



IS YOUR eCOMMERCE SYSTEM READY FOR VAT CHANGES ACROSS THE EU ?

European Union tax changes to provision of e-Services affects eCommerce systems globally

On the 1st January 2015, the European Union (EU) rules on the calculation of Value Added Taxes (VAT) on broadcasting, telecommunications and e-services are changing. This affects businesses and consumers inside the EU and businesses outside the EU selling into the EU. These changes are referred to as VAT on Electronic Services (VOES), and in principle, VAT on electronic services supplied to consumers will no longer be calculated based on the place the service was supplied from, but rather on the place in which it is now consumed.

So for every single purchase that is made, you will need to know if the buyer is resident in the EU, and if they are you will have to know which country they are in and calculate the VAT and new price accordingly.

For businesses inside the E.U. these changes are referred to as VAT on Electronic Services (VOES). In the U.K. specifically, The Office for Budget Responsibility (OBR) estimates that 34,000 business will be affected by these changes (BBC, 2014). Across the E.U. this totals approximately 500,000, and globally it's over 1m.

Businesses outside the E.U. selling e-Services to consumers (private individuals and non-business organisations) in the EU have to register for E.U. VAT in a member state of their choice, covering sales to any and all E.U. member states. The scheme provides an optional, simplified means of registering and accounting electronically for E.U. VAT, and does not apply to supplies to business customers in the EU as they will continue to account for any tax due using the 'reverse charge' procedure.

Are you selling an 'electronically supplied service' ? The definition of which is one that is delivered over the Internet or an electronic network (in other words, reliant on the Internet or similar network for its provision). The nature of the service in question is heavily dependent on information technology for its supply (in other words, the service is essentially automated, involving minimal human intervention and in the absence of information technology does not have viability).

The "place of supply" rules determine which country's VAT rules apply and where output VAT is due when services are supplied across national borders. In general, this is where the customer resides for business-to-business transactions and where the supplier resides for business-to-consumer. There are, of course, exceptions to this rule.

The rules tend to vary depending on whether the service is being supplied to a consumer in a telephone box, on a mobile phone or landline, at a WIFI hotspot or in a hotel lobby, or whilst you are travelling between different countries. In addition, which locations apply to which of your services (and which taxes should be charged) require zero, two or three forms of non-contradictory commercial evidence, including billing address, bank details, internet protocol (IP) address, SIM card country code, or geo-location data.

The impact to your eCommerce system and associated business processes

The application of these rules on January 1st will have an immediate impact on your accounting systems and how you must now report to clarify your tax obligations. You need to make changes to your business processes and eCommerce systems to establish the facts, collect the supporting evidence where required, charge correctly and accurately report across the end-to-end process.

How can Commerce Guys help ?

Larger sites especially will need to be working out what they need to do now, in time to make changes to business process, modules and front-end workflows to be ready for compliance in January. Commerce Guys has had a tax practice within our eCommerce delivery team for some time, as the majority of our customers are selling into and within the E.U. as well as globally.

If you're a medium to large Drupal site, we can offer advisory services, consulting and development skills to make and test changes. If you're non-Drupal, we can also advise and consult on the business implications and at a business process level.

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