as well as charges for the use of intellectual property. Many elements of these categories of service and intangible may not form part of many other estimates for value of "digital trade" and "digital services".
Source: Adapted from UNCTADSTAT (2021), *International trade in digitally-deliverable services, value, shares and growth, annual* (database) at https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=158358

Table 1. Value of imports of digitally deliverable services in select jurisdictions (USD billions), 2005 to 2019

Jurisdiction:	2005	2010	2015	2019	Percentage change, 2005 to 2019
Australia	7.9	16.3	19.6	20.4	159%
Brazil	11.6	30.7	40.2	37.3	222%
Canada	30.7	45.0	47.9	58.6	91%
Chile	2.6	4.6	6.2	6.4	152%
China (People's Republic of)	31.5	69.0	86.1	128.3	307%
Germany	80.7	112.3	143.2	177.5	120%
India	20.3	43.5	47.1	73.0	260%
Japan	48.9	72.0	103.2	130.8	167%
Nigeria	3.3	5.6	4.7	18.3	458%
United Kingdom	74.8	89.0	119.1	163.4	119%
United States	127.3	220.8	261.4	310.9	144%

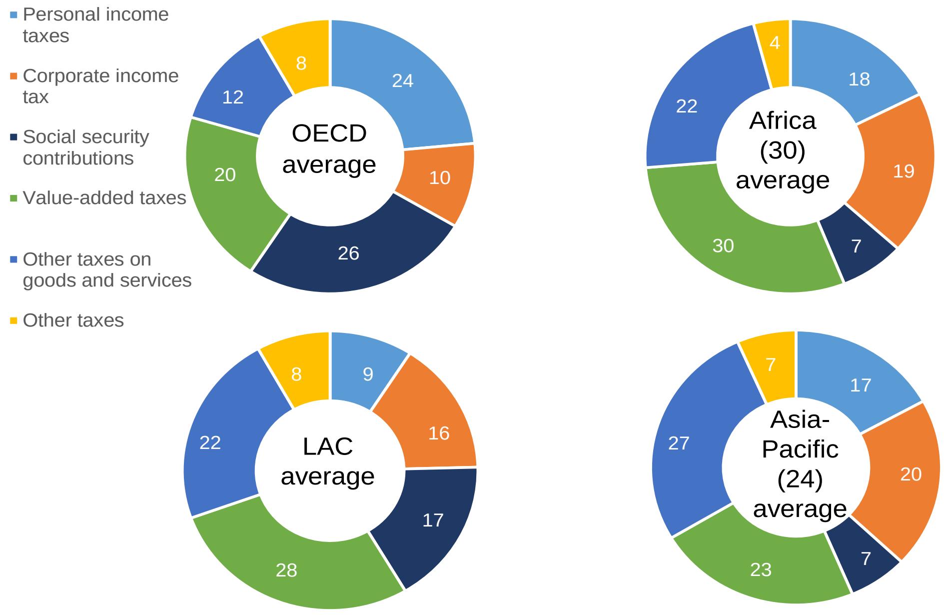
Source: Adapted from UNCTADSTAT (2021), *International trade in digitally-deliverable services, value, shares and growth, annual* (database) at https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=158358

VAT continues to be a key source of revenue for jurisdictions around the globe

26. The spread of VAT has been among the most important international developments in taxation over the last half century. Limited to less than 10 countries in the late 1960s, it is today an important source of revenue in 171 countries worldwide as Figures 6 and 7 demonstrate.

27. Figure 6 below shows at an aggregate level that in 2020 VAT was the largest source of tax revenue in Latin America and the Caribbean (LAC) and in Africa, and accounted for one-fifth of all revenues in OECD Members. The addition of revenues from other taxes on goods and services to revenues from VAT illustrates that indirect taxes account for over half of all government tax revenues in LAC and Africa and over one-third in OECD Members.

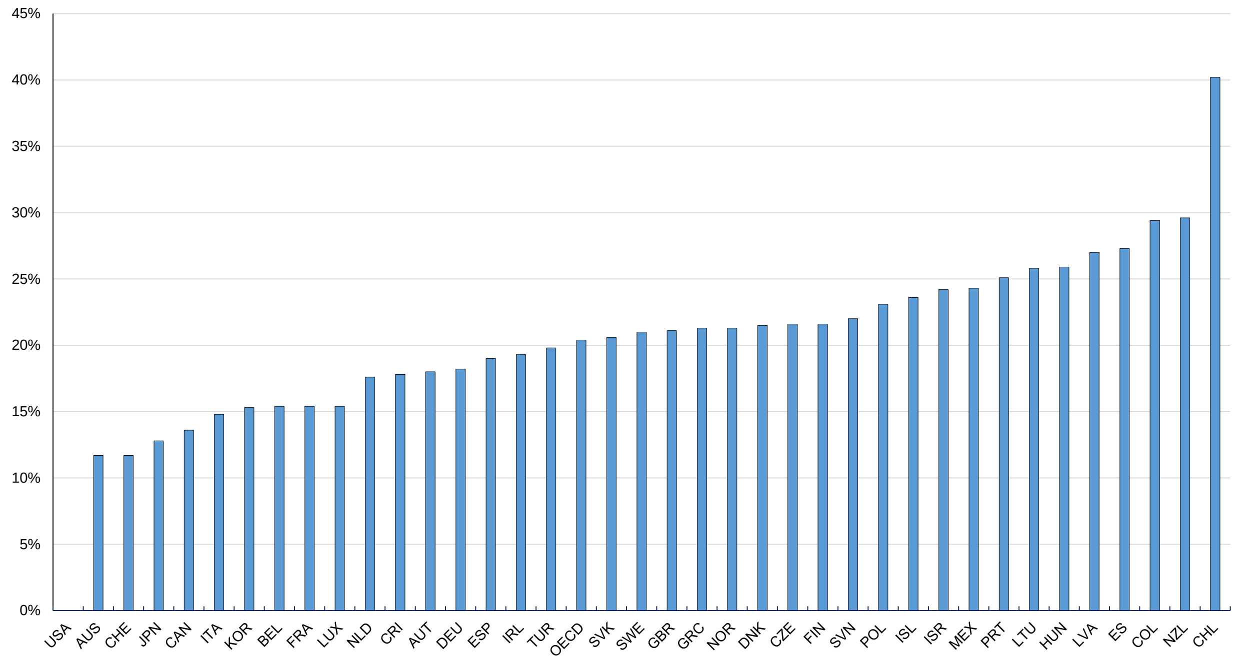
Figure 6. VAT as an important source of total tax revenues worldwide



Note: The data for the Africa, LAC and OECD averages relate to revenues from 2018, while the date for APAC relates to 2019.
Source: OECD (2021), *Global Revenue Statistics Database* (database), https://stats.oecd.org/Index.aspx?DataSetCode=RS_GBL

28. Figure 7 provides a granular breakdown of VAT revenues as a proportion of total tax revenues across OECD Members, highlighting that it constitutes a very important source for all OECD Members that operate a VAT. This proportion ranges from approximately 12% to over 40%.

Figure 7. Value added taxes as a percentage of total tax revenues among OECD Members, 2018



Source: Adapted from OECD (2021), *Global Revenue Statistics Database* (database), https://stats.oecd.org/Index.aspx?DataSetCode=RS_GBL

Disclaimer: The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Global Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

A considerable number of OECD Members and non-Members have implemented VAT reforms to achieve more effective taxation of international digital trade

29. The ability for businesses to supply services and intangibles to customers in foreign jurisdictions without any physical presence in those jurisdictions is a virtually definitional feature of the digital economy and one that has proven a substantial boost to international trade, as the figures 3, 4 and 5 above illustrate. Addressing the VAT challenges that have resulted from the growth in international digital trade has become an increasingly urgent priority for many jurisdictions that have a VAT as the size of inbound international sales of services and intangibles into their jurisdiction has risen markedly over recent years. This has translated into a significant number of jurisdictions around the globe implementing strategies to address these VAT challenges, with many more considering doing so imminently and in the near future. The capacity to collect VAT on inbound international supplies in the digital economy plays an increasingly decisive role in safeguarding a jurisdiction’s VAT revenues as well as in levelling the playing field for domestic suppliers who have to charge and collect VAT. Hence successfully asserting the right to impose VAT on international digital trade, and effectively collecting it, represents a major priority for

many jurisdictions[7]. International coordination of jurisdictions' responses to the VAT challenges of international digital trade remains critically important as the interaction of VAT regimes can have a major impact on VAT revenues, on compliance and administration, and in either facilitating or distorting trade.

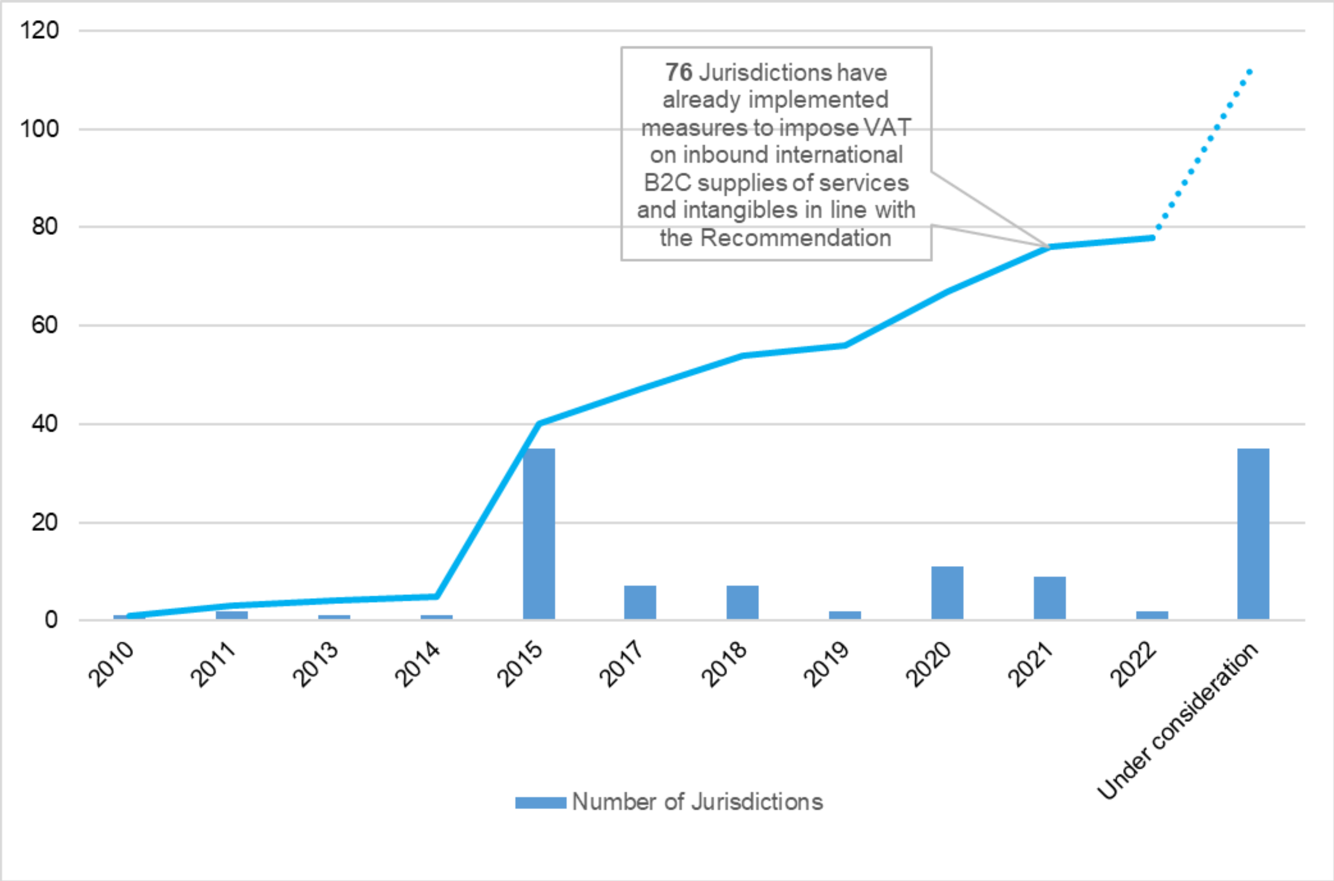
30. Surges in e-commerce and digital trade activity as a result of the Covid-19 pandemic, while government revenues have plummeted and sovereign debt has spiked sharply, has only accelerated the urgency to pursue VAT policy reforms targeting these areas of economic activity and growth.

31. Figure 8 below illustrates this trend in international VAT policymaking, with at least 76 jurisdictions that have already enacted reforms, two that have legislated for measures that will come into force in 2022, and sources identifying a further 34 either in the process of enactment or actively considering commencement of reforms.

32. Evidence suggests that the Recommendation has played a crucial role and served as an important point of reference in informing the policy decision-making process in those jurisdictions. Section V of this report, assessing the implementation of the Recommendation among Adherents, provides further analysis of the Recommendation's importance in driving forward national reforms in alignment with it to strengthen VAT collection on international B2C trade in services and intangibles.

[7] Many factors influence VAT revenues and VAT's importance in different jurisdictions' tax mix. Tax policy decisions regarding the appropriate balance between the various sources of government revenue play a key role but the efficiency of a jurisdiction's tax system to collect VAT revenue effectively is also essential.

Figure 8. Number of jurisdictions that have implemented VAT reforms targeted at inbound international supplies of services and intangibles in line with the Recommendation



Note: This figure accounts for each of the Member Countries of the European Union separately in computing the number of jurisdictions that have adopted relevant VAT reforms.
Source: OECD analysis based on information obtained from different government, business and public sources and media.

Purpose of this report

33. In accordance with the Council's instructions, a Report by the CFA on the implementation, dissemination and continued relevance of the Recommendation should be transmitted to the Council by early 2022 at the latest. Against the above background, the ensuing sections of this Report elaborate on the implementation, dissemination and continued relevance of the Recommendation.

II. METHODOLOGY

34. The Secretariat coordinated the preparation of this Report. It did so based notably on extensive consultation with, and feedback from, the Adherents to the Recommendation as well as the business community actively involved in the VAT work via WP9's Technical Advisory Group as a key stakeholder. The Secretariat has complemented this input with feedback from sources of information as appropriate. In particular, the key methods for collecting information included:

35. **A written survey among Adherents** [CTPA/CFA/WP9(2021)1]**.** This survey (hereafter the "2021 Adherents Survey") solicited information from Adherents on:

- Implementation of the Recommendation, including its impact on VAT policy reform and on VAT design and implementation; on revenues; on administration and compliance costs, etc.
- Efforts to disseminate the Recommendation internally among relevant authorities and levels of government, as well as at international level, e.g. in the context of international cooperation and/or multilateral discussions on international VAT policy.
- Efforts to build tax capacity and provide technical assistance internationally, including to interested developing countries.
- Continued relevance of the Recommendation, including suggestions on any areas where the Guidelines embedded in the Recommendation could be amended with a view to improving their overall effectiveness, including in relation to the clarity and certainty of their application.

The survey was submitted on 22 January 2021 to all OECD Members in their capacity as Adherents to the Recommendation and replies were invited up to 15 February 2021. Given that the initial round of answers remained below two-thirds of Adherents, and to help ensure that the results would be broadly representative, reminders were sent out to Adherents and the deadline for answers was further extended until 29 May 2021. Overall, 27 Adherents (i.e. over two-thirds of Adherents) replied (hereafter Respondents) , including: Australia, Austria, Belgium, Canada,[8] Chile, Colombia, Costa Rica, Greece, Hungary, Iceland, Ireland, Italy, Japan, Lithuania, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Spain, Sweden, Switzerland, Turkey and the United Kingdom.

36. **A written survey among the business community [**CTPA/CFA/WP9(2020)9**].** The international business community has been actively involved in the development and implementation of the Guidelines and the associated implementation guidance via its participation in the Technical Advisory Group[9] to WP9 as a key stakeholder (OECD,

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[8] The WP9 delegates for Canada replied that the country was in the process of reforming its VAT framework for the treatment of inbound international supplies of services and digital products, in line with the Recommendation. Because the legislative and implementation processes had only recently begun at the time the Secretariat was conducting the written survey of Adherents, Canadian officials could not provide further information at that stage.

[9] The Technical Advisory Group to WP9 is an advisory body that was created in 2007 for facilitating dialogue on the development of international VAT standards and guidance between OECD Members, the international business community, academia and non-Members. Its origins trace back to the "Consumption Tax Technical Advisory Group" that the CFA established in 1999 to support WP9 in the implementation of the 1998 Ottawa Taxation Framework Conditions (OECD,

2001[10]). The survey (hereafter the 2020 survey of business) was targeted at business members of the Technical Advisory Group (TAG) to WP9 and, in particular, the Business at OECD representative group comprising leading businesses and industry organisations that have played an important and pro-active role in developing the Guidelines through the TAG platform. The Secretariat received 32 submissions from individual (generally multinational) firms and from industry organisations that represent large numbers of businesses and sectors. Taken together, these submissions represent over 1.500 foreign VAT registrations worldwide, across all sectors involved in international and digital trade. The survey focussed on features of good practices in jurisdictions' VAT measures targeted at international digital trade, based on the surveyed businesses' experience, and on any issues and challenges encountered by these businesses. The survey did not solicit references to specific jurisdictions in this analysis, although the Secretariat took into account any country-specific comments it received when analysing and summarising the outcomes of the business survey and thus in turn to inform the findings of this report where appropriate.

37. **The OECD's Consumption Tax Trends 2020 edition.** Consumption Tax Trends is a bi-annual flagship publication on key trends in consumption tax policy and administration in OECD Members. Publication of the most recent edition was in 2020 and it includes a dedicated annex on the implementation of the Guidelines. Please refer to "Annex Table 2.A.8. Mechanisms for collecting VAT on cross-border supplies of services and intangibles from non-resident suppliers ("inbound supplies")", on pages 99 to 103 of the publication. (OECD, 2020[1])

38. **Additional sources:** These sources of information include:

- Information collected in the context of Annual BEPS Inclusive Framework implementation reports.
- The outcome of the deliberations at the 2017 and 2019 meetings of the Global Forum on VAT, which were each attended by over 100 jurisdictions and regional and international organisations.
- Numerous workshops and consultations with government officials and stakeholders that have taken place since the adoption of the Recommendation (a list of these is at Appendix 1 of this Report).

III. PROCESS

39. The Report was approved by WP9 at its online meeting on 22-24 November 2021 [CTPA/CFA/WP9(2021)4, CTPA/CFA/WP9/M(2021)2] and by the CFA through a written procedure on 28 February 2022 [CTPA/CFA(2021)18] The Council is invited to note and declassify the CFA-approved Report. Thereafter, a link to the Report will be included in the public webpage of the Recommendation in the online Compendium of OECD Legal Instruments. In order to support the implementation and dissemination of the Recommendation, the Report will also serve as a point of reference, as appropriate, in the context of future WP9/CFA work. It is also expected to serve as an effective tool for

2001[10]).The CFA then superseded this body in 2007 with the "Technical Advisory Group on the International VAT/GST Guidelines" to support WP9 in the development of the Guidelines. This subsidiary body, in its current form the TAG to WP9 and with joint chairpersonship from government and business, continues to represent a very constructive and effective forum for obtaining business (and academic) input on priority work streams and pressing VAT challenges for WP9 members and several non-Members alike.

demonstrating the success to non-Adherents of the Recommendation and the considerable benefits of adherence and alignment with its principles and mechanisms.

IV. DISSEMINATION

40. In the Recommendation, the Council also invited the Secretariat to:

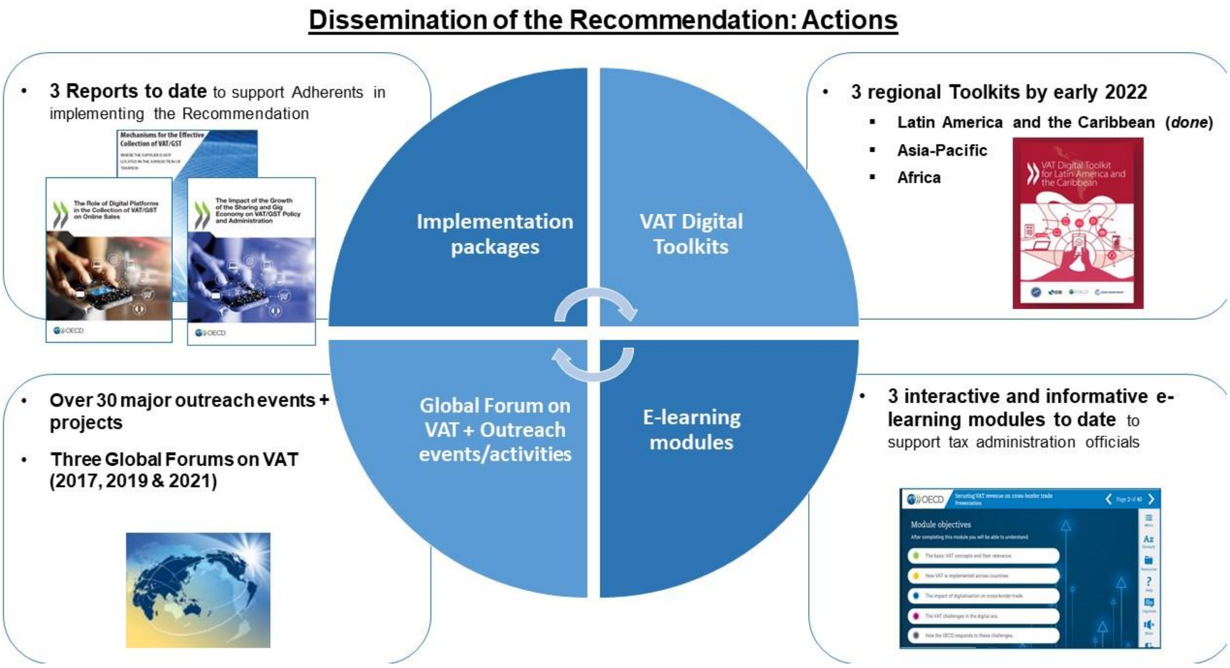
… disseminate this Recommendation widely and utilise it as a tool for knowledge and experience sharing, regional co-operation programmes and dialogues and multilateral discussions on international VAT related policies

Connected to the Recommendation's invitation to Adherents *to disseminate the Recommendation widely and utilise it as a tool for knowledge and experience sharing, regional co-operation programmes and dialogues and multilateral discussions on international VAT related policies*, it also invited Adherents to:

... support efforts for capacity building and assistance notably to developing countries so that they may be able to participate in and enjoy the benefits of these Guidelines.

41. This section describes the actions that the Secretariat and Adherents have taken to disseminate the Recommendation. In particular, the Secretariat has conducted consultations and launched several outreach initiatives to promote the Recommendation among and beyond Adherents and other stakeholders. Figure 9 below provides an illustrative snapshot of the main strands of activity to disseminate the Recommendation.

Figure 9. Illustration of key activities to disseminate the Recommendation



Source: OECD

Creation of promotional material

42. Right after the adoption of the Recommendation, the Secretariat developed a flyer to promote adherence to the Recommendation. This has been published on the Compendium page of the Recommendation and has been made available to VAT officials from around the world at numerous relevant meetings and events.

Development and publication of technical guidance in relation to the content of the Recommendation

43. Since the Recommendation's adoption, WP9, under the aegis of the CFA, has served as a platform to exchange policy practices, lessons learnt from the implementation of the Recommendation and advance global dialogue and knowledge in this area.

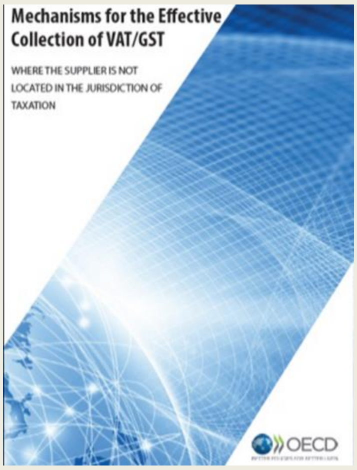
44. In the WP9 context, the Secretariat and Adherents have developed and published guidance and tools to support the implementation of the Recommendation ("implementation packages"). The objective of these is to provide both policymakers and practitioners with evidence and policy options to improve the efficiency of their VAT systems and ensure a consistent implementation at global level of the solutions that the Recommendation promotes. Box 3 below provides further details on the key publications that form part of WP9's implementation packages since the adoption of the Recommendation.

45. In developing guidance in relation to the content of the Recommendation, in turn supporting its implementation, WP9 created informal working groups of experts comprising both policymakers and administrators within national tax administrations and representatives of the international business community. This has provided a forum for effective and robust dialogue to ensure that the guidance that WP9 develops, provides workable, fit-for-purpose solutions that take into account not only government revenue considerations but also the priorities of efficient administration and straightforward mechanisms for compliance. The Global Forum on VAT served, and continues to serve, as the forum for a truly inclusive international policy dialogue among representatives from OECD Members and non-Members, ensuring that the perspectives of jurisdictions worldwide is taken into account to inform the discussion around the Guidelines embedded in the Recommendation. The Global Forum on VAT has contributed significantly to the development of this implementation guidance, through written consultations, workshops and intense discussion at its plenary meetings. Each of the publications presented in Box 3 below were endorsed at these plenary meetings by Global Forum participants from jurisdictions and international organisations worldwide, typically representing 100 to 110 different jurisdictions and international organisations.

Box 3. Implementation packages on key policy guidance of the Recommendation

1) The Collection Mechanisms Report

Full citation: OECD (2017), *Mechanisms for the Effective Collection of VAT/GST When the Supplier Is Not Located In the Jurisdiction of Taxation*, OECD Publishing, Paris (OECD, 2017[11])



The Recommendation sets out that the optimal approach to collection of VAT on inbound international B2C supplies of services and intangibles is a regime that requires the non-resident businesses making those supplies to register for and collect the tax. The Recommendation presents the advantages of designing these regimes on the basis of simplified registration and collection procedures to enhance neutrality and ease of compliance for international businesses with VAT obligations in multiple jurisdictions and thus efficiently generate important new revenues. The Collection Mechanisms Report builds on these recommendations by analysing the key policy and administrative design challenges in seeking to collect VAT on digital sales by businesses that are not located in the jurisdiction of taxation. It expands upon the guidance in the Recommendation to promote proven and effective solutions for the collection of VAT on these sales, notably providing detailed recommendations on the design and operation of simplified compliance regimes for non-resident businesses.

2) The Digital Platforms Report

Full citation: OECD (2019), *The Role of Digital Platforms in the Collection of VAT/GST on Online Sales*, OECD Publishing, Paris, (OECD, 2019[12])

The Recommendation acknowledged the potential role that intermediaries could play in supporting VAT compliance on international B2C sales. A key area of the digital economy that has grown significantly since the Council's adoption of the Recommendation is that of digital platforms and online marketplaces acting as intermediaries to facilitate sales of services, intangibles and goods between large numbers of buyers and sellers that are often in different jurisdictions to one another. It became increasingly clear that this reality presents significant opportunities to further enhance the efficiency and the effectiveness of the rules and mechanisms presented in the Recommendation for the collection of VAT on the online sales that these platforms facilitate. Against this backdrop, WP9 was requested by its members to develop internationally agreed guidance on measures for the efficient involvement of digital platforms in the VAT collection on online sales that can be implemented consistently across jurisdictions in accordance with the Recommendation. To this end, the Digital Platforms Report provides practical guidance to tax administrations on the design and implementation of a variety of solutions for enlisting digital platforms, including e-commerce marketplaces, in the effective and efficient collection of VAT on digital trade in goods, services and intangibles, notably given their important role in generating, facilitating and/or executing online sales. In particular, it includes new measures to make digital platforms liable for the VAT on sales that third-party online traders make through these platforms, along with other measures including data sharing and enhanced cooperation between tax authorities and digital platforms. The measures contained in the Digital Platforms Report notably enhance the efficiency of the solutions for the effective collection of VAT on internationally traded services and intangibles set by the Recommendation.

3) The Sharing and Gig Economy Report

Full citation: OECD (2021), *The Impact of the Growth of the Sharing and Gig Economy on VAT/GST Policy and Administration*, OECD Publishing, Paris, (OECD, 2021[13])

The Recommendation instructed the CFA, through WP9, to consider work in areas related to the Guidelines as they emerge. The emergence of the sharing and gig economy as a significant component of the wider digital platform economy globally is a relatively recent phenomenon that presents challenges for national VAT systems that are often distinct from those that arise in the context of digital platforms in the online retail, digital services and digital products sectors. This includes challenges to the sustainability of jurisdictions' VAT tax bases from increasingly large numbers of, often new and hard-to-trace, economic operators supplying their services through sharing and gig economy platforms, to neutrality between businesses operating on such platforms and businesses that do not, including traditional bricks-and-mortar businesses, and also to neutrality between those businesses that operate on domestically established digital platforms and those that operate on non-resident digital platforms.

The distinct risks that the sharing and gig economy can present would not have been at the forefront of the concerns of most jurisdictions at the time of the adoption of the Recommendation. Thus, the Sharing and Gig Economy Report now constitutes a timely addition to the "implementation packages" that WP9 has produced to support the Recommendation. The report aims to assist tax administrations in designing and implementing a effective VAT policy responses to the growth of the sharing and gig economy and its associated challenges, with a view to protecting VAT revenue and minimising economic distortions. This report sets out the core components of a comprehensive VAT policy strategy for tax administrations to consider based on the principles of VAT neutrality and of destination-based taxation presented in the Recommendation. It analyses the key features of the sharing and gig economy and its main business models, identifies the associated VAT challenges and opportunities, and presents a wide range of possible measures and approaches to support an effective policy response. This includes detailed guidance on the possible role of digital platforms in facilitating and enhancing VAT compliance in the sharing and gig economy.

The role of the Global Forum on VAT

46. Two in person and one online meetings of the Global Forum on VAT took place after the adoption of the Recommendation, in 2017, 2019 and 2021. These editions of the Global Forum on VAT were attended by over 100 jurisdictions and by several international and regional organisations around the globe. They offered unique opportunities for an inclusive VAT policy debate on the challenges of the digitalisation of the economy and the tools provided by the Recommendation to address those challenges, as well as on experiences and lessons learnt related to the implementation of the Recommendation.[10]

The organisation of seminars, workshops and outreach activities and the development of e-learning modules

47. In addition to the plenary meetings of the Global Forum on VAT, the OECD delivered and had important roles in a number of workshops targeted especially at developing economies from all regions around the world. These seminars and workshops have often been organised by, or in cooperation with, regional organisations and development banks including the Inter-American Center of Tax Administrations (CIAT) and the Inter-American Development Bank (IDB) for Latin America and the Caribbean (LAC); the Asian Development Bank for Asia-Pacific (ADB); The African Tax Administration Forum for Africa (ATAF) as well as the Pacific Islands Tax Administrators Association (PITAA) and the Study Group on Asian Tax Administration and Research (SGATAR). These workshops were designed to ensure intensive interaction and peer learning and to facilitate the development of networks for continued sharing of experience and analysis between tax authorities of Adherents and non-Adherents. Where possible, to make best use of existing networks and experience, these workshops have been integrated into the long-running OECD Global Relations Programme. A number of national experts representing Adherents were actively involved in those meetings to share their insights and experiences.

48. A significant number of Adherents, notably from Australia, Austria, Belgium, Canada, Chile, Costa Rica, Japan, Mexico, Netherlands, New Zealand, Norway, Spain, Sweden and the United Kingdom have been (and indeed continue to be) actively involved in the OECD Secretariat's workshops and seminars through their provision of subject matter experts to share national perspectives and experiences regarding implementation of the Recommendation. These workshops have benefitted considerably from the frequent participation of Business at OECD (BIAC) in addition to representatives of national tax administrations. The International Bureau of Fiscal Documentation (IBFD), a leading international non-profit tax research and consulting body, has also been a regular

[10] See respective press releases with the outcomes of 2017 and 2019 Global Forum on VAT meetings available at:
OECD Centre for Tax Policy and Administration/Committee on Fiscal Affairs (13 April 2017) [Press release], *Tax experts gather at the OECD to discuss solutions for common challenges in the design and operation of VAT systems*, https://www.oecd.org/tax/consumption/tax-experts-gather-at-the-oecd-to-discuss-solutions-for-common-challenges-in-the-design-and-operation-of-vat-systems.htm.
and:
OECD Centre for Tax Policy and Administration/Committee on Fiscal Affairs (22 March 2019) [Press release], *Global tax community welcomes new measures to enlist online marketplaces in the collection of VAT/GST in e-commerce*, https://www.oecd.org/tax/consumption/tax-experts-gather-at-the-oecd-to-discuss-solutions-for-common-challenges-in-the-design-and-operation-of-vat-systems.htm.

contributor to OECD workshops and seminars. International organisations such as the IMF have also contributed experts to discussions on specific subject areas at these events.

49. Appendix 1 to this Report provides an overview of the numerous seminars, workshops and outreach activities that the Secretariat has organised to promote the dissemination of the Recommendation.

50. Moreover, a number of e-learning modules were developed by the Secretariat that target officials in tax administrations and aim at supporting Adherents in acquiring a common understanding of the principles and mechanisms as set out by the Recommendation. These modules are also a key element of capacity building programmes for non-Adherents and in particular for developing countries, often in combination with interactive workshops, in view of enhancing their understanding of the principles and mechanisms set out in the Recommendation. Three modules have been developed so far, focussing on:

- The key features of value added taxes as set out in the Recommendation.
- The principles and mechanisms for the application of VAT to internationally traded services and intangibles as presented in the Recommendation and on the collection of VAT on supplies of goods from online sales.
- The main steps for the application of the principles and mechanisms to ensure the efficient collection of VAT on international digital trade.

51. Figure 10 below illustrates a screenshot from what the user interface for these modules looks like, which the Secretariat has designed to be as engaging, informative and easy to navigate as possible. Note that these e-learning modules are available to all registered participants on the *OECD Knowledge Sharing Platform* (KSP).

Figure 10. Screenshot from the OECD e-learning modules on VAT:

Producing bespoke technical guidance for economies in developing regions of the world: Regional "VAT Digital Toolkits" for Latin America and the Caribbean, Asia-Pacific and Africa

52. Connected to the Recommendation's invitation to Adherents to disseminate the Recommendation widely, it also invited Adherents to:

... support efforts for capacity building and assistance notably to developing countries so that they may be able to participate in and enjoy the benefits of these Guidelines.

As Section 1 and this section of the Report outline, the OECD developed the Guidelines and then the Recommendation through a highly inclusive process, with the Global Forum on VAT playing a key role in endorsing the Guidelines as the internationally agreed standard for the application of VAT to international trade. The OECD also maintains a full programme of regular events for the purposes of outreach to non-Members worldwide, as subsequent parts of this section of the report will outline.

53. Notwithstanding this, in response to clear and strong demand from the delegations of developing economies at the 2019 Global Forum on VAT, the OECD decided to take the further step of launching a comprehensive programme for VAT capacity building in developing economies. This programme aims to provide the support and technical assistance that interested developing economies need to align with the Recommendation and related OECD guidance on the collection of VAT on international digital trade, which would potentially result in adherence to the Recommendation.

54. This programme is a recognition of the particular importance of VAT as often the largest source of tax revenue in many emerging and developing countries. The integrity and performance of developing economies' VAT regimes is thus crucial for their domestic resource mobilisation efforts. Developing economies have often not yet geared their VAT systems to ensure appropriate assertion of taxing rights over, and collection of VAT on, the continuous and rapid expansion of digital trade in their markets. Jurisdictions themselves, as well as international organisations and regional multilateral bodies, recognise that this is an increasingly unsustainable status quo. Non-taxation and lack of effective mechanisms for collection is eroding countries' VAT bases and creating competitive distortions between domestic and foreign businesses that operate to the clear disadvantage of domestic businesses, especially traditional bricks-and-mortar firms.

55. A central component of the capacity building programme for developing economies is a major project that the OECD has established to produce detailed, bespoke technical guidance manuals to assist these economies in implementing a comprehensive VAT strategy for the taxation of international digital trade. The OECD has given this initiative the title of the "VAT Digital Toolkits" project and its proposition received unanimous endorsement from the representatives of over 100 jurisdictions at the 2019 plenary meeting of the Global Forum on VAT.

56. The OECD has organised the project into three key regional strands in response to the clear consensus at the Global Forum on VAT that the optimal approach to meeting the needs and demands of developing economies would be to produce such detailed Toolkits on a regional basis. Building on the Global Forum's guidance, the OECD has been intensively engaged in this task of producing step-by-step guidance on the development of practical and effective measures for the collection of VAT on international digital trade that takes due account of the particular challenges, opportunities and circumstances of developing economies in different world regions, using a very collaborative and inclusive approach. The intention is that jurisdictions will be able to quickly and effectively implement the Toolkits' recommendations. The final deliverables for the project are to be

a VAT Digital Toolkit publication for each of the three key regions in scope: Latin America and the Caribbean (LAC), Asia-Pacific (APAC) and Africa.

57. To support maximum efficiency and effectiveness in the production of these Toolkits, the OECD agreed to develop them alongside the World Bank Group (WBG) as a strategic partner. This partnership has facilitated the assembling of a global team of VAT experts from national tax administrations, international authorities and academia that work under the technical supervision and direction of the OECD Secretariat to support production of the Toolkits. These experts have contributed extensively to the drafting of detailed analysis and advice that provide a genuine blueprint for countries to follow when deciding to implement Recommendation and subsequent OECD guidance on VAT.

58. To ensure that each Toolkit aims to fully understand the perspectives of officials in the tax administrations of each region, the OECD and WBG are in turn cooperating with regional multilateral bodies with deep expertise about their members:

- The Inter-American Center of Tax Administrations (CIAT) and the Inter-American Development Bank (IDB) Latin America and the Caribbean (LAC).
- The Asian Development Bank (ADB) for Asia-Pacific (APAC).
- The African Tax Administration Forum (ATAF) for Africa.

59. The OECD and its partners published the first toolkit, for the LAC region, on 23 June 2021 (OECD, 2021[14]) It received a very positive welcome from key stakeholders within the LAC region and the international tax community, including from many leading businesses. The OECD hosts the toolkit at the following link on its website: https://www.oecd.org/tax/consumption/vat-digital-toolkit-for-latin-america-and-the-caribbean.htm

60. The OECD and its respective partners are currently working towards a publication date early 2022 for the Asia-Pacific Toolkit and mid-2022 for the Africa Toolkit.

61. Bilateral technical assistance engagements are expected to follow the completion of the three Toolkits publications to support implementation of their recommendations, notably in key economies that have the potential to play a leadership role in furthering the adoption of the Recommendation and associated guidance in their regions.

Additional dissemination activities by Adherents

62. Adherents have played an essential part in the dissemination of the Recommendation, actively contributing to OECD work, responding to regular surveys, holding workshops and seminars to raise awareness of the Recommendation among different levels of national governments, civil servants and businesses, and have helped promoting the Recommendation beyond the OECD.

63. By way of example, Australia in particular has provided assistance over several years to various jurisdictions that have introduced or intend to introduce legislation for the imposition and collection of VAT on inbound supplies of services and intangibles by non-resident businesses. Australian Taxation Office (ATO) officials engaged on such capacity building and technical assistance engagements have emphasised heavily the importance of consistency with the Recommendation in enhancing compliance and administration and minimising risks of double taxation and unintended non-taxation and of trade distortion. Internally, the ATO has promoted regular sharing of knowledge and best practices among front-line compliance staff to improve consistency with the Recommendation in the design

and administration of its VAT rules and to provide timely resolution to challenges and disputes.

64. As a further example, the United Kingdom cited the close working relationship (or "policy partnership") between its ministry of finance (HM Treasury) and its tax administration (HMRC) as providing an effective internal mechanism for ensuring that the strategic and administrative principles contained in the Recommendation are embedded in the development of tax administration in the United Kingdom. This then provides strong foundations for external dissemination through regular participation in OECD fora, workshops and seminars, as well as organising regular, open engagements with leading domestic and foreign businesses to ensure they are up-to-date about key developments in VAT policy, strategic objectives and business obligations relating to VAT on international sales both to consumers in the United Kingdom and those in foreign jurisdictions.

65. In terms of linguistic outreach to non-English-or-French speakers, the Recommendation has already been translated into German and Spanish. The tax administration of Sudan has also issued a translation in Arabic. One Adherent (the Slovak Republic) has indicated that it is considering translating the Recommendation into its national language.

V. IMPLEMENTATION

The Recommendation recommends that Members and non-Members adhering to it (hereafter the "Adherents") take due account of the Guidelines, which are set out in the Appendix to this Recommendation and form an integral part thereof, when designing and implementing legislation with a view to minimising the potential for double taxation and unintended non-taxation in the application of VAT to the international trade in services and intangibles. To that effect, Adherents should in particular:

i) pursue efforts to implement the principles of VAT neutrality and the principles for determining the place of taxation of cross-border supplies in accordance with the destination principle set forth in the Guidelines when developing VAT legislation;

ii) use the Guidelines as a source of reference when applying the principles of VAT neutrality and the destination principle in practice, with a view to facilitating a coherent application of national VAT legislation to international trade;

66. This section provides an analytical summary of the key findings of the responses to the survey of Adherents, which the Secretariat undertook between January and May 2021 (hereafter the "2021 Adherents Survey"). Section II of this Report contains further details about the organisation and methodology of the survey exercise. The purpose of the analytical summary in this section is to illustrate the state of play of the implementation of the Recommendation across Adherents. It also builds, as appropriate, on feedback received from other sources listed under Section II, notably the survey exercise for the business community, which the Secretariat undertook from July to September 2020. This survey of businesses endeavoured to understand businesses' views on best practices and particular challenges in the way that different Adherents have implemented the Recommendation.

67. The following analytical summary provides aggregated results and assesses the implementation of the Recommendation itself and not the performance of individual Adherents.

68. This Section is structured around three main parts:

- **Part 1** presents the key findings on the implementation of the principles of VAT neutrality, in accordance with the Recommendation (Guidelines 2.1 to 2.6).
- **Part 2** presents the key findings on the implementation of the destination principle, in accordance with Recommendation (Guidelines 3.1 to 3.8).
- **Part 3** discusses the continued relevance of the Recommendation.

Part 1: Implementation of the principles of VAT neutrality – Guidelines 2.1 to 2.6

The Recommendation recommends that Adherents should pursue efforts to implement the principles of VAT neutrality set forth in the Guidelines when developing VAT legislation. The Recommendation in turn recommends that Adherents utilise the Guidelines as a source of reference when applying the principles of VAT neutrality in practice, with a view to facilitating the coherent application of national VAT legislation to international trade.

For the purposes of the Recommendation, the principles of VAT neutrality refer to the basic principles underpinning the neutrality of VAT for businesses, which is a necessary corollary of the basic definition of a VAT as a tax on final consumption that is collected from but in principle not borne by businesses. The concept of neutrality in VAT has a number of dimensions including the absence of discrimination and the elimination of undue tax burdens and disproportionate or inappropriate compliance costs for businesses. Guidelines 2.1 to 2.6 (the Neutrality Guidelines) set forth the recommended approaches for implementing the principles of VAT neutrality in national VAT rules and administration.

The recommended principles of VAT neutrality have become a key design feature of Adherents' VAT systems

69. The Recommendation, especially in its Guidelines 2.1 to 2.3, provides that VAT should normally flow through businesses so that the final consumer, rather than the business that collects the VAT, bears the burden of the tax. In domestic trade, VAT neutrality should be achieved in principle by the multi-stage payment system for the collection of this tax, i.e. each business charges VAT to customers on its sales ("outputs") and pays VAT to its suppliers on its purchases ("inputs"). The business then remits the proportion of the tax corresponding to its margin to the tax authorities, i.e. the difference between the VAT it charges on its outputs and the VAT it pays on its inputs. In principle, where the amount of VAT incurred by a business is higher than the amount it has charged to its customers in a given period, the result of this offset gives rise to a refund of VAT due by the tax authorities to the business. In an international context (i.e. cross-border trade), the neutrality of VAT for businesses is achieved via the implementation of the destination principle, according to which exports are not subject to the tax (free of VAT) and imports are taxed on the same basis and at the same rate as domestic supplies thus achieving VAT neutrality in the jurisdiction of consumption (discussed in further detail under Part 2 below). However, the Recommendation recognises that jurisdictions may legitimately place a VAT burden on business by blocking or limiting businesses' right to deduct input VAT where they consider it appropriate to do so. Any such imposition should be clear and explicit within a jurisdiction's legislative framework and should be consistent with the Guidelines as a whole.

70. Very positive results have been reported in respect of the implementation of the neutrality principle by Respondents. All Respondents reported that their VAT systems are now designed to operate, in principle, as a tax on final consumption and therefore be tax neutral for businesses in line with the neutrality principle and the guidelines for its implementation in practice set forth by the Recommendation.

71. Notably, Adherents that have successfully undertaken the process of accession to the OECD in recent years have made adjustments to their VAT frameworks to enhance neutrality where appropriate, and they continue to actively monitor and assess these frameworks to identify areas for further improvement (see the example of Lithuania in Box 4).

72. For their part, the representatives of the international business community heavily emphasised during the 2020 survey of businesses that they saw the neutrality principles in the Recommendation as critically important. They noted especially that the growing trend among Adherents to align their VAT frameworks with the Recommendation has had a very positive impact on neutrality for international businesses. This impact results primarily through improvements to the consistency and simplicity of VAT obligations for businesses making sales into multiple jurisdictions. Furthermore, business representatives highlighted how the Recommendation has provided a benchmark for best practice, with clear recognition in international law, which facilitates dialogue with tax administrations, especially with a view to consulting with jurisdictions on how jurisdictions might most effectively amend or reform their VAT frameworks to implement the principles of neutrality.

73. All of the surveyed VAT regimes have defined a limited number of specific situations where the deduction of input VAT by businesses is limited or blocked. Overall, the commonly reported situations where such exceptions to the right to input VAT deduction apply are explicitly provided for in national legislation and typically fall within

those scenarios where, according to the Recommendation, jurisdictions may legitimately place a VAT burden on business. These include the following in particular:

- Where businesses can make supplies free of VAT but for which the deduction of input VAT is blocked. These measures to exempt supplies of certain types of services from VAT have typically been motivated by difficulties in determining the appropriate tax base for VAT purposes (e.g. certain financial services) and/or by the desire to exclude certain activities from the VAT base where the jurisdiction considers those activities a public service or serving overall societal interests (e.g. education, health care, postal services and the activities of charities).
- Securing the effective taxation of final consumption by limiting or blocking the deduction of input VAT in respect of certain goods or services acquired by a business, notably in cases where it would be difficult for a tax administration to establish whether a business uses goods and services of a certain nature wholly for the purposes of taxable business activity, i.e. where usage of the goods or services is or appears to be inextricable from private consumption. This can notably be the case for luxury goods, private aircraft, yachts, fuel for private aircraft and yachts, mobile phones and entertainment expenses.
- Cases where the deduction of input VAT is disallowed because a business does not meet explicit administrative requirements, e.g. insufficient documentary evidence to support input VAT recovery.

VAT reliefs and refund mechanisms are now being used widely to ensure that foreign businesses do not incur irrecoverable VAT in the jurisdiction of taxation

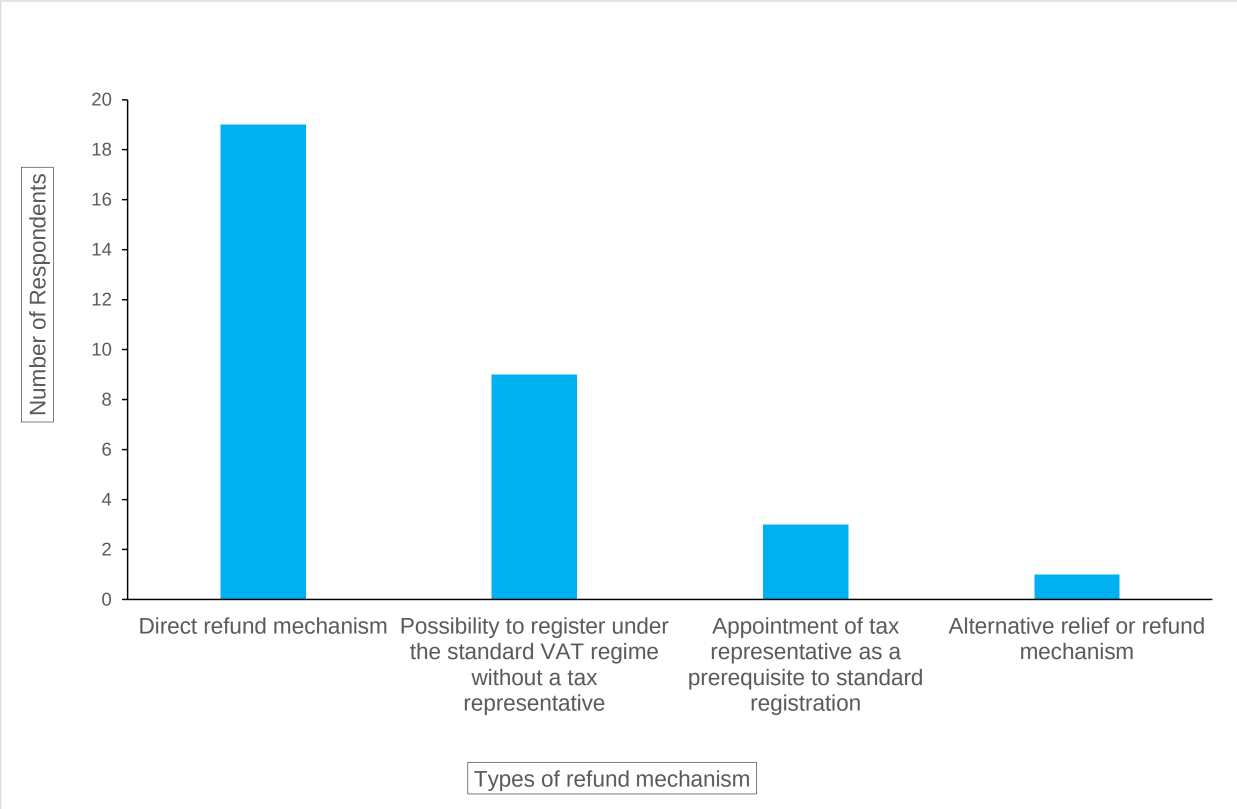
74. The Recommendation, in its Guidelines 2.4 to 2.6, seeks to promote solutions that prevent foreign businesses from incurring irrecoverable VAT in jurisdictions in which they are not resident, stating that jurisdictions may choose from a number of approaches to achieve this policy objective while ensuring a reasonable balance between, on the one hand, compliance and administrative costs and, on the other hand, the risks of tax evasion and avoidance.

75. The vast majority of Respondents confirmed that they operate a VAT relief or refund mechanism, in some form, to ensure that non-resident businesses can recover input VAT on costs they incur in the jurisdiction of taxation. Two jurisdictions were exceptions to this trend because they only permit foreign businesses with a fixed establishment in the jurisdiction to obtain VAT refunds, which is not in accordance with Guidelines 2.4 to 2.6. Figure 11 below provides an overview of different relief mechanisms operated by Respondents.

76. Adherents that do provide mechanisms for non-resident businesses to recover input VAT most often do so in the form of direct refund mechanisms that do not require non-resident businesses to register or appoint a tax representative. In a rather limited number of cases, the jurisdiction of taxation requires these businesses to register under the standard VAT regime or requires them to appoint a tax representative in order to reclaim input VAT. In certain cases, jurisdictions provide input VAT relief to non-resident businesses through mechanisms and provisions that, exceptionally, allow domestic suppliers to apply a zero rate when making domestic supplies to these non-residents. An example of services that could benefit from this zero-rate concession would be where the representatives of a non-resident business attend a trade fair in a jurisdiction and use various services such as those of hotels, transport firms and restaurants as part of their attendance.

77. The international business community highlighted in its responses to the 2020 survey of businesses the critical importance of mechanisms for recovering input VAT available on the basis of proportionate documentation and audit requirements as an essential tool for supporting VAT neutrality in accordance with the Recommendation.

Figure 11. Types of mechanisms to relieve non-resident businesses of input VAT (by number of Respondents having in place such mechanism*)



*Note the sum of all the mechanisms in operation as per this chart will exceed the number of Respondents to the written survey because some Respondents provide more than one option for relief to non-resident businesses.
Source: 2021 Adherents Survey

78. The Recommendation, at Guideline 2.6, recognises that it may be appropriate for tax administrations to impose specific requirements for the application of these VAT reliefs or refund mechanisms on different categories of businesses, although these should not create a disproportionate or inappropriate compliance burden for businesses. These requirements may apply, for example, to small enterprises, enterprises in specific sectors or to foreign non-resident businesses. The survey suggests that most Respondents impose specific administrative requirements upon non-resident businesses as part of the process of substantiating claims for VAT refunds. Such requirements primarily relate to the content and form of supporting documentation. Countries bound by a common legal framework for their VAT system, namely European Union (EU) Member countries, can apply stricter administrative requirements upon businesses from jurisdictions outside the common legal framework than upon those from jurisdictions that operate within it.

79. Chapter 2, Subsection D.2 of the Guidelines, addresses the subject of the provision of access to reliefs and refunds on the basis of reciprocity. This subsection sets out that the

Recommendation takes no position on the desirability of jurisdictions adopting reciprocity requirements. However, insofar as jurisdictions choose to adopt such requirements, it points out they should do so in a manner that minimises their impact on neutrality. The Recommendation provides in particular that a jurisdiction need not require reciprocal relief mechanisms for its businesses from a jurisdiction that does not have a VAT system, as defined for the purposes of the Recommendation. Overall, nearly half of Respondents to the survey confirmed that their jurisdiction applies reciprocity requirements when determining the eligibility of a non-resident business for a VAT relief or refund. The scope of these reciprocity requirements differs between Respondents and can in part depend on the type of supply that a claim for input VAT relief or refund relates to and on the jurisdiction of establishment of the business making the claim. Two jurisdictions noted that although their national VAT legislation contains reciprocity provisions, they do not routinely enforce these provisions in practice.

80. The results from both the 2021 Adherents Survey and the survey of businesses suggest that the Recommendation has contributed considerably to the wide recognition of the importance of VAT neutrality as a critical component of VAT policy design and administration. It has thus greatly assisted Adherents in designing and administering their VAT regimes with a view to achieving the objective of VAT neutrality. Examples include New Zealand and Lithuania, as Box 4 below outlines.

Box 4. Strengthening of input VAT recovery mechanisms in response to the Recommendation

New Zealand reformed its GST registration laws directly in response to the recommended neutrality principles so that non-resident businesses would be able to register for GST and reclaim input tax subject to certain conditions. To provide optimal neutrality, New Zealand designed these rules so that non-resident suppliers that do not make taxable supplies in New Zealand can also benefit from registration to reclaim input tax that they incur in New Zealand. The approach that New Zealand permits for non-resident suppliers to recover input GST in this way is to zero rate the supplies to which the input GST deductions relate and to then reclaim the input GST on the corresponding purchases that the non-resident suppliers have made in New Zealand.

Lithuania updated its rules for VAT refunds for non-resident businesses to reflect the Recommendation’s position on reciprocity provisions. The result of this reform was that businesses resident in OECD Members with no VAT or equivalent tax can now reclaim input VAT through Lithuania’s direct VAT refund mechanisms for non-EU-established businesses.

Separately, to further enhance neutrality for those non-EU-resident businesses that comply with their VAT obligations on digital and electronically supplied services to EU consumers, Lithuania also waived its general requirement of reciprocity as a precondition of VAT refunds to non-EU-resident businesses, so that all such businesses can recover input VAT they incur in Lithuania insofar as it corresponds to these supplies.

Source: OECD analysis and 2021 Adherents Survey.

VAT neutrality for foreign businesses has been enhanced through compliance simplifications, supported by technology, as recommended by the Recommendation

81. Although the Recommendation recognises that the administrative requirements for domestic and foreign businesses to comply with VAT obligations may not be identical, it highlights the advantages that simplification of compliance obligations for foreign businesses and consistency of such obligations across jurisdictions can bring in limiting compliance costs and maximising compliance levels. It notably highlights these advantages at Chapter 3, Subsections C.3.2 and C.3.3, of the Guidelines. Such simplification and international consistency is increasingly important in light of the strong growth of international digital trade whereby businesses may be making online supplies to customers in jurisdictions around the world without being physically located in those jurisdictions. As a growing number of jurisdictions beyond Adherents have implemented principles and mechanisms for the collection of VAT on digital and online supplies by foreign suppliers to customers within their jurisdiction, in accordance with the destination principle set forth in the Recommendation, such businesses are increasingly facing VAT obligations in multiple jurisdictions. This can potentially create large administrative compliance burdens, especially for small-to-medium-sized enterprises. Hence, a key means by which Adherents to the Recommendation can promote VAT neutrality in international trade for such non-resident businesses is to reduce and simplify the VAT registration and collection obligations for these businesses in each jurisdiction as much as possible, including through the use of technological solutions. Where traditional registration and compliance procedures are complex, their application to foreign suppliers can create barriers that may lead to non-compliance or to suppliers declining to serve customers in jurisdictions that impose such burdens.

82. Almost all Respondents to the 2021 Adherents Survey have put in place some type of simplification measures to facilitate compliance for foreign businesses within their jurisdictions. In this context, the overwhelming majority of Respondents reported the operation of simplified vendor registration and collection regimes for non-resident suppliers as presented in the Recommendation, which includes: the possibility for non-resident suppliers to manage their registration online through a single web portal; limiting requirements for hard-copy documents; simplifying accounting and reporting measures; and the availability of online support for taxpayers (please see further analysis of these regimes below at Part 2 of this section of the report).

83. A number of Respondents have sought to maintain a standard VAT regime that provides a high level of simplicity for all suppliers. The United Kingdom, for example, operates a 9-box VAT return. It is the same for both United Kingdom and foreign businesses. In practice, the return can involve the completion of as few as 6 boxes in many cases. Please refer to Box 5 below for a reproduction of these constituent elements of the United Kingdom VAT return.

Box 5. The United Kingdom VAT Return – An example of simple VAT return available to all VAT-registered businesses

HM Revenue & Customs

Value Added Tax Return
For the period DD/MM/CCYY to DD/MM/CCYY

Customer_name_line_1XXXXXXXXXXXXXXX
Customer_name_line_2XXXXXXXXXXXXXXX
Trading_style_XXXXXXXXXXXXXXXXXXXXX
IP_Name_XXXXXXXXXXXXXXXXXXXXXXXXXXX
IP_address_line_1_XXXXXXXXXXXXXXXXX
IP_address_line_2_XXXXXXXXXXXXXXXXX
IP_address_line_3_XXXXXXXXXXXXXXXXX
IP_address_line_4_XXXXXXXXXXXXXXXXX
IP_address_line_5_XXXXXXXXXXXXXXXXX
Postcode_X

VAT Registration number
NNN_NNNN_NN

Period reference
MM_YY

Due date
DD_Mmmmmmmmm_CCYY

If your completed return and all the VAT payable are not received by the due date you will be in default and may be liable to a financial penalty.

Before you fill in this form please read the notes on the back and VAT Notices 700/12: 'How to fill in and submit your VAT Return' and VAT Notice 733: 'Flat rate scheme for small businesses', if you use that scheme.

This form will be scanned on receipt so please make sure you write within the lines. Please fold where shown on the form. If a box does not apply, please write 0.00, or just 0 if no pence is required – do not strike through empty boxes or write anything else.

When completed, please return your form to Value Added Tax, HM Revenue and Customs, BX9 1WT.

Fold

1 VAT due in this period on sales and other outputs £ .

2 VAT due in this period on intra-community acquisitions of goods made in Northern Ireland from EU Member States £ .

3 Total VAT due (the sum of boxes 1 and 2) £ .

4 VAT reclaimed in this period on purchases and other inputs (including acquisitions from the EU) £ .

5 Net VAT to be paid to HMRC or reclaimed by you (Difference between boxes 3 and 4) £ .

6 Total value of sales and all other outputs excluding any VAT. Include your box 8 figure £

7 Total value of purchases and all other inputs excluding any VAT. Include your box 9 figure £

8 Total value of intra-community dispatches of goods and related costs (excluding VAT) from Northern Ireland to EU Member States £

9 Total value of intra-community acquisitions of goods and related costs (excluding VAT) made in Northern Ireland from EU Member States £

Declaration

You, or someone on your behalf, must sign below.

If you give false information, you may face financial penalties and prosecution. I declare the information I've given in this tax return is correct and complete to the best of my knowledge.

Signature

Date DD MM YYYY

VAT100 2021   PG 1   999999999XXXX

* Please not that Boxes 2, 8 and 9 will generally not be applicable for those businesses that do not have their main business establishment or another fixed establishment in Northern Ireland.
Source: Her Majesty's Revenue and Customs (HMRC), the UK's tax and customs authority.

84. Adherents in Europe have established a legal and administrative framework under the aegis of the EU to facilitate multi-jurisdictional simplified VAT compliance for non-resident foreign businesses making "digital" and "electronic" B2C supplies into the EU countries. As EU Member countries, a large number of Adherents participate in this legal and administrative framework.

85. The EU has titled this simplified compliance regime the "Mini One Stop Shop" (MOSS)[11]. The EU Member countries were among the earliest jurisdictions to recognise the urgency of the aggregate revenue losses and competitive distortions that were resulting from the absence of an imposition of VAT on remote, and especially digital, supplies of services and intangibles by non-resident businesses to consumers in their territories. The MOSS entered into force on 1 January 2015, at approximately the same time as WP9 had first produced the complete version of the Guidelines that were further incorporated in the Recommendation, to the development of which delegates to WP9 from EU Member countries had been leading contributors. As a result of adoption of the MOSS, the EU VAT framework was closely aligned with the recommended approaches at the time of the OECD Council's adoption of the Recommendation, both in the implementation of the destination principle for international supplies of services and intangibles and also in implementation of the principles of VAT neutrality in international trade through existing mechanisms to refund input VAT to non-resident suppliers and provide appropriate treatment to imports and exports. Evidence has suggested that the overall cost for businesses using the MOSS is about 95% lower than for those not using the MOSS, resulting in a total aggregate saving to businesses making international B2C supplies into the EU of about EUR 500 million.[12]

86. As indicated earlier, the international business community has repeatedly testified to the critical benefit of the widespread implementation of the approaches for simplification and consistency of VAT compliance obligations in international trade that the Recommendation sets forth. All such initiatives by Adherents either took place upon completion of the Guidelines or shortly following the OECD Council's adoption of the Recommendation which incorporated the Guidelines as an integral part of its text. The business community has highlighted how the resulting simplification and the corresponding reductions in administrative burdens greatly improve VAT neutrality for non-resident businesses with multi-jurisdictional compliance obligations. At the same time, and in light of tax authorities' growing reliance on technology for VAT compliance and administration, the business community called for work by WP9 to further enhance the consistency of these simplification measures across jurisdictions, so as to minimise risks of complexity, uncertainty and trade distortions that can result from an uncoordinated approach.

[11] In essence, the MOSS is an optional measure that aims to greatly reduce the administrative burden and cost for non-resident businesses facing VAT obligations in multiple EU Member countries for their B2C supplies of services and intangibles to consumers resident in the EU. MOSS essentially streamlines those multi-country VAT obligations by allowing suppliers to register via an online portal in one EU Member country (the state of identification) and report the VAT due for all in-scope supplies they make across all Member countries via a single return. The VAT returns submitted and the VAT paid by a business with a MOSS registration is then transmitted by the Member country of identification to the corresponding Member countries of consumption via a secure network.

[12] European Commission and Deloitte (2016), *VAT aspects of cross-border e-commerce – Options for modernization, Final report – Lot 3: Assessment of the implementation of the 2015 place of supply rules and the Mini-One-Stop-Shop: November 2016*, European Commission, Brussels, https://ec.europa.eu/taxation_customs/system/files/2016-12/vat_aspects_cross-border_e-commerce_final_report_lot3.pdf.

Part 2: Implementation of the destination principle – Guidelines 3.1 to 3.8

The Recommendation recommends that Adherents pursue efforts to implement rules for determining the place of taxation of cross-border supplies in accordance with the destination principle set forth in the Guidelines when developing VAT legislation. The Recommendation recommends that Adherents utilise the Guidelines as a source of reference when applying the destination principle in practice, with a view to facilitating the coherent application of national VAT legislation to international trade.

For the purposes of the Recommendation, the destination principle refers to the principle whereby, for consumption tax purposes, internationally traded services and intangibles should be taxed according to the rules of the jurisdiction of consumption. Guidelines 3.1 to 3.8 set forth recommended principles and mechanisms for the implementation of the destination principle in practice.

The destination principle is now a key design principle in all Adherents' VAT systems

87. As the Recommendation sets out in its Guideline 3.1[13], because VAT is fundamentally a tax on final consumption, the purpose of the destination principle is to ensure that internationally traded services and intangibles are taxed according to the rules of the jurisdiction of consumption. Under the destination principle, exports are not subject to tax (that is to say, they are "free of VAT" or "zero rated") with a refund of input taxes for businesses making exports, and imports are taxed on the same basis and at the same rate as domestic supplies. Hence, all businesses competing in a given jurisdiction are placed on an even footing.

88. All Respondents reported that their jurisdictions have designed their VAT systems to implement the destination principle in accordance with the Recommendation by ensuring that the system only imposes the burden of VAT on international supplies of services and intangibles when final consumption occurs within their territory. In principle, Respondents have notably achieved this by designing their VAT systems to designate "exports" by domestic suppliers as not subject to tax with a right of refund of the associated input VAT and to subject imports to VAT on the same basis and at the same rates as domestic supplies. Respondents reported commonly deploying certain administrative requirements to validate or evidence the right of domestic businesses to zero-rate supplies as exports

89. For the purposes of determining the jurisdiction of consumption, the Recommendation recognises that a variety of models for structuring and designing place of taxation rules are operated by VAT systems around the world. The Recommendation, in its Guidelines 3.1 to 3.8, seeks to ensure that these place of taxation rules are applied consistently and lead to a consistent result by presenting an internationally accepted understanding of what the place of taxation is for international supplies of services and intangibles and by setting out consistent and effective approaches for determining this place of taxation with a view to minimising uncertainty, revenue risks, compliance costs and administrative burdens for tax authorities and businesses alike.

90. All Respondents report the application of a regime for determining the place of taxation of internationally traded services and intangibles in line with the Recommendation. Most Respondents' VAT systems operate on the basis of a categorisation approach, in which supplies are divided into categories with a place of taxation specified for each category (e.g. EU Member countries, Norway, the United Kingdom). Some VAT systems have adopted a more iterative approach, in which the principle underlying the place of taxation rule is described in more universal terms and where a series of rules are applied consecutively to determine the appropriate place of taxation and to scope out certain

[13] Please refer also to Chapter 1, Section C, and Chapter 3, Section A, of the Guidelines.

supplies (e.g. Australia, New Zealand). However, whatever the approach, all VAT systems pursue the same objective of implementation of the destination principle for determining the place of taxation for supplies of services and intangibles and generally achieve a result that is consistent across approaches.

Distinct treatment of B2B and B2C international supplies of services and intangibles is a common design feature of most Adherents' VAT regimes

91. The Recommendation, notably at Chapter 3, Section A, of the Guidelines, recognises that the overriding objective of place of taxation rules for B2B and B2C supplies differs. In a B2B context, the objective is primarily to facilitate the flow-through of the tax burden onto the final consumer in the appropriate jurisdiction of taxation, while maintaining neutrality within the VAT system. On the other hand, in a B2C context the objective is to predict, subject to practical constraints, the place where the final consumer is likely to consume the services or intangibles supplied.

92. In light of these considerations, the Recommendation presents separate place of taxation rules and collection mechanisms for B2B and B2C cross-border supplies of services and intangibles, while leaving the decision at Adherents' full discretion as to whether to make a distinction between B2B and B2C supplies in their national legislation. However, the Recommendation encourages those jurisdictions that do distinguish between B2B and B2C supplies for determining the place of taxation, to provide clear practical guidance on how suppliers can establish the status of their customer as a business or as a consumer/non-business customer.

93. Almost all Respondents make a distinction between B2B and B2C supplies for determining the VAT treatment of international supplies of services and intangibles. Respondents most commonly instruct suppliers, via relevant practical guidance and information on the website of their respective jurisdictions' tax administration, to use the following criteria and evidence for determining the status of a customer as a business or a consumer, in line with what is presented in the Recommendation:

- The VAT registration number of the customer. A number of Respondents provide a publicly available online portal that enables suppliers to easily verify whether the customer's VAT registration number is valid, as well as sometimes also additional information such as the customer's name and address.
- An attestation or statement from the customer affirming that it is VAT-registered.
- The customer's website and financial statements.
- The nature, conditions and value of the supply.
- Publicly available national business register.

94. Most Respondents require or permit suppliers to operate on the basis of a rebuttable presumption that their customers are consumers unless a customer supplies appropriate evidence to demonstrate it is a business.

The recommended proxies for determining the place of taxation of international supplies of services and intangibles are now being used widely and consistently

95. The Recommendation recalls, at Chapter 3, Section A, of the Guidelines, that implementing the destination principle for international trade in services and intangibles is

more difficult than for international trade in goods. The nature of services and intangibles is such that they cannot be subject to border controls in the same way as goods. Theoretically, the place of taxation rules for services and intangibles should aim to identify the actual place of business use for B2B supplies and the actual place of final consumption for B2C supplies.

96. However, in practice, jurisdictions' place of taxation rules rarely aim to identify the actual place of business use or final consumption. This is in recognition of the fact that suppliers will generally not know or be able to ascertain where the business use or final consumption of the services or intangibles that they supply will actually occur. The Recommendation therefore sets forth proxies for determining the place of taxation of supplies of services and intangibles that are based on features of the supply that are known or knowable at the time that the VAT treatment of the supply must be determined. There is a widespread international consensus that these proxies provide a reasonable and coherent mechanism for determining where the business use or final consumption of a supply is likely to take place.

97. Accordingly, all Respondents reported that their VAT systems use proxies for determining the place of taxation of international supplies of services and intangibles. As indicated, Respondents have designed the criteria or indicia for identifying these proxies on the basis of features of the supply that are known or knowable at the time that the tax treatment of the supply must be determined, in accordance with the Recommendation.

98. The next few subsections of this part of the Report discuss in further detail some of the key findings that relate to the scope and operation of the proxies deployed by Adherents' VAT systems.

The recommended "customer's location" proxy is now used widely as the main basis for determining the place of taxation for B2B supplies of services and intangibles

99. The Recommendation, in its Guideline 3.2, recommends the use of "the customer's location" as the main proxy for establishing the place of taxation for international B2B supplies of services and intangibles. This location means the jurisdiction where the business customer has located its business presence according to the business agreement between supplier and customer. The rationale for this proxy is that when a business customer buys in services or intangibles from a foreign jurisdiction it usually does so for the purposes of its business operations. As such, the jurisdiction of the customer's location can stand as the appropriate proxy for the jurisdiction of business use, because it achieves the objective of neutrality by implementing the destination principle.

100. The vast majority of Respondents use the recommended proxy of the "customer's location" as the main proxy to determine the place of taxation for international B2B supplies of services and intangibles. The terminology that Respondents use to refer to the customer's location for B2B supplies differs between jurisdictions but overall the meaning of these different terms tends to correspond with the meaning of the term "customer's location" in a B2B context presented in the Recommendation. Most Respondents have decided not to prescribe a single fixed definition in law for the customer's location. Most Respondents direct suppliers through administrative guidance to determine the customer's location by reference to any establishment of a business characterised by a sufficient degree of permanence, such as a permanent place of business, head office or principal office. In addition, such an establishment must generally have a suitable structure in terms of human and technical resources so that it can receive and use supplies in its own capacity as an establishment.

101. It is recalled that the Recommendation acknowledges, in its Guideline 3.4, that many business customers have establishments in more than one jurisdiction, referring to such a business as a "Multiple Location Entity" or "MLE" and recommends that taxing rights over a supply of a service or intangible to a MLE accrue to the jurisdiction(s) where the establishment(s) using the service or intangible is (are) located. The Recommendation recognises that jurisdictions can adopt a number of possible approaches to identifying which of the establishments of an MLE business customer uses a service or intangible for VAT purposes and where the relevant establishment is located.

102. The 2021 Adherents Survey suggests that jurisdictions employ different terminology to describe the establishment of the MLE that is deemed to use a service or intangible for VAT purposes. Terminology includes, the establishment that is "more closely connected with receiving the supply", the establishment that "receives the service to use for its own needs", the establishment that is the "beneficiary of the service" and the establishment that "directly uses/enjoys" the service. Respondents generally require suppliers to examine a number of factors when they determine which establishment of a business uses a supply of a service or intangible. These factors typically include:

- Nature and use of the services or intangibles.
- The establishment that appears to be purchasing the supply on the basis of both the customer's contract with the supplier and the VAT identification number that the customer provides the supplier.
- The establishment that pays for the service or intangible.
- A rebuttable presumption that the parent company of the business customer has used the service or intangible at its place of business if the supplier is unable to determine which of the customer's multiple establishments will use the supply.

Overall these approaches involve one, or a combination, of the approaches set forth by the Recommendation.

The recommended proxy of the "customer's usual residence" is now used widely as the main basis for determining the place of taxation for B2C supplies of services and intangibles

103. In a B2C context, the Recommendation recommends two general rules for the two main types of supplies of services and intangibles. In particular:

- With respect to B2C "on-the-spot" supplies[14] of services and intangibles, the Recommendation, in its Guideline 3.5, affirms that the right to tax such supplies accrues to the jurisdiction in which the supply is physically performed.
- For all other B2C supplies of services and intangibles, Guideline 3.6 of the Recommendation affirms that the taxing rights accrue to the jurisdiction where the customer has its usual residence[15]. This is because it can be assumed that these

[14] The term "on-the-spot supplies" refers to supplies that are physically performed at a readily identifiable place and that are ordinarily consumed at the same time and place where they are physically performed in the presence of both the person performing the supply and the person consuming it.

[15] The concept of all B2C supplies of services and intangibles other than on-the-spot supplies encompasses virtually all supplies of services and intangibles that a non-resident business can perform and deliver remotely across international borders to consumers in foreign jurisdictions.

types of services and intangibles, which the customer can usually access and consume remotely, will ordinarily be consumed in the jurisdiction where the customer has his or her usual residence.

104. Almost all Respondents utilise the customer's usual residence as the proxy for determining the place of taxation for prominent categories of international B2C supplies of services and intangibles that non-resident businesses can deliver remotely to consumers in the Respondents' respective territories. However, the breadth of categories of supplies to which Respondents apply the proxy of the customer's usual residence does vary between jurisdictions. Some jurisdictions adopt a much broader approach that applies the proxy to almost all international supplies of services and intangibles, while others adopt a narrower approach that focusses on those supplies where they perceive the greatest risks of revenue leakage and competitive distortion, i.e. primarily "digital services and products".

105. The terminology that Respondents use to refer to the customer's location for B2C supplies, in the form of the customer's usual residence, differs between jurisdictions. However, overall the meaning of the different terms tends to refer to the same concept as that which the Recommendation means by the term "customer's usual residence" in a B2C context, and which it sets out in particular at Chapter 3, Subsection C.3.1, of the Guidelines. Most Respondents have in general decided not to prescribe a single fixed definition in law for the customer's usual residence. Most Respondents direct suppliers through administrative guidance to determine the customer's usual residence on the basis of an assessment of a range of specified indicia or criteria. Box 6 below illustrates a number of commonly reported indicia for determining the customer's usual residence for B2C supplies, in accordance with the Recommendation. These indicia are generally based on and closely aligned with the guidance presented in the Recommendation.

Box 6. Commonly reported indicia for determining the customer's usual residence for B2C supplies

The most commonly reported indicia that Adherents require or advise suppliers to assess in determining the customer's usual residence for B2C supplies include:

- Customer's billing address.
- The internet protocol (IP) address of the device which the customer used to make the purchase.
- Any reliable geolocation method.
- Customer's financial and payment details, including the bank account the customer uses for payment or the billing address that the bank holds for the customer. The customer's financial information can also include account details for credit cards and any non-bank payment mechanisms that a customer uses.
- The mobile country code (MCC) of the international mobile subscriber identity (IMSI) stored on the subscriber identity module (SIM) card that the customer uses in the course of making the purchase.
- The location of the customer's fixed landline telephone through which a business supplies services to the customer.
- Any other relevant commercial information.

These indicia are generally based on and closely aligned with the guidance presented in the Recommendation.

Source: 2021 Adherents Survey.

106. To enhance certainty, most Respondents require or advise suppliers to identify at least two non-contradictory pieces of evidence from the list of available indicia to support the supplier's decision about the customer's usual residence for B2C supplies. The Australian Taxation Office (ATO) provides businesses with a substantial freedom to determine a consumer's residence in a way that best suits their own business model, processes, and systems (see Box 7 below).

Box 7. Australia's provision of effective practical guidance for determining a consumer's usual residence

The Australian Taxation Office (ATO) provides practical guidance online to non-resident suppliers of services and intangibles on how to determine whether a customer is a consumer resident in Australia. The guidance provides businesses with a substantial freedom to determine a consumer's residence in a way that best suits their own business model, processes, and systems.

The ATO permits two main approaches that it categorises as a 'business systems' and a 'reasonable steps' approach. **The business systems approach** involves non-resident suppliers forming a judgment based on all of the information they routinely collect as part of their normal business systems and processes. This includes, among other items, information such as the customer's billing address, bank account and payment card details that show the geographical location of the issuing financial institution, IP address, and country code on a mobile phone SIM card. For businesses that make supplies using fully automated systems, the expectation is that they produce two pieces of non-contradictory evidence demonstrating that a potentially in-scope consumer is not an Australian resident.

There is no fixed hierarchy that the ATO applies to these indicia, but in all cases, businesses should take due account of the quality and reliability of the available information. They should prioritise those pieces of information that are essential for a commercial transaction to proceed (e.g. debit card details) over pieces of information that a business records only for tax or intelligence gathering purposes (e.g. consumers' home address, which they never face a requirement to update even when they move to live in another country).

If information from business systems does not produce a definitive conclusion, then businesses have the freedom to adopt **a reasonable steps approach** that draws on any other personal information they acquire from the customer through interactions during the sales process. Non-resident suppliers may also rely on conclusions they have reached about a customer's residence in another jurisdiction if that jurisdiction has rules similar to Australia's for determining residence for VAT purposes (e.g. New Zealand, Norway, EU Member countries).

Source: Australian Taxation Office (2017), "Terms we use: Australian Consumers", in *GST on imported services and digital products*, https://www.ato.gov.au/Business/International-tax-for-business/GST-on-imported-services-and-digital-products/Terms-we-use/#Australianconsumers.
(Accessed on 14 September 2021)

107. A very limited number of Respondents reported the utilisation of the direct "use" and/or "enjoyment" of a service as the main proxy for determining the place of taxation on international B2C supplies of services and intangibles. In general, these proxies operate as functionally equivalent to the proxy of the customer's "usual residence" and produce the same result in identifying the jurisdiction of taxation. This is primarily because of the high level of overlap in the indicia that jurisdictions require or advise businesses to use when determining both use and enjoyment and a customer's usual residence, and the overall consistency of these indicia with what is recommended in the Recommendation.

Broad use of the recommended specific rules for supplies of services and intangibles directly connected with immovable property.

108. The Recommendation, in its Guideline 3.8, provides that for internationally traded supplies of services and intangibles directly connected with immovable property, the taxing rights may be allocated to the jurisdiction where the immovable property is located. It does not list particular supplies of services and intangibles that may or may not fall under a specific rule. It identifies the common features of such supplies and thereby establishes categories of supplies of services and intangibles for which the implementation of a specific rule might therefore be justified.

109. The overwhelming majority of Respondents deploy the recommended specific rule for supplies of services and intangibles directly connected with immovable property. In jurisdictions that differentiate between B2B and B2C supplies, this specific rule applies regardless of the VAT registration status of the recipient of the service. Typically VAT administrations provide guidelines with examples and explanation on the level of "connection" with immovable property that is required for a supply of a service or intangible to be subject to this specific rule.

The recommended collection mechanisms for VAT on supplies of services and intangibles by non-resident suppliers have been adopted widely by Adherents

110. Where jurisdictions distinguish between B2B and B2C supplies, the Recommendation recommends the implementation of a self-assessment ("reverse charge mechanism") for international B2B supplies of services and intangibles, where this is consistent with jurisdictions' national VAT systems. The Recommendation sets this position out at Chapter 3, Subsection C.3.2, of the Guidelines. The reverse charge means that the domestic business customer, rather than the non-resident business making the supply, must account for and remit any VAT due on the supply. If the business customer uses the purchase of the service or intangible as part of making taxable supplies of its own, then it can reclaim the VAT due on the purchase as input VAT on the same VAT return on which it declares the amount due on the supply as output VAT, thus eliminating any necessity for a transfer of funds to the tax administration.

111. If the customer is entitled to full input tax deduction on the relevant supply, it may be that the local VAT legislation does not require declaration of the output tax under the reverse charge mechanism. The principal benefits of the reverse charge for international B2B supplies of services and intangibles are that it relieves non-resident suppliers of the administrative burdens and complexity of registering for VAT in every jurisdiction where they only or substantially make remote B2B supplies and that it similarly relieves tax administrations of the difficulties of enforcing and administering VAT obligations for such non-resident suppliers when very limited net VAT revenues are at stake.

112. The Recommendation, at Chapter 3, Subsections C.3.2 and C.3.3, of the Guidelines recommends a distinct approach for collection of VAT on international B2C supplies of services and intangibles, where a jurisdiction's VAT system distinguishes between B2B and B2C supplies. The Recommendation advocates that the most effective and efficient mechanism for jurisdictions to implement for collection of VAT on international B2C supplies is a regime that imposes a registration and collection obligation on non-resident suppliers. The Recommendation further elaborates that such a regime should ideally operate on the basis of simplified registration and collection processes.

113. The mechanisms for the collection of VAT on supplies of services and intangibles by non-resident suppliers recommended by the Recommendation have been implemented

widely by Adherents. Most Adherents implemented these mechanisms at the time of the completion of the work to produce the Guidelines that the Recommendation incorporates, illustrating the urgent need for these standards, or they did so shortly following the completion of the Guidelines and the adoption of the Recommendation. The following sections provide further detail about the implementation of these mechanisms in a B2B and B2C context respectively.

The self-assessment mechanism recommended for the collection of VAT on international B2B supplies of services and intangibles has been adopted by almost all Adherents

114. Almost all Respondents that distinguish between B2B and B2C supplies have put in place mechanisms to relieve non-resident businesses of the burdens of registering for and collecting VAT on international B2B supplies of services and intangibles in the jurisdiction of taxation. The most prevalent means of doing so is the implementation of the recommended reverse charge mechanism, which the Recommendation notably endorses at Chapter 3, Subsection C.3.2, of the Guidelines. Some jurisdictions restrict the use of the reverse charge mechanism to B2B supplies to which the proxy of customer location applies for determining the place of taxation, while retaining standard registration rules for non-resident businesses that make supplies of certain services on the jurisdiction's territory. Examples of supplies where a jurisdiction may retain standard VAT registration and collection rules for non-resident businesses include supplies of physical, on-the-spot services on its territory such as facilitation and management of corporate hospitality at major events (concerts, sports matches, etc), in addition to supplies for which the location of immovable property determines the place of taxation such as architectural services that relate to a specific building on the jurisdiction's territory.

115. Two Respondents (Australia and New Zealand) have gone a step further and eliminated the reverse charge requirement altogether for international B2B supplies of services and intangibles where the domestic business customer has acquired these for the purpose of making taxable supplies and for which it would hence have a full right of input VAT recovery. The objective of this is to relieve both non-resident suppliers and VAT-registered business customers of the burden of accounting for VAT on international supplies of services and intangibles where the customer would have a full right of input VAT recovery, because such supplies produce no net revenues for the government of the jurisdiction of the customer. These two Respondents have achieved this by treating international B2B supplies into their jurisdictions as out of the scope of VAT. The exception to this treatment is that these Respondents' jurisdictions do require business customers to perform a reverse charge and remit VAT due where these customers use the services and intangibles to make exempt supplies (i.e. supplies that are free of output VAT without a right to deduct the associated input VAT) or where they use them for a largely non-business purpose.

116. The wide adoption of the reverse charge mechanism by Adherents for international B2B supplies of services and intangibles, as well as approaches that achieve a similar outcome such as treating such supplies as outside the scope of VAT in most circumstances, reflects its effectiveness as a tool for efficient administration and enforcement. Certain Respondents provided their own perspective on why they consider the reverse charge a powerful tool in VAT collection. Two Respondents commented on their very positive experiences of how the reverse charge mechanism has enhanced the speed and effectiveness of efforts to achieve compliance and undertake enforcement due to the accessibility within its territory of the domestic business customer that is liable under the

reverse charge for the VAT on services and intangibles acquired from foreign non-resident businesses.

117. For its part, in its responses to the 2020 survey of businesses, the international business community expressed overwhelming support for the widespread adoption by Adherents of the reverse charge mechanism for international B2B supplies, in line with the Recommendation. They welcomed in particular the approach set by Australia and New Zealand in waiving the obligation to perform a reverse charge for supplies where the resident business customer would have a full right of input VAT deduction.

The simplified VAT registration and collection regime recommended for non-resident businesses making B2C supplies of services and intangibles has been adopted by almost all Adherents

118. The Recommendation, at Chapter 3, Subsection C.3.2, of the Guidelines, advocates that the most effective and efficient mechanism for jurisdictions to implement for the collection of VAT on international B2C supplies is a regime that imposes a registration and collection obligation on non-resident suppliers. The Recommendation notes that jurisdictions are likely to achieve the highest feasible levels of compliance by non-resident businesses with VAT registration and collection obligations if they limit such compliance obligations to what is strictly necessary for the effective collection of the tax. The Recommendation further recognises that appropriate simplification is particularly important to facilitate compliance for non-resident businesses that often face obligations in multiple jurisdictions. It therefore recommends that jurisdictions consider adopting a simplified registration and collection regime for international B2C supplies of services and intangibles that operates separately from the traditional registration and compliance regime, without the same rights (e.g. input tax recovery) and obligations (e.g. full reporting) as a traditional regime. The Recommendation identifies the principal features of such a regime at Chapter 3, Subsection C.3.3, of the Guidelines. Subsequent OECD implementation packages, notably the 2017 Collection Mechanisms Report, provide further practical guidance on building an effective a simplified registration and collection mechanism for VAT on inbound international B2C supplies.

119. All Respondents to the 2021 Adherents Survey reported that they have implemented a regime for mandatory VAT registration and collection by non-resident suppliers on B2C supplies of services and intangibles that these suppliers make to customers in their jurisdiction, in accordance with the Recommendation.[16]

120. Almost all Respondents (24 out of 27) that reported imposing such a mandatory registration obligation upon non-resident suppliers, complement this obligation with an optional simplified registration and collection regime based on the features presented in the Recommendation. One of the three Respondents that do not provide for a separate simplified compliance regime in particular has affirmed its view that the compliance processes under its standard VAT regime are very straightforward and simple, with both domestic and non-resident suppliers alike being able to benefit equally from its simplicity. Another of these three Respondents also imposes VAT collection obligations on

[16] One Respondent technically provides VAT registration and collection for non-resident suppliers as an optional rather than mandatory measure. However, as non-registration by a non-resident supplier will generally result in the imposition of financial intermediary withholding on customer payments to that supplier, it has the effect of compelling many non-resident suppliers to register rather than face the potentially high cash flow and administrative burdens of withholding by financial intermediaries.

international B2B supplies if a non-resident supplier registers to collect VAT on its B2C supplies, though this Respondent exempts such suppliers from registration if they only make B2B supplies.

121. Such simplified registration and compliance regimes, wherever available, offer an alternative to the standard VAT regime and represent a significant administrative relief for those businesses that do not have (significant amounts of) input VAT that they incur in the Respondent's jurisdiction.

122. The scope of those simplified registration and compliance regimes differ. A number of Respondents limit the operation of those regimes to international supplies for which a place of taxation rule applies by reference to the customer's usual residence. Most of the Respondents adopt a broader approach i.e. apply such regimes to all B2C services supplied by a non-resident business for which the place of taxation is in their jurisdiction (i.e. irrespective of the applicable place of taxation rule).

123. All the Respondents that distinguish between international B2B and B2C supplies have restricted the scope of their simplified registration and collection regimes to B2C supplies with no option or requirement for non-resident businesses to extend the charging and collection of VAT to their B2B supplies into the jurisdiction. The Respondents that do not make a distinction between international B2B and B2C supplies, by contrast, usually make it mandatory for non-resident businesses to charge, collect and remit VAT on all supplies into their jurisdictions regardless of customer status.

124. Box 8 below provides a short case study of the Chilean experience to highlight a recent example of best practice in the development of simplified VAT registration and collection regimes for non-resident suppliers.

Box 8. Chile's simplified VAT registration and collection regime – A significant boost to government revenues and enhancement in neutrality for foreign businesses

Chile introduced a new regime as of 1 June 2020 for imposing and collecting VAT on non-resident businesses' B2C supplies of "digital services" to Chilean consumers. This new regime focusses primarily on the categories of international supplies of services and intangibles that the Chilean government and tax administration considered to present the highest risk in terms of likelihood of non-compliance and revenue loss. The main categories of supply in scope are intermediation services provided by digital platforms, online downloads and streaming of entertainment content, downloads of and subscription access to software, and advertising services.

The Chilean tax administration (SII) used the Recommendation and subsequent OECD implementation guidance on the collection of VAT on digital trade, notably the 2017 "Collection Mechanisms Report", as its primary source of reference for the development of a framework for taxation of international supplies of digital services. The regime introduces a simplified registration and collection mechanism that bears most of the key features that the Recommendation and subsequent OECD implementation guidance recommend for such regimes. Chile integrated into its regime a number of good practices as promoted by the Recommendation and the subsequent OECD guidance. The close alignment with the Recommendation of Chile's regime for the collection of VAT from non-resident suppliers, and its implementation of approaches that have been identified as best practice in the Recommendation and subsequent OECD guidance, have notably been recognised and welcomed by the international business community. In particular, these approaches include: a straightforward-to-use, online portal and fully electronic self-registration process that requires only a valid email address; the possibility for foreign tax payers to select their preference of VAT return period (including quarterly) and currency of settlement (USD and EUR as alternatives to Chilean Pesos (CLP)); and the provision of a possibility for businesses to deduct over-payments of VAT in a future return. The issuance of invoices for B2C supplies is not mandatory under the Chilean simplified compliance regime and the online portal for registering and administering VAT obligations in Chile is available in several languages including English.

Chile's SII ran a comprehensive and effective communications campaign, including early communication and consultation with businesses that were expected to have VAT obligations in Chile under the new regime. Chile continues to maintain several channels of communication with businesses seeking guidance, including through the Technical Advisory Group to WP9 and the Global Forum on VAT. A further important foundation for this effective communication was the publication of clear written administrative guidance and the hosting of regular meetings and question-and-answer sessions to engage with non-resident businesses

Experience shows very high compliance levels, including among the businesses that dominate digital trade worldwide. In terms of revenue impacts, the regime raised USD 121 million in its first seven months of operation - a major success as these revenues are markedly above the Chilean tax authorities' initial forecasts.

Source: OECD analysis and 2021 Adherents Survey

125. Respondents' simplified VAT registration and collection regimes for non-resident suppliers share several common design features as promoted by the Recommendation, notably at Chapter 3, Subsection C.3.3, of the Guidelines. Box 9 below illustrates the most frequently reported features for simplified vendor registration and collection regimes.

Box 9. Principal features of Respondents' simplified registration and collection regimes

Respondents most frequently reported the following features as forming part of their simplified VAT registration and collection regimes for VAT on international B2C supplies by non-resident businesses:

- Online portal to facilitate registration and compliance processes, including filing of tax returns and payments of VAT.
- Use of email as a means to further facilitate communication.
- Simplified registration system with the minimum level of requirements necessary for sensitive information and supporting evidence. These requirements will often include: business name, address, telephone number, email address, company website address/URL, names and contact details of authorised officers of the business, Tax Identification Number (TIN) in the business's jurisdiction of establishment, the type of supplies the business makes, the date when the company intends to begin or began making international supplies into the jurisdiction, etc.
- Fast-track registration.
- Application of revenue-based thresholds below which no registration is required.
- Availability of clear instructions on requirements and key features of the jurisdiction's VAT system, in more than one language.
- No invoicing requirements or a reduction in information requirements and flexibility of format where jurisdictions do demand that non-resident businesses issue VAT invoices.
- Reductions in filing requirements, including in respect of the frequency and content of returns and associated information reporting obligations.
- Permission to store documentation electronically.
- Availability of an online portal to readily confirm the VAT status of individual customers or of listings and databases of VAT-registered customers.

Source: 2021 Adherents Survey

126. A very small number of Respondents have taken alternative approaches to VAT collection on international B2C supplies, which do not depend on registration and collection by non-resident suppliers. These approaches include:

- A regime that requires customers, including household consumers, to self-assess and remit VAT on international purchases, except when purchasing services and intangibles of an "electronic" and "digital" character from non-resident suppliers that have registered for VAT in the Respondents' jurisdiction. One of these Respondents reported that it applies a high annual threshold, which the value of purchases by household consumers and other non-VAT registered persons and entities would have to exceed before they would become liable to self-assessment on certain non-digital supplies of services and intangibles from non-resident businesses. Hence effectively it is rather rare that the household consumers are required to self-assess and remit VAT on international purchases.

- A regime that requires financial intermediaries, such as banks and PSPs, to withhold an amount from customers' payments to non-resident suppliers of services and intangibles, which in principle corresponds to the VAT due on the transaction. The three Respondents that reported such a regime indicated that they administer their financial intermediary withholding regimes as complementary to, or a fall-back option under, their supplier registration-based regimes. In practice, the expectation is that these Respondents' jurisdictions will only employ financial intermediary withholding to counter non-compliance when they encounter non-resident suppliers that fail to register for VAT under either the standard VAT regime or an alternative simplified VAT compliance regime.

Digital platforms are increasingly used by Adherents to further enhance the collection of VAT on digital trade, utilising the implementation guidance that the OECD has developed to support the Recommendation

127. A rapidly growing number of Adherents have introduced VAT collection and/or reporting obligations on electronic marketplaces and other digital platforms to further enhance the collection of VAT due by non-resident suppliers. Certain features of digital platforms and their business models in particular have created considerable opportunities to facilitate VAT administration, enhance compliance and reduce risks of fraud and evasion, namely:

- The central role of digital platforms in digital trade growth, with a relatively limited number of platforms accounting for large shares of digital sales.
- The platforms' ability to collect and analyse vast amounts of tax-relevant data.
- Their reliance upon online payment service provider solutions (both third-party and in-house) to collect revenues on behalf of underlying sellers operating on their platforms.

128. The regimes implemented by Adherents to enlist digital platforms in the collection of VAT on digital and online sales build heavily on the guidance provided in the OECD's 2019 Platforms Report. This guidance has been complemented by the 2021 Sharing Economy Report, which includes specific guidance on the possible role of digital platforms in the application of VAT to the sharing and gig economy.

129. Most Adherents have already implemented a regime that makes electronic marketplaces and similar digital platform operators liable for the VAT on the supplies carried out by online suppliers (or a subset thereof) selling through their platforms, i.e. a full VAT liability regime. Several Adherents have complemented a full liability regime with reporting requirements to support audit and enforcement activities.

130. Regarding other types of intermediary, a limited number of Adherents' VAT systems have introduced a role for financial intermediaries (e.g. banks, credit card companies, payment service providers) that facilitate customers' payments to non-resident suppliers for supplies of services and intangibles. Roles can include the requirement to report VAT relevant data on payments for (potentially) taxable transactions that are processed by these financial intermediaries. As the previous subsection on simplified VAT registration and collection regimes noted, a very limited number of Respondents have also

imposed obligations on financial intermediaries to withhold an amount for VAT due from customers' payments to non-resident firms, usually as a fall-back mechanism when such firms refrain from registering for VAT for sales to consumers in the Respondents' jurisdictions.

Extensive communication and engagement with key stakeholders, facilitated by the OECD, have contributed significantly to the successful and consistent implementation of VAT reforms aligned with the Recommendation

131. Respondents highlighted that businesses engagement with tax authorities in jurisdictions that have already implemented the Recommendation has proven to be very powerful in promoting a high level of compliance with jurisdictions' regimes from an early stage. This can include bilateral engagement and interactions that the OECD and other stakeholders facilitate. Such engagement is vital during the design and implementation phase of establishing a new regime as well during the early period of its operation and beyond. Equally important is clear and early communication on the main elements of the new rules (e.g. entry-into-force, registration, applicable VAT rates, invoicing, filing and reporting), including through online publication in the national language, the languages of major trading partners and/or English.

132. Australia, Norway, New Zealand, Chile in particular reported their positive experiences from identifying and proactively reaching out to businesses potentially in scope of VAT reforms for the taxation of inbound international sales to notify them of impending commencement of a new regime and associated obligations. These jurisdictions recognised the key role of the OECD in facilitating this dialogue notably via WP9's Technical Advisory Group (TAG) and the Global Forum on VAT. Box 10 below presents an outline of a number of key components of a successful communication strategy for jurisdictions to pursue as part of implementing major VAT reforms, drawing on the experiences of Respondents.

Box 10. Successful communication strategies to enhance compliance with VAT reforms, particularly when aimed at the collection of VAT from non-resident businesses

Effective communication is essential for minimising compliance burdens, facilitating administration and ensuring high levels of compliance. Based on the experiences reported by Adherents, a successful strategy should notably include the following elements:

- Early identification of the relevant audience, i.e. the population of (non-resident) suppliers and other stakeholders (e.g. e-commerce marketplaces, digital platforms, providers of VAT compliance software and of VAT compliance services…) via use of multiple channels, such as social media, media releases, easy-to-access web guidance.
- Ensuring that communication with non-resident businesses and their representatives is undertaken early to provide them with enough time to make changes to their internal compliance systems.
- Communicating in English and in the languages of the jurisdiction's main trading partners, in addition to the jurisdiction's domestic language(s).
- Consulting and communicating on the development of policy, legislation and technical guidance via staged communication delivered in strategic phases such as:
  - An "aware" phase: outlining the nature of reforms early on in the reform process so that businesses can review their sales and assess if the changes will impact them.
  - A "prepare" phase: advising businesses in scope on where and when they can register for the new regime and to prepare their VAT compliance systems for compliance with the new regime.
  - A "take action" phase: communicating that legislation will shortly take effect and that businesses should finalise arrangements to comply.
- Providing businesses with an easy-to-access mix of general and technical guidance on the new regime, ideally tailored to these businesses' needs, e.g. differentiating between large and small traders, direct online suppliers and digital platforms that facilitate supplies, etc.
- Communicating the consequences of different forms of non-compliance.
- Providing bespoke guidance where necessary for digital platforms, other intermediaries, domestic businesses and consumers, in addition to channels through which non-resident businesses can seek help on technical challenges and account management enquiries.
- Ongoing communication after the successful implementation of a new regime that focusses on maintaining stakeholder engagement and the reporting by such stakeholders of their concerns and challenges they are experiencing in complying with their VAT obligations through the simplified compliance regime. The OECD network, including the Technical Advisory Group to WP9 and the Global Forum on VAT, has been highlighted as the ideal platform for such ongoing dialogue.

Source: 2021 Adherents Survey.

133. Consultation with Adherents and the international business community drives the conclusion that a minimum lead-time of six to twelve months is necessary for the implementation of a simplified registration and collection regime for supplies of services and intangibles by non-resident suppliers from the date of its adoption into legislation until

the entry of that legislation into force. This conclusion is closely aligned with the principles and mechanisms included in the Recommendation and in the subsequent associated guidance. Such a lead-time enables both businesses and tax authorities to adjust their administrative and compliance processes in an optimal manner.

134. Many Respondents highlighted that designing and implementing a regime that closely follows the principles and mechanisms embedded in the Recommendation for the imposition and collection of VAT on supplies of services and intangibles by non-resident suppliers, and that is administratively consistent with jurisdictions that have already implemented such a regime, permits increasingly shorter implementation timelines for businesses. This is because businesses with several years of experience of similar regimes around the world can now efficiently leverage their existing compliance systems and consequently reduce costs of compliance considerably. On the other hand, lead times inevitably become longer when tax authorities opt for regimes that diverge from OECD guidance embedded in the Recommendation and, in general, which include more complex rules and administrative processes.

Part 3: The significant impact and continuing high relevance of the Recommendation

135. As the results of the 2021 Adherents Survey illustrate, the Recommendation has driven a remarkable improvement in the importance that Adherents attach to the principles of VAT neutrality in international trade and a no less remarkable improvement in Adherents' ability to levy and collect VAT on continually growing volumes of international B2C trade in services and intangibles in an effective, efficient and consistent manner.

136. The testimonies of businesses and international organisations alike from 2015-2016 onwards point clearly to the significant impact in the landscape of international VAT that the Recommendation has heralded. For example, KPMG's 2017 global survey of the VAT treatment of international supplies of services (KPMG International, 2017, p. 5[15]) held the driving force of the Guidelines and Recommendation in no doubt: *The adoption of the Guidelines seems to have jump-started the process of adapting VAT/GST rules to the challenges of the digital economy as a number of countries/jurisdictions have, or are in the process of, implementing new rules that largely conform to the OECD Guidelines…*

137. Businesses that contributed to the 2020 business survey welcomed the [Recommendation] as: *... the appropriate internationally agreed standard for the application of VAT/GST to digital trade in services and intangibles and for the collection of VAT/GST [while considering] consistency of VAT/GST digital regimes across jurisdictions, based on OECD guidance, as critical to minimize compliance burdens, complexity and uncertainty and to enhance overall compliance with these regimes worldwide.*

138. A 2021 International Monetary Fund technical paper on the imposition and collection of VAT on digital trade (Brondolo and Konza, 2021[16]) similarly confirms the positive momentum and trends that business representatives in practice and industry had attributed to the Guidelines and the adoption of the Recommendation: *In recent years, countries have taken actions to improve the collection of VAT on imported digital services. These actions have been guided by the OECD report International VAT Guidelines* [sic] *which sets out recommendations for collecting VAT on cross-border supplies of services (including digital services) and intangibles.*

139. The organisation of the OECD-led project to produce VAT Digital Toolkits, with the World Bank Group as a strategic partner and key regional multilateral organisations[17] also providing important contributions, reflects the widespread acceptance among international organisations that the Recommendation constitutes an international standard for the design and administration of VAT systems, especially in relation to the treatment of international trade.

140. The following subsections of this part of Section V provide further details on a number of specific elements of the impact of the Recommendation on global VAT policy debates, in improving levels of VAT compliance in international trade and generating and safeguarding vital revenues from it, and in providing a foundation for strengthening international administrative cooperation in the field of VAT.

The Recommendation has significantly assisted in evaluating the suitability of Adherents' VAT systems and in supporting VAT reforms and international cooperation to address the challenges of an increasingly globalised and digitalised economy

141. The Recommendation recommends that Adherents use the Guidelines as a source of reference when applying the principles of VAT neutrality and the destination principle in practice, with a view to facilitating a coherent application of national VAT legislation to international trade.

142. The majority of Respondents reported that the Recommendation has significantly assisted in evaluating the application of their national VAT systems to international trade and in supporting VAT reform to address the challenges of an increasingly globalised and digitalised economy. This includes facilitating the evaluation of the neutrality features of national VAT systems, on the basis of Guidelines 2.1 to 2.6, and their impact on business investment and competitiveness; for example, the importance of prompt refunds of VAT to businesses registered under the standard regime whose inputs exceed their outputs and solutions to ensure that foreign businesses do not incur irrecoverable VAT in a jurisdiction. These features have notably been found to be of particular importance in jurisdictions' VAT policy responses to the COVID-19 crisis, to alleviate cash-flow pressures for businesses and to help safeguard business capacity to recover rapidly once the crisis subsides. The Recommendation has also assisted, on the basis of Guidelines 3.1 to 3.8, in assessing the capacity of national VAT systems to administer the effective collection of VAT on cross-border supplies of services and intangibles in circumstances of continually growing digital trade. For illustrative purposes Table 2 below provides a clear indication of how the completion of the Guidelines, and thereafter the Recommendation which incorporated the Guidelines as an integral part of its text, provided the catalyst for a significant number of Adherents to undertake the necessary major reforms of their VAT frameworks in this area.

[17] To recall, key regional multilateral partners on the Toolkits project include CIAT and IDB for Latin America and the Caribbean, ADB for Asia-Pacific and ATAF for Africa.

Table 2. Dates of implementation by Adherents of regimes imposing VAT and mechanisms for supplier registration and collection onto B2C supplies of services and intangibles by non-resident businesses

Year	Jurisdictions
2015	Austria, Belgium, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Japan, Korea, Latvia, Lithuania, Luxembourg, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, United Kingdom[18]
2017	Australia, New Zealand
2018	Colombia, Turkey
2020	Chile, Costa Rica, Mexico
2021	Canada

Source: OECD analysis based on information obtained from different government, business and public sources and media.

143. One Respondent reported a number of elements that have been important when implementing reform for the collection of VAT from non-resident suppliers in accordance with the Recommendation. These elements included: coordinating between different parts of its tax administration; acquiring the necessary technical resources and information to undertake implementation; communicating effectively with non-resident suppliers and with domestic stakeholders on the core aspects of the reform and on compliance obligations for non-resident suppliers.

144. A key strength of the Recommendation that Respondents have stressed, and that determines its high impact on VAT policy design and decision-making in their jurisdictions, is its affirmation of solutions that reflect international consensus and its incorporation of internationally agreed standards and guidance for the effective and efficient implementation of those solutions.

145. The Recommendation has facilitated the further strengthening and enrichment of the international VAT policy dialogue among OECD Members as well as non-Members on efficient, effective and consistent solutions for the challenges of applying VAT in a globalised and digitalised economy as it continues to evolve. The Recommendation has provided an internationally agreed basis for the rapid development of consensus around effective and consistent solutions for new challenges and to benefit from new opportunities offered by technological innovation to enhance VAT compliance and administration. This is notably reflected in the OECD's 2019 Digital Platforms Report and in the 2021 Sharing and Gig Economy Report.

146. The success of the implementation of the Recommendation by Adherents has further strengthened its status as the leading international VAT standard. In addition, the

[18] N.B. The United Kingdom was a Member country of the EU at the time of adoption by the EU of a new framework for the collection of VAT on international B2C supplies of "telecommunications, broadcasting and electronic" services. Although the United Kingdom left the EU on 31 January 2020, it has retained in its national VAT framework the appropriate place of taxation rules and registration and collection obligations for non-resident suppliers to continue to collect VAT on such supplies by non-resident businesses.

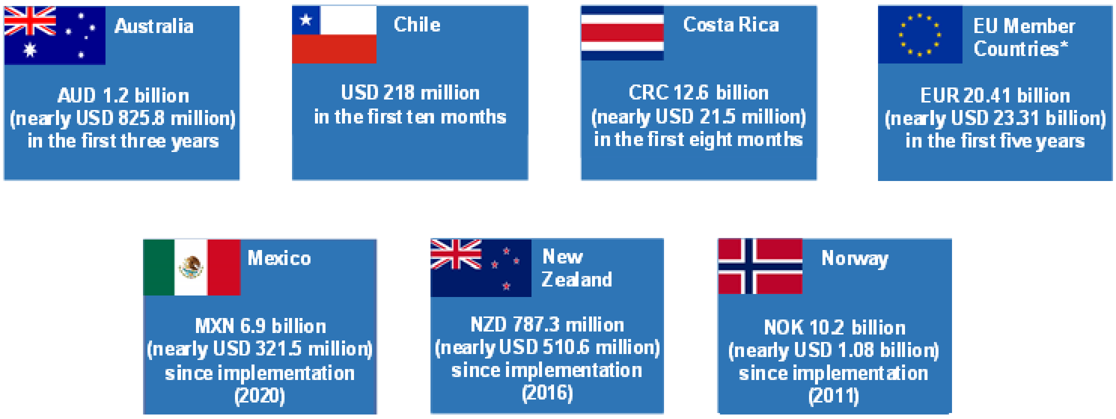
continually growing number of jurisdictions beyond the OECD membership that have aligned their VAT frameworks with the Recommendation or are considering doing so and in the strong demand from jurisdictions around the world, including developing economies, for further detailed guidance and technical assistance in this context show the importance and continued relevance of the Recommendation.

147. The Recommendation further provides an excellent basis for the sharing of analysis and experience ("lessons learnt") among tax authorities worldwide, and with the business community, and has assisted in further enhancing international consistency in the operation of effective solutions for addressing the VAT challenges of a globalised and digitalised economy.

The Recommendation has had an important positive effect both on the efficiency of VAT administration and compliance as well as VAT revenues

148. The best available evidence at present indicates that the principles and mechanisms that the Recommendation promotes have been a substantial success story with Adherents reporting high levels of compliance among international businesses and collection of considerable (new) VAT revenues (see Figure 12 below).

Figure 12. Overview of revenue results from measures that Adherents have undertaken for the effective collection of VAT on online international supplies of services and intangibles



Note: *Please note that these VAT revenues for EU Member Countries represent an aggregate figure for the whole European Union, including the 22 Member Countries that are OECD Members and Adherents to the Recommendation.
Source: OECD research and 2021 Adherents Survey

149. Canada is one of the Adherents to have most recently implemented VAT reforms that give effect to key elements of the Recommendation. Its reforms came into force on 1 July 2021 and it has estimated that its new simplified compliance regime for non-resident businesses making supplies of services and digital products will increase federal revenues by CAD 1.2 billion (nearly USD 970 million) over the five years beginning 2021-22.

150. The implementation of the Recommendation has also minimised competitive distortions between online traders and traditional businesses, notably by affirming that the jurisdiction where the customer is located has the right to impose VAT on services and intangibles even where these are provided by non-resident suppliers. This has become even

more relevant with the onset of the COVID-19 pandemic and the surge in online shopping and increased demand for digital products and online services that it has stimulated.

151. As VAT revenues for many jurisdictions have declined during the pandemic, including due to contractions in domestic shopping at physical stores, the importance of robust measures to ensure that VAT is effectively collected on the surging volumes of online sales, including sales made by foreign online vendors, becomes even more prominent to safeguard important VAT revenues and minimise risks of competitive distortion between domestic businesses and foreign online sellers.

A key role for exchange of information and administrative cooperation in supporting a consistent and effective implementation of the Recommendation

152. A fundamental premise of the Recommendation is to enhance the consistent implementation of internationally agreed principles for the imposition and collection of VAT on international supplies of services and intangibles, so as to reduce risks of trade distortion and risks of double or unintended non-taxation resulting from an uncoordinated interaction of national VAT-systems. As the Recommendation notably explains at Chapter 3, Subsection C.3.2, of the Guidelines, greater consistency among national VAT regimes further facilitates compliance, particularly by businesses that are faced with multi-jurisdictional obligations, reduces compliance costs and improves the effectiveness and quality of compliance processes. For tax authorities, consistency is likely to support effective international co-operation in tax administration and enforcement. In this context, the Recommendation in particular advises jurisdictions to consult the recommended principles and mechanisms as a source of reference when designing their national VAT legislation. Indeed, the 2021 Adherents Survey suggests that the reliance on the Recommendation and the supporting guidance as a source of reference for VAT design has had a positive impact on international consistency, facilitating compliance for businesses by allowing them to leverage their systems to comply with VAT obligations in multiple jurisdictions.

153. The Recommendation, notably at Chapter 4, Section A, of the Guidelines, recognises, however, that differences may continue to exist in the way jurisdictions implement or interpret the principles and mechanisms for the implementation of the principles of VAT neutrality and destination-based taxation as set forth the Recommendation. Adherents have, for instance, opted, in a limited number of cases, for a departure from the recommended rules for determining the place of taxation of supplies of services and intangibles by applying a "use-and-enjoyment" proxy instead of the recommended "customer location" proxy. Depending on the design and operation of the use-and-enjoyment proxy, such utilisation of a distinct proxy and approach for the VAT treatment of the same supplies, to which most Adherents apply the customer location proxy, may or may not result in a functionally equivalent approach that is consistent with the recommended principles and mechanisms. There might also be differences in the way jurisdictions treat the specific facts of particular cross-border transactions (e.g. differences in the characterisation of supplies) and in the interpretation of the domestic rules by parties to a cross-border supply. These risks were notably highlighted by the business community in the 2020 survey of business representatives and other key industry stakeholders. These representatives of the international business community strongly pleaded for a continued global VAT policy dialogue facilitated by the OECD to further enhance the consistent implementation of the principles and mechanisms embedded in the Recommendation in national legislation.

154. The Recommendation itself recognises the need for appropriate mechanisms to facilitate the consistent implementation of the principles of the Recommendation in national legislation as well as their consistent interpretation by tax administrations. The Recommendation, notably at Chapter 4, Section B, of the Guidelines, therefore encourages Adherents to utilise a range of available mechanisms for mutual co-operation, information exchange and mutual administrative assistance. It highlights that these mechanisms enhance jurisdictions' capacity to enforce businesses' compliance with measures that governments have put in place to implement the Recommendation and to tackle VAT evasion and avoidance.

155. A significant number of Respondents highlighted in particular the Convention on Mutual Administrative Assistance in Tax Matters (MAAC) as the most promising instrument in this context (OECD/Council of Europe, 2011[17]). With over 141 jurisdictions already signatories, it provides for all possible forms of administrative co-operation between the Parties in the assessment and collection of taxes, in particular with a view to combating tax avoidance and evasion. Other reported available instruments include bilateral treaties implementing the current Articles 26 and 27 of the OECD and UN Model Tax Conventions and Tax Information Exchange Agreements (TIEAs). Regional agreements also provide a legal base for such co-operation e.g. EU Council Regulation No 904/2010 that sets out rules and procedures for cooperation and information exchange between tax authorities in EU Member countries. Norway highlighted the high potential of its agreement concluded in this area with the EU (see Box 11 below).

Box 11. ***Agreement between the EU and the Kingdom of Norway on administrative cooperation in the field of value added tax (VAT) – An example of successful international administrative co-operation***

The agreement, entered into force on 1 September 2018, establishes administrative cooperation between the EU and Norway to ensure compliance with value added tax (VAT) legislation in their respective jurisdictions and protect each signatory's VAT revenue.

The agreement provides for:

- Information-sharing to help the correct assessment and application of VAT, and to tackle fraud;
- Assistance in claims by jurisdictions for recovery of VAT debts, including any administrative penalties, fines, fees, surcharges, interest and costs linked to the claims.

Countries provide information using a standard form and may ask for feedback on request from another authority, spontaneously and/or automatically.

Countries may refuse to provide information if this would lead to: new obligations on people liable for VAT; disproportionate burdens on their administration; disclosure of a commercial, industrial or professional secret or be contrary to public policy; or the requesting authority has not exhausted its usual sources of information.

Countries help each other to recover VAT claims by: providing relevant information; carrying out necessary administrative enquiries; allowing a partner jurisdiction's officials to be present in their offices, during administrative enquiries and at court proceedings; notifying addressees of all documents forwarded by another authority; recovering a claim subject to an enforcement order or taking any necessary precautionary measures.

Countries may refuse to meet the request if the claim: would create serious economic or social difficulties in their jurisdiction; is more than 5 years old, or more than 10 years under certain conditions; is below €1,500.

Disputes over a country's initial claim and enforcement order are handled within its jurisdiction, while those over the way another country complies with a request for assistance are handled by that other country's legal system. The agreement enables Norway to participate in Eurofisc, a network of anti-fraud experts within the tax administrations of participating jurisdictions (principally EU Member countries). The agreement creates a joint committee of representatives of the EU and Norway to ensure its proper functioning and implementation.

Source: European Union (2018), *Agreement between the European Union and the Kingdom of Norway on administrative cooperation, combating fraud and recovery of claims in the field of value added tax*, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A22018A0801%2801%29

156. Respondents to the survey anticipate that the need for international VAT information exchange will continue to increase, as digital trade volumes continue to grow and that more non-Adherents align their VAT frameworks with the Recommendation to collect VAT on digital supplies from non-resident suppliers, electronic marketplaces and other digital platforms. They noted, however, that despite the exchange of information needs and the existence of legal bases for doing so, international administrative co-operation in the VAT area remains limited. This is due to several factors including a lack of awareness of the existing instruments, the fact that existing instruments can in certain cases not be fully activated for VAT purposes (e.g. due to reservations), and the absence of

a framework to support the exchange of information in practice (including, for instance, the technical means to ensure secure exchange of data, an agreed format and procedure for exchange of the data and a clearly identified competent authority).

157. Both Adherents and the business community have therefore highlighted the need for further work to strengthen frameworks for international administrative cooperation, including for exchange of information. As Section VI sets out, WP9 is currently developing work streams to facilitate analysis and sharing of experiences by jurisdictions on key challenges in this area and will develop guidance on the establishment of robust enforcement strategies for ensuring compliance by non-resident businesses, including digital platforms, with their VAT obligations in different jurisdictions. The business community views enhancements to exchange of information frameworks especially as a key means by which jurisdictions can reduce the overall (and cumulatively often very high) administrative burdens of bespoke local information reporting obligations and VAT compliance technological solutions for non-resident businesses making or facilitating sales to consumers in their respective territories.

VI. SUMMARY AND CONCLUSIONS

158. Monitoring of the implementation of the Recommendation at Section V shows that the principles and mechanisms embedded in the Recommendation have been and continue to be of great relevance to Adherents and that Adherents have made substantial efforts to apply and incorporate the principles and mechanisms set out in the Recommendation in their national VAT systems.

159. By way of summary of the preceding sections of this Report, the following conclusions and observations stand out:

- The Recommendation has achieved considerable success in influencing VAT policy design and administration among Adherents and in a continually increasing number of non-Adherents. This success has been both in embedding the principles of VAT neutrality in the design of national VAT frameworks administration, and in implementing the destination principle in accordance with the Recommendation as the sole basis for jurisdictions to assert their taxing rights over internationally traded services and intangibles. In short, the Recommendation has become and continues to be a key reference source for VAT policy design and operation in jurisdictions worldwide, enhancing the effectiveness and consistency of VAT policies across jurisdictions with a view to protecting VAT revenues, minimising risks of double taxation and unintended non-taxation and risks of trade distortion.
- On the principles of VAT neutrality, the Recommendation has had important successes in improving the functioning and efficiency of national VAT systems for both domestic economic activity and international trade. The Recommendation provides a definitive benchmark for jurisdictions to assess whether their own VAT frameworks satisfy the principles of neutrality. All Adherents have put in place measures to ensure that the burden of VAT does not lie on taxable businesses except where explicitly provided for in legislation. Notably in an international context neutrality is achieved by Adherents treating exports as free of VAT in their respective jurisdictions and by allowing domestic businesses making exports to recover input VAT. The vast majority of Adherents also operate mechanisms to relieve non-resident businesses of input VAT that they incur in the respective Adherents' jurisdictions as a part of making taxable supplies. Several Adherents have taken steps to establish new, more effective refund mechanisms for non-

resident businesses, or to improve the efficiency of their existing ones, in direct response to the recommended approaches presented by the Recommendation.

- On the destination principle, the Recommendation and the follow-up work carried out by the CFA to support its dissemination and implementation have played, and continue to play, a particularly important role in the design of effective policy responses to the VAT challenges of digital trade and in the consistent implementation of these responses across jurisdictions. The principles and mechanisms for the effective collection of VAT on the continually growing volume of online supplies by non-resident suppliers and digital platforms have now been implemented by the vast majority of Adherents that operate a VAT, with considerable success in terms of revenues collected and compliance levels. An additional number of jurisdictions, notably developing economies, are aligning their national VAT systems to the principles and mechanisms set out in the Recommendation or consider doing so.
- The implementation of the Recommendation and associated guidance has minimised risks of competitive distortion between non-resident businesses selling online from foreign jurisdictions and traditional, “bricks-and-mortar” domestic businesses. These distortions generally occur wherever a jurisdiction’s VAT regime has not been designed to capture supplies of services and intangibles that suppliers located outside that jurisdiction are able to perform and deliver remotely. This has been the case for many jurisdictions’ VAT regimes, leading to non-resident businesses being able to make supplies free of VAT to customers in those jurisdictions to the great disadvantage of domestic businesses. The implementation of the Recommendation acts as a safeguard against such distortions by affirming that the jurisdiction where the customer is located has the right to impose VAT on services and intangibles even where these are provided by non-resident suppliers, in accordance with the destination principle, and by implementing the Recommendation for the application of this principle in practice.
- The effective assertion of the right to collect VAT on services and intangibles acquired from suppliers in foreign jurisdictions and the establishment of mechanisms for the effective collection of the VAT on these supplies, has become an even greater priority for jurisdictions in the aftermath of the COVID-19 pandemic. The pandemic has fuelled a high surge in online shopping, notably as a consequence of lockdown measures and other containment and mitigation measures implemented by jurisdictions in response to it. This includes such measures providing great stimulation to demand for digital services, digital products and online services more generally. At the same time, VAT revenues for many jurisdictions have declined sharply due to contractions in domestic shopping at physical stores. This further increases the importance of robust measures to ensure that VAT is effectively collected on the surging volumes of online sales, including sales of services, intangibles and goods alike made by foreign online sellers, to safeguard important VAT revenues and minimise risks of competitive distortion between domestic and foreign businesses.
- The follow-up work by the CFA to complement the Recommendation with additional guidance to support its efficient and effective implementation and to ensure its continued relevance in light of new economic trends and practices, has been particularly important in supporting jurisdictions’ VAT policy responses to the new challenges and opportunities created by the continually and rapidly evolving digital economy. This includes, in particular, the guidance on the role of electronic marketplaces and other digital platforms in the collection of VAT on

digital trade and the guidance on the application of VAT to the sharing and gig economy.

- The OECD developed the Recommendation through a highly inclusive framework that actively sought input and perspectives from non-Members as well as the business community. The Global Forum on VAT, in particular, by bringing together senior officials from over 100 jurisdictions and international organisations has had a key role in developing and promoting the Recommendation as the appropriate international standard for the application of VAT to international trade. It has provided an important means for an inclusive process involving an increasing number non-Members in shaping the outcomes of the work to develop first the Recommendation and then subsequent guidance associated with the Recommendation, notably through engaging non-Members in consultations on discussion drafts and facilitating their participation in special seminars, technical workshops and meetings of the Global Forum.
- The feedback received from Adherents as well as the business community to support the preparation of this Report has highlighted the importance of a well-organised legislative and administrative process to support the implementation of the Recommendation into national VAT rules and practice. The importance of regular and timely consultation with all relevant stakeholders was emphasised in particular as well as the need for appropriate an lead-time for both businesses and tax administrations to adjust their compliance and administrative processes before the entry into force of new measures.
- The consistent implementation of the Recommendation by Adherents was found to facilitate and ultimately enhance administration and compliance, especially for businesses that face obligations in multiple jurisdictions. The role of the OECD CFA's WP9, its Technical Advisory Group and the Global Forum on VAT as unique fora for sharing analysis and experience among tax authorities and other stakeholders from around the world and for developing a coordinated internationally agreed policy response to common VAT challenges, was highlighted as particularly valuable and important in achieving such consistency across jurisdictions.
- Many key elements of the Recommendation have become common practice in the VAT frameworks of jurisdictions worldwide. The principles and mechanisms presented by the Recommendation and the OECD's expertise in supporting their implementation, are also increasingly in demand from developing countries. In response, the OECD has developed a comprehensive programme to support interested jurisdictions to align with these principles and mechanisms.

Key areas for potential work to further enhance the dissemination, implementation and impact of the Recommendation

160. Although the Recommendation has been a driving force for tremendous progress for the neutrality of VAT in international trade and for the ability of jurisdictions to effectively impose and collect the tax on international supplies of services and intangibles, there remains important further work to do. In particular, responses to the 2021 Adherents Survey highlighted a number of elements of the Recommendation that would benefit from additional work to further enhance the efficiency and effectiveness of Adherents' VAT systems and those of jurisdictions worldwide. These elements include the following in particular:

- Enhance tax authorities' capacity to enforce compliance by non-resident businesses with their VAT obligations in the jurisdiction of taxation. Initiatives to achieve this would include strengthening the framework for international administrative cooperation and exchange of information in the area of VAT, while ensuring that the administrative burdens resulting from such cooperation arrangements remain proportionate to their benefits. Value-based and/or transactional thresholds may be an effective way to broaden support for, and participation in, administrative cooperation arrangements by ensuring that those arrangements do not impose disproportionate burdens on tax administrations in businesses' jurisdictions of residence.

- Strive for international consistency in the adoption of reporting regimes for non-resident suppliers and of technology solutions in VAT compliance processes. As more and more jurisdictions around the world implement domestic reporting requirements and technology solutions to enhance compliance by non-resident suppliers, it becomes increasingly important to monitor and promote international coordination and consistency in the utilisation of these measures. This will mitigate the burden of compliance costs, complexity and uncertainty for businesses with multi-jurisdictional obligations and thereby also minimise unintentional distortions in international trade as a result of such measures.

- Monitor economic and technological developments to assess whether the Recommendation and tools developed to support its implementation remain fit for purpose. This would include monitoring innovations in payment technology such as virtual currencies and their implications for VAT compliance.

- Develop tailored guidance to address the specific needs of developing economies, thereby ensuring alignment with the Recommendation. The Secretariat conducts various engagements such as the hosting of regional workshops and the development of online learning materials whose contents focus on the needs of developing economies, often in cooperation with other multilateral organisations that are active in particular developing regions. As the conclusions above note, the OECD-led project to produce VAT Digital Toolkits for Latin America and the Caribbean, Asia-Pacific and Africa is a fundamental part of the Secretariat's strategy to broaden awareness of and adherence to the Recommendation worldwide. It is anticipated that the OECD, with the support of experts from Adherents' tax administrations, will follow up the publication of the VAT Digital Toolkits with bespoke technical assistance missions to certain developing economies in order to advise on successful alignment and address particular challenges in those jurisdictions.

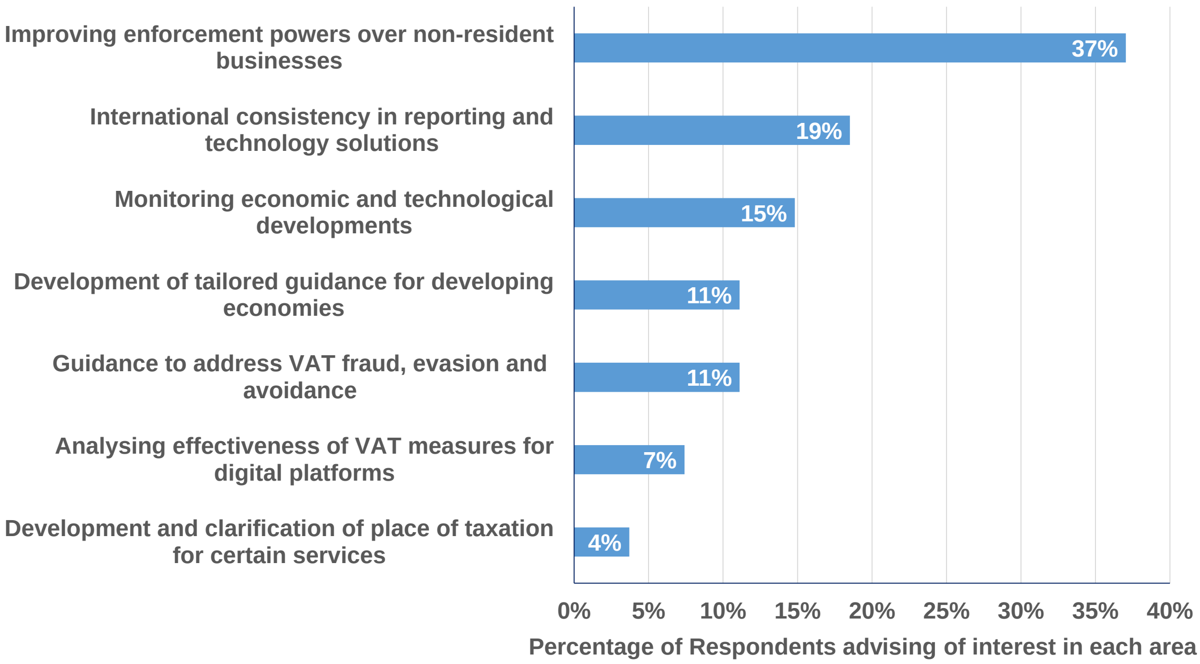
- Assess the present landscape of VAT fraud, evasion and avoidance to support jurisdictions in reducing considerable losses of revenue from VAT fraud and non-compliance through coordinated and effective strategies. This could include in particular identifying the more complex VAT avoidance structures and developing robust strategies for tackling them.

- Monitor and produce comparative analysis of the policies implemented by jurisdictions worldwide to enlist digital platforms in enhancing VAT compliance, including through full VAT liability regimes and similar measures. This could encompass all areas of the digital platform environment, including the sharing and gig economy platforms, and provide advice to jurisdictions on where implementation challenges are likely to arise and of effective enforcement measures to enforce compliance by non-resident platforms where needed.

- Further develop the standards presented in the Recommendation for determining the place of taxation for a limited number of categories of supplies of services and intangibles, where the application of these standards may not produce an easily or efficiently identifiable place of taxation. For example, supplies that might benefit from further clarification or from the development of specific rules include international transportation services, intermediation services, and specific types of online events.

161. Figure 13 below illustrates each of the key areas for potential future work according to the number of Respondents that expressed an interest in pursuing them in their responses to the 2021 Adherents Survey exercise.

Figure 13. Respondents' views on key areas for potential work to strengthen the Recommendation and its implementation



Source: 2021 Adherents Survey

Looking ahead

162. The monitoring of the implementation of the Recommendation, as summarised in the conclusions above, shows that the Recommendation remains highly relevant, effective and up to date. The Recommendation does not therefore require any revision in the short-to-medium term.

163. With more than 170 jurisdictions worldwide having implemented a VAT system, most international trade flows are now subject to VAT either in the jurisdiction of origin or destination or in both. Among those jurisdictions, at least 76 jurisdictions have already enacted reforms to achieve more effective taxation of international digital trade, additional two have legislated for measures that will come into force in 2022, and sources identified a further 34 either in the process of enactment or actively considering commencement of reforms. An aligned application of national VAT systems to international trade remains crucial to minimise risks of trade distortion from double taxation and unintended non-

taxation, minimise uncertainty and complexity, and to safeguard important VAT revenues for both OECD Members and non-Members that operate a VAT. Policies that prevent national VAT regimes from creating obstacles to international trade, while ensuring that VAT is collected effectively on the rising volumes of online sales, are of course particularly relevant in the context of the global economic recovery from the COVID-19 pandemic. The role of the Recommendation as the internationally agreed standard for the design and application of VAT to international trade in services and intangibles, and to digital trade in particular, thus remains as important as ever.

164. The consistent implementation of the Recommendation and use of the tools developed to support its implementation by Adherents and continually growing alignment with the Recommendation by non-Adherents, with the possibility of their requesting adherence to it, are expected to further generate and safeguard critical revenues for governments and have the considerable benefit of reducing and eliminating trade distortions, including unfair competitive distortion between foreign online sellers and domestic “bricks-and-mortar” businesses.

165. It is important that efforts continue to further disseminate the Recommendation and support its effective and consistent implementation by Adherents and to aim to adherence by non-Members that have aligned their VAT framework with the Recommendation. It is equally important to continue monitoring evolutions in international trade and in the design and administration of VAT systems, notably as a result of technological innovation, and to develop new work streams where appropriate to address emerging challenges and thus ensure the continued relevance of the Recommendation. The OECD’s work to provide guidance and support to developing economies for alignment with the principles and mechanisms included in the Recommendation remains particularly important, not least to secure important VAT revenues from digital and online sales that have surged in developing economies as a consequence of the COVID-19 pandemic.

166. Against this background, the work strands that are currently being undertaken, or that have been planned, to further disseminate the Recommendation and to support its effective and consistent implementation include the following:

- **Enhancing tax authorities’ capacity to tackle VAT fraud and non-compliance.** This includes analysis, experience sharing and the development of guidance on robust enforcement strategies to support the effective collection of VAT on digital trade, particularly sales that foreign online sellers and digital platforms make or facilitate. In parallel, work will continue to support the effective exchange of information between jurisdictions and other forms of international administrative cooperation in the area of VAT, in close cooperation with the CFA’s Working Party No.10 on Exchange of Information and Tax Compliance (WP10).
- **Supporting the efficient use of technology to facilitate the operation in practice of the principles and mechanisms included in the Recommendation.** The rapid digitalisation of society and the economy is offering considerable opportunities to further enhance VAT compliance and administration. New digital tools, communication channels and ever more readily available internally and externally sourced data are increasingly used by tax authorities, notably to support the collection of VAT on internationally traded services and intangibles in accordance with the Recommendation, and particularly in respect of online sales made by foreign suppliers and digital platforms. Initiatives in this context will include the sharing of experiences and analysis between tax authorities to identify best practices and, where possible, common approaches to support the efficient and effective use of technology in the application of VAT to international trade in

services and intangibles in accordance with the Recommendation. This work will be coordinated with the work of the OECD Forum on Tax Administrating (FTA) as appropriate.

- **Supporting developing economies as they address the VAT challenges of growth in digital trade.** A comprehensive capacity building programme is being established to assist developing economies willing to align with the Recommendation. This includes a range of approaches to cater for the specific needs and requirements of developing economies, in particular:
  - Regional VAT Digital Toolkits providing comprehensive analysis, advice and a detailed blueprint for developing economies in key world regions to align with the principles and mechanisms included in the Recommendation. The VAT Digital Toolkit for Latin America and the Caribbean was delivered in June 2021. Work is underway for the delivery of VAT Digital Toolkits for Asia-Pacific (by the end of 2021 / early 2022) and for Africa (first half of 2022).
  - Bilateral capacity building efforts, including provision of bespoke technical assistance to enhance alignment with the Recommendation, tailored to jurisdictions' requests and needs, with the possibility of such jurisdictions subsequently making an adherence request.
  - Organising workshops and training events, including online events, on the principles and solutions provided by the Recommendation to address the challenges of the digitalisation of the economy as well as on experiences and lessons learned related to their implementation.
- **Updating and complementing e-learning modules.** A comprehensive e-learning package has already been developed and will be further updated and complemented to reflect the production of further guidance and implementation packages to support the implementation of the Recommendation. This will include further e-learning modules covering OECD guidance on the role of digital platforms in supporting VAT compliance and on the application of VAT to the sharing and gig economy

167. WP9 and the Global Forum on VAT will continue to develop work to improve clarity and certainty in the application of the Guidelines and consider work in related areas that have emerged in the course of the development of the Guidelines, in turn ensuring the continued relevance of the Recommendation. Due account will be taken of the needs and requests for additional work to further strengthen the Recommendation and its implementation as highlighted by Adherents in the context of the preparation of this Report. The scope and objectives of ongoing and planned work strands by WP9 and the Global Forum on VAT will be determined and adjusted where appropriate in light of these needs and requests. Additional works strands will be considered where appropriate.

168. This work will continue to be carried out in a truly inclusive manner, with the active involvement of all interested jurisdictions in addition to Adherents and other relevant stakeholders, to support and further enhance the relevance of the Recommendation as the leading global standard for the application of VAT to the internationally trade in services and intangibles.

169. The successful pursuit of the above work streams will ensure that Adherents are able to effectively administer and enforce measures that implement the Recommendation into their national VAT frameworks. In light of the above, in order to further support implementation and dissemination of the Recommendation, the following actions are proposed:

- Encouraging Adherents to continue disseminating and implementing the Recommendation, including through their active engagement in the work of WP9 and the Global Forum on VAT.
- Developing further work to improve clarity and certainty in the application of the Guidelines and to support dissemination and implementation of the Recommendation, in particular regarding the key areas for potential future work identified in the Report;
- Continue reviewing and proposing amendments of the Guidelines, as appropriate, in the light of experience gained by Adherents and in consultation with relevant stakeholders;
- Continue monitoring the implementation, dissemination and continued relevance of the Recommendation with a view to reporting back to the OECD Council in five years.

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Appendix 1. Main OECD Workshops, Seminars and Outreach Activity to Support the dissemination of the Recommendation

Event	Venue
Year: 2017	
28 May – 2 June 2017	Pretoria, South Africa [In cooperation with ATAF]
22-24 June 2017	Minsk, Belarus [In cooperation with the Belarussian Ministry of Finance and the Eurasian Economic Union]
21-24 August 2017	Tokyo, Japan [In cooperation with ADB]
26 - 29 September 2017	Abuja, Nigeria [In cooperation with ATAF]
21 - 24 November 2017	Beijing, China [In cooperation with the Chinese Ministry of Finance and STA]
27 November-2 December	Yangzhou, China [OECD-STA Multilateral Tax Centre]
Year: 2018	
7-11 February	Beijing, China [In cooperation with the World Customs Organisation]
21-25 March	Tunis, Tunisia [In cooperation with the Tunisian Ministry of Finance]
25-29 June	Seoul, Korea [In cooperation with the Korean Tax Policy Centre]
16-17 July	Yangzhou, China [In cooperation with the OECD-STA Multilateral Tax Centre]
24-26 July	Yogi Jakarta, Indonesia [In cooperation with the Ministry of Finance of Indonesia]
23-25 October	Manila, Philippines [In cooperation with the ADB]

10-11 December	Washington D.C., USA [In cooperation with CIAT and the IDB]
17-21 December	Jakarta, Indonesia [In cooperation with the Ministry of Finance of Indonesia]
Year: 2019	
18-19 February	Lima, Peru [In cooperation with Alianza del Pacifico]
10-14 June	Johannesburg, South Africa [In cooperation with SARS, South African National Treasury and ATAF].
2-4 July	Tokyo, Japan [In cooperation with the Asian Development Bank].
26-28 August	Abuja, Nigeria [In cooperation with ATAF].
9-10 September	Mexico City, Mexico [In cooperation with the Inter-American Development Bank]
16-20 September	Yangzhou MTC, China [In cooperation with the OECD-STA Multilateral Tax Centre]
1-3 October	Cairo, Egypt [In cooperation with the Egyptian Ministry of Finance]
4-8 November	Ankara, Turkey [In cooperation with the Ankara Multilateral Tax Centre]
13 – 14 November	Riyadh, Saudi Arabia [In cooperation with the General Authority of Zakat and Tax of Saudi Arabia]
4-5 December	Washington DC, US [In cooperation with WBG, IDB and CIAT]
16-20 December	Brasilia, Brazil [In cooperation with the Inter-American Development Bank and with the Brazilian Internal Revenue Service and Ministry of Economy]
Year: 2020	
8 May	Paris, France (Virtual meeting) [In cooperation with IDB]

7-8 July	Paris, France (Virtual meeting) [In cooperation with WBG, IDB, CIAT]
28 August	Paris, France (Virtual meeting) [In cooperation with ATAF]
9-10 September	Paris, France (Virtual meeting) [In cooperation with WBG and ADB]
23-25 September	Seoul, Korea (Virtual meeting) [In cooperation with ADB and ADBI]
1-3 December	Paris, France (Virtual meeting) [In cooperation with WBG and ATAF]
8-10 December	Fiji (Virtual meeting) [In cooperation with PITAA, CATA, PFTAC, IMF]
Year: 2021	
12-15 January	Bangkok, Thailand (Virtual meeting) [In cooperation with WCO]
13-15 April	Paris, France (Virtual meeting) [Global VAT workshop]
28-29 June	Brussels, Belgium (Virtual meeting) [In cooperation with WCO]