Taxation for Digital Goods in eCommerce in Europe

eBook

This material does not constitute legal or financial advice and should only serve general information purposes.

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Intro

Cross-border eCommerce is growing rapidly, but merchants are finding that taxes and financial services in new markets are proving to be quite challenging. Each country has its own regulations where indirect taxes are concerned, with different thresholds for registration and remitting and different exemptions set up, and because electronic/digital goods and services sometimes fall under a particular tax regime, it is important to have a good understanding of what the compliance landscape in a given market entails.

Our eBook series Taxation for Digital Goods in eCommerce provides an overview of the current tax landscape in the world's most sought-after markets, giving you a primer on what to expect when scaling cross-border. In this resource we'll go over VAT taxation in most European countries.

Selling Digital Goods in the EU

Value Added Tax (VAT) is a tax applied to the sales of digital goods and services throughout the European Union. VAT is a consumption tax, meaning that it is paid by the end consumers, but merchants and marketplaces are the ones responsible for collecting and remitting it to the relevant tax authorities.

The VAT rate varies from state to state and is generally between 17 and 27%.

The European Union has introduced a series of updates to its taxation rules starting July 1, 2021, impacting all merchants selling cross-border to other EU states. The main changes revolve around the thresholds for tax collection and the way VAT for EU sales is reported. Also, additional requirements are imposed on the providers of digital interfaces.

B2C Sales

Registration and thresholds

Starting July 1, 2021, all **EU merchants** making more than €10,000 (~$11,700 US) in sales to EU countries need to collect and remit VAT for the sales performed to EU end-customers. They may register with the One-Stop Shop (OSS) platform to declare and pay the VAT. They are liable for VAT in the Member State where the buyer is located.

- Registration is only done in one of the EU's Member States, at the merchant's choice, and that single OSS account allows the merchant to handle taxation for all the EU countries to which they're selling. Thus, even though VAT should be collected based on the rules from each EU state, the tax may be declared and remitted only in the country where the merchant is registered for OSS.

EU merchants who make less than €10,000 from all their EU sales may continue to apply domestic rules for VAT from their EU country of origin and do not need to sign up with the OSS.

Also, OSS is implemented as a voluntary platform; if a merchant exceeds the €10,000 threshold, it may still register individually in each country where it is selling.

Electronic interfaces (marketplaces, platforms) which facilitate the sales of goods for a non-EU seller to an EU shopper may also sign up with the OSS. They are deemed the merchant of record for the products sold through their platform.

For the merchants from non-EU countries selling goods to EU buyers, a separate platform was implemented – Import One-Stop Shop (IOSS) – where they can declare and pay the due VAT for distance sales made to EU customers.

B2C Sales

Obligations

For **EU merchants** making cross-border sales in the EU:

- Apply the VAT rate of the Member State where your buyer is located and collect it for every sale
- Option to register with the OSS in a Member State of your choice
- Declare and pay VAT for all these sales in quarterly returns made to the Member State where you registered for your OSS.

For **non-EU merchants** making sales in the EU:

- Collect the VAT due from the shopper during the sale for all shoppers from EU countries
- Display the VAT amount owed by the shopper, when the ordering process is finalized, at the latest (➔ checkout implications)
- Option to register with the IOSS and declare all sales of values between €0-150 made to EU Member States
- Submit monthly VAT returns in your IOSS platform and make monthly payments of due VAT to the state where you registered for IOSS
- Provide IOSS VAT identification to shoppers handling their own customs clearance process.

B2B Sales

Registration and thresholds

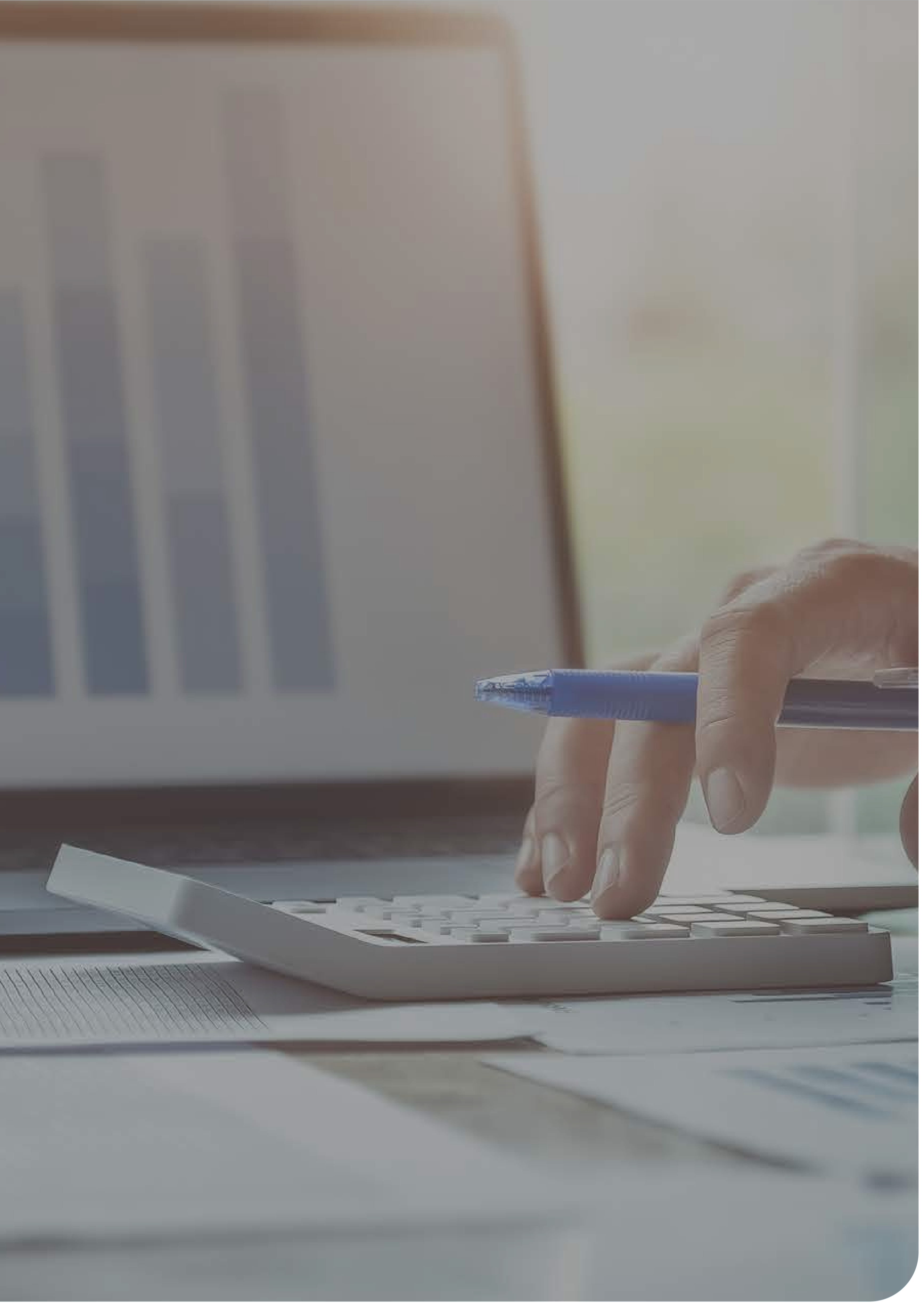
No special registration is required as the reverse-charge mechanism is in place, meaning the B2B buyer is the one handling VAT payment in their EU country of residence.

Obligations

Non-EU merchants selling to European business buyers DO NOT charge VAT.

A valid VAT identification number must be collected from the buyer and included on the invoice. The buyer will then apply the reverse charge mechanism.

EU merchants selling to B2B buyers in other EU Member States use the reverse-charge VAT mechanism. They DO NOT collect VAT, instead requesting the VAT identification number of the buyer, who in turn will have to handle due VAT in their EU country of residence.



Current taxation rates for digital goods and services in EU countries

In general, most digital goods and services in the EU are taxed at the country's standard VAT rate, though some Member States offer a reduced rate for e-publications (eBooks and some periodicals).

Country	VAT Rates	Reduced VAT Rate	Applicable to
Austria	**20%**	10%	eBooks
Belgium	**21%**	6%	eBooks
Bulgaria	**20%**	-	-
Croatia	**25%**	5%	eBooks
Cyprus	**19%**	-	-
Czech Republic	**21%**	10%	eBooks
Denmark	**25%**	-	-
Estonia	**20%**	-	-
Finland	**24%**	10%	eBooks, newspapers and periodicals sold on subscription
France	**20%**	5.5%	some eBooks
Germany	**19%**	7%	eBooks, audiobooks

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Country	VAT Rates	Reduced VAT Rate	Applicable to
Greece	**24%**	-	-
Hungary	**27%**	-	-
Ireland	**23%**	9%	eBooks and digital publications
Italy	**22%**	4%	eBooks with an ISBN, online journals, and newspapers
Latvia	**21%**	-	-
Lithuania	**21%**	-	-
Luxembourg	**17%**	3%	eBooks
Malta	**18%**	5%	eBooks
Netherlands	**21%**	9%	eBooks
Poland	**23%**	5%	electronic versions of books, brochures, leaflets, regional and local magazines
Portugal	**23%**	6%	eBooks
Romania	**19%**	-	-
Slovakia	**20%**	-	-
Slovenia	**22%**	5%	eBooks
Spain	**21%**	-	-
Sweden	**25%**	6%	eBooks

Digital Service Taxes in the EU

Starting in 2019, multiple European countries have begun (or are considering) introducing Digital Service Tax (DSTs), as a response to large US tech companies' usage of establishment tax laws to avoid tax payments in individual markets.

Austria imposes a 5% Digital Service Tax (DST) on gross revenues from digital advertising services in the country. The Austrian DST applies solely to companies with annual global revenues exceeding €750 million (~$888m US) and annual revenues from digital advertising services in Austria of €25 million (~$30m US) or more.

Similar to Austria, **France** imposes a 3% Digital Service Tax (DST) to revenues generated in France by advertisers who collect internet user data, suppliers of linking services between internet users, and sales of user data for advertising purposes. This tax is imposed solely on companies who make yearly sales of over €25 million (~$30m US) in France and €750 million (~$888m US) worldwide. Online sales and the provision of digital content for buying/selling are exempt from this tax.

Digital Service Taxes in the EU

Italy also levies a Digital Service Tax of 3% since 2020, applicable to services such as handling advertising on digital interfaces, intermediation of user interaction on digital platforms, and transmission of user data generated from digital interfaces. The Italian DST only applies to companies whose total global revenue in a year exceeds €750 million (~$888m US) and who generate at least €5.5 million (~$6.5m US) in revenue in Italy from these services. Online sales, digital communication services or payment services are specifically exempt from this tax.

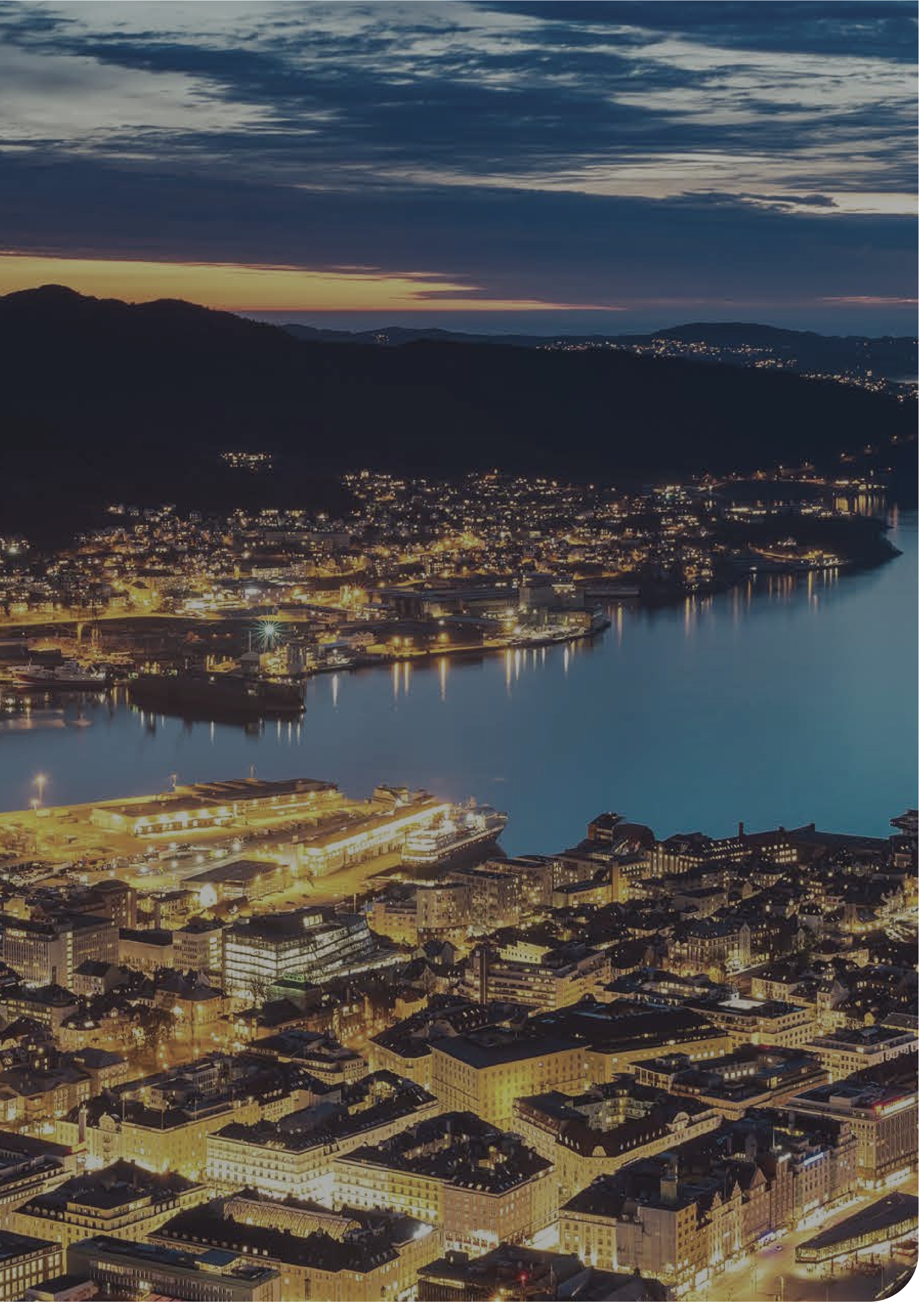
Poland plans to introduce a 5% Digital Service Tax (DST) for digital advertisers starting July 1, 2021, for companies whose global revenues in a year exceed €750 million (~$888m US) and who generate more than €5 million (~$6m US) from online advertising in Poland.

As of January 16, 2021, **Spain** also imposes a 3% Digital Service Tax (DST) for large companies who offer services connected to online advertising services and targeted publicity, online intermediation services for goods or service delivery or locating and interacting with other users, and data transmission services which use data generated in Spain. The thresholds applicable are €750 million (~$888m US) global revenues and Spanish-derived revenues of €3million (~$3.5m US).

Selling Digital Goods in Non-EU European countries

European countries that are not a part of the European Union each employs its specific VAT system. Merchants selling in these markets should get familiar with the respective VAT authorities in each country, the thresholds in place for VAT registration (if these exist), and the type of VAT scheme they have to follow when selling digital goods to users in those markets.

This section will look at some of Europe's most appealing eCommerce markets that are not EU members and help you understand how they handle their respective value-added taxes.



Norway

Registration and thresholds

B2C companies selling electronic goods and services in Norway are required to register with the Norwegian tax authorities, either in the simplified VAT scheme (VOEC – VAT On eCommerce) or the ordinary VAT scheme where the total value of goods sold to Norwegian consumers in a 12-month period exceeds NOK 50,000 (~$5,700 US). Suppliers of both B2C and B2B sales can be registered with VOEC, but only for B2C sales.

Companies making B2B sales are not required to collect VAT for these sales, as the recipient will be liable for calculating and paying VAT under the reverse charge mechanism.

Obligations

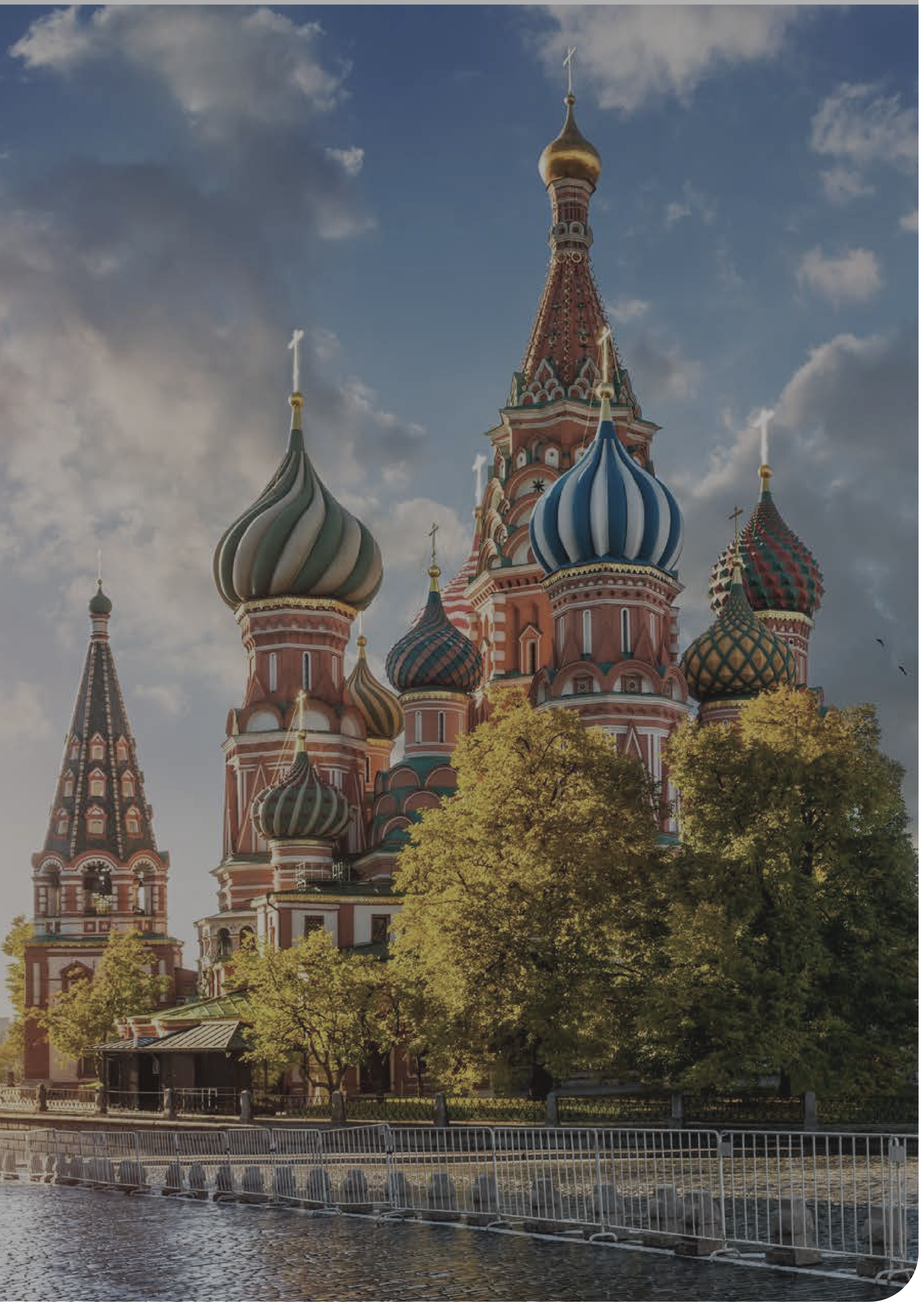
- Collect VAT at the point of sale for all orders, even those less than NOK 3,000 (~$340 US) starting April 1, 2020.
- Businesses registered in the ordinary VAT scheme are required to submit VAT returns on a bi-monthly basis
- Online shops and marketplaces registered in the simplified VAT scheme (VOEC) must submit quarterly VAT declarations

VAT rate

VAT rate: 25% I Reduced VAT rate: 0% I Applicable to: eBooks and audiobooks

Digital Service Tax

At present, Norway does not enact a Digital Service Tax, but the Norwegian government has announced they will consider introducing one if no consensus is reached at OECD level.



Russia

Registration and thresholds

There is no threshold amount for collecting VAT in Russia, so sellers of B2C and B2C goods and services must register with the Russian tax authority from the start. Starting January 1, 2019, registration for VAT purposes is also mandatory for companies doing B2B sales of e-services.

Obligations

- Collect VAT at the point of sales
- Submit VAT returns electronically on a quarterly basis
- Settle VAT payments in Russian rubles

VAT rate

VAT rate: 20%

Digital Service Tax

At present, Russia does not impose a Digital Service Tax, as it is involved with the OECD in the negotiations for a supranational tax on tech giants.

Switzerland

Registration and thresholds

Foreign companies with a turnover of CHF 100,000 (~$109,000 US) in a year are required to sign up for Swiss VAT proceedings. Registration is also possible before the threshold is reached. To register for Swiss VAT, the merchant may be required to appoint a Swiss tax representative and a deposit is collected at registration.

Obligations

- Switzerland does not make a distinction between B2C and B2B sales when it comes to VAT due.
- Collect VAT for sale of goods and service
- Submit VAT returns online on a quarterly basis

VAT rate

Standard VAT rate: 7.7%

Digital Service Tax

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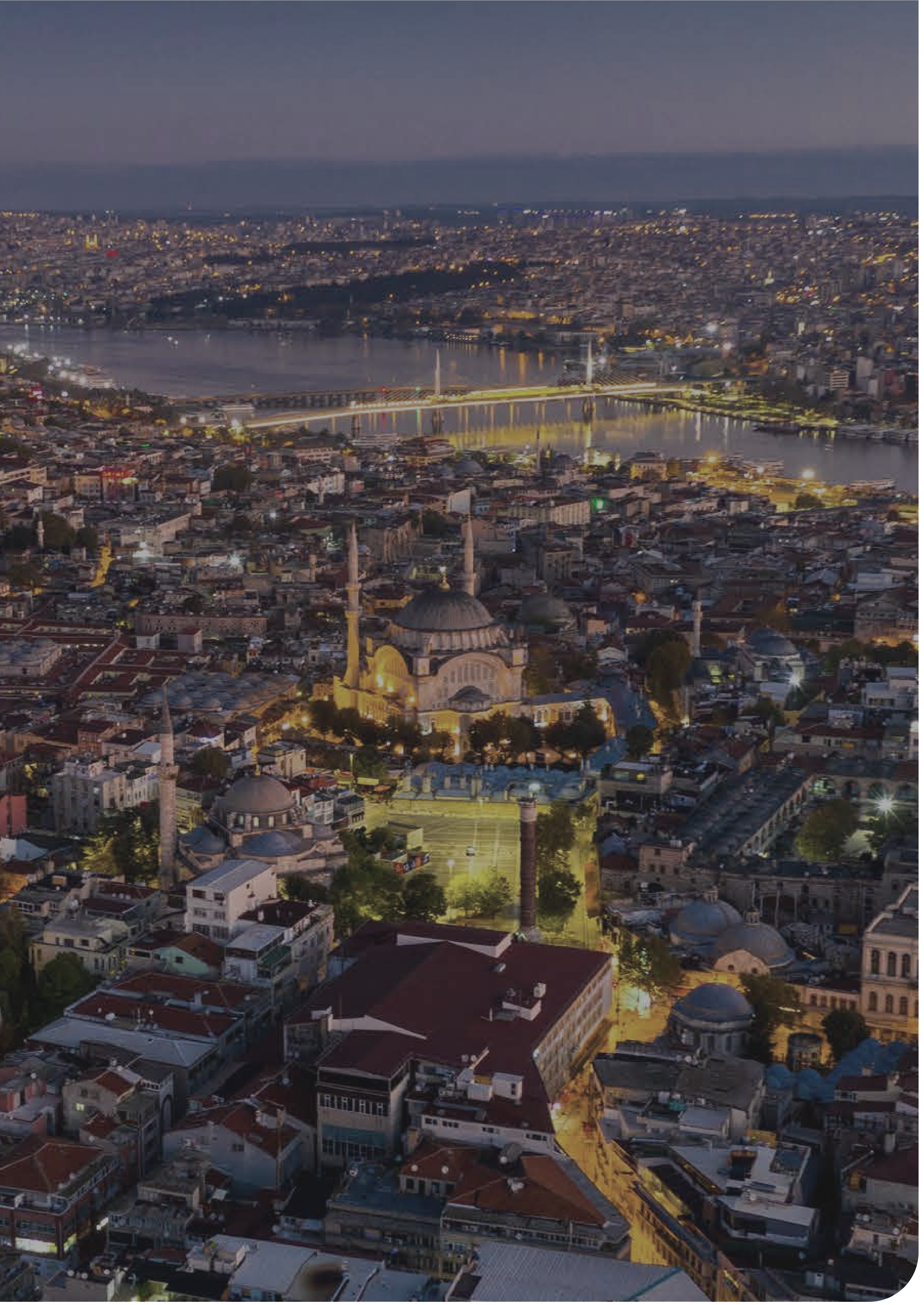


Turkey

Registration and thresholds

There is no registration threshold for paying VAT in Turkey, so all foreign companies making at least one sale to Turkish residents must register with the Turkish Tax Authority (‘Revenue Administration’).

B2B sales are taxable under the reverse-charge mechanism, which means the VAT registration number of the buying company must be collected at the point of sales/checkout.

Obligations

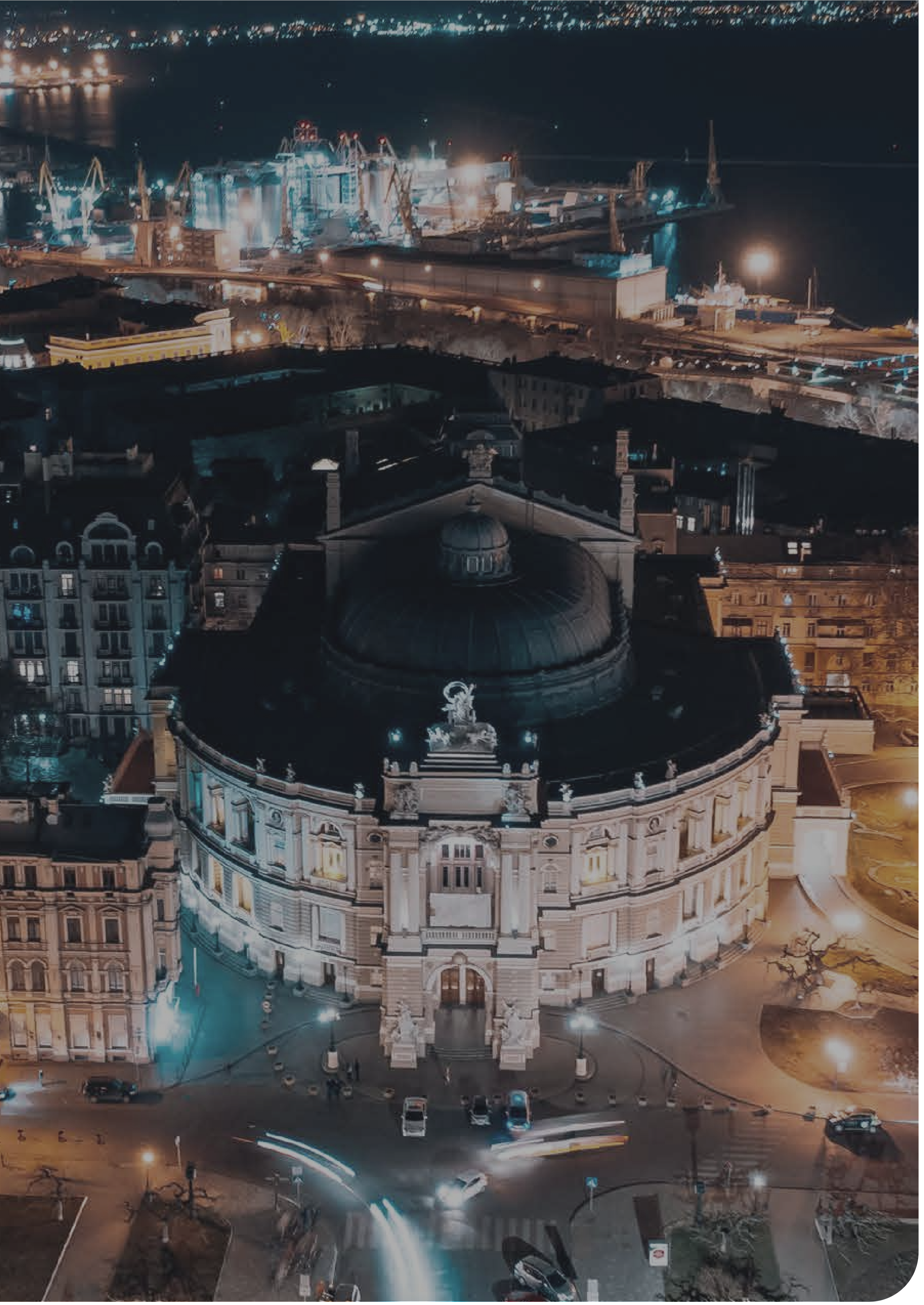
- Collect VAT at the point of sales
- Submit VAT returns monthly, electronically, or on paper

VAT rate

VAT rate: 18%

Digital Service Tax

Starting March 1, 2020, Turkey enacts a 7.5% Digital Service Tax (DST) on providers who offer services in the categories advertising through digital platforms, sale of auditory, visual, or digital content on digital platforms, services for the provision and operation of digital platforms, as well as intermediary services of digital service providers. The Turkish DST is only applicable to companies whose service revenues exceed TRY 20 million (~$2.3m US) in Turkey, and $898 million US worldwide.



Ukraine

Registration and thresholds

Ukraine will start imposing VAT on electronic services supplied by foreign digital service companies starting January 1, 2022. The standard VAT rate of 20% will be applied when the law comes in effect.

VAT rate

VAT rate: 20%

Digital Service Tax

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United Kingdom

Registration and thresholds

B2C companies selling online in the UK are required to register for a VAT number with Her Majesty's Revenue and Customs (HMRC). This obligation is not mandatory for B2B sellers if they collect their UK shopper's VAT identification number.

Obligations

- Collect VAT at the point of sale (➡ checkout implications)
- Collected VAT must be remitted to the HMRC each quarter.

VAT rate

VAT rate: 20%

Reduced VAT rate: 0% (Applicable to: eBooks and online journals)

Digital Service Tax

The UK's Digital Service Tax of 2% has been in effect since April 1, 2020 and applies to large companies who offer services in the fields of social media, internet search, or online marketplaces, in correlation with an online advertising service. The UK DST applies only to businesses which generate £500 million (~$688m US) in global digital services and £25 million (~$34m US) in UK digital services in a given year.

2Checkout Taxation Capabilities

Working with 2Checkout through our reseller model (where we act as your Merchant of Record) offloads a large part of tax compliance when selling in multiple markets. With 2Checkout handling VAT taxation for the sales you're making in European countries, you achieve:

- **Cost reductions** – You don't have to set up local entities in different countries in order to handle taxation, which is usually a costly and time-consuming process.
- **Optimized tax management** – We ensure your company is always following and respecting the latest taxation updates, so you never fall short of your obligations.
- **Full tax compliance** – We handle your tax reporting needs so that you are never at risk of being fined for your sales of digital goods.
- **Accuracy in complex tax calculations** – 2Checkout helps you set up complex tax attributes based on your destination countries, ensuring instant VAT validation and collection of mandatory information from shoppers.
- **Dynamic pricing** – Tax costs with 2Checkout are always based strictly on your processed transactions, ensuring you don't pay fixed amounts like you would when establishing local entities in your markets.

Ready to Sell Worldwide, Hassle-Free?

The 2Checkout all-in-one monetization platform maximizes your revenue and makes global digital sales easier. Contact our sales team to find the best solution for your needs.

2SELL

Accept mobile and online payments from buyers worldwide

2SUBSCRIBE

Subscription management solution to maximize recurring revenue

2MONETIZE

Full commerce solution built for digital goods sales

ADD-ONS

Additional services to boost online sales

Recommended

4ENTERPRISE

All-in-one commerce solution for businesses that want to scale up

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About 2Checkout

2Checkout (now Verifone) is the leading all-in-one monetization platform for global businesses built to help clients drive sales growth across channels and increase market share by simplifying the complexities of modern commerce. 2Checkout's digital services, including global payments, subscription billing, merchandising, taxes, compliance and risk, help clients stay focused on innovating their products while delivering exceptional customer experiences.

In August 2020, leading global payments solution provider Verifone acquired 2Checkout, further solidifying its commitment to providing seamless and frictionless experiences to customers globally through innovative and next-generation hardware and cloud services. 2Checkout will become Verifone, and the unified company will enable omnichannel commerce wherever and whenever clients shop.

Get more information at www.2checkout.com

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