



**E-COMMERCE**

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# THE KEY TO SUCCESS IN E-COMMERCE

UNDERSTANDING VAT  
IN EUROPE

- ▶ THE ROLE OF VAT  
IN INTERNATIONAL E-COMMERCE
- ▶ VAT REGISTRATION ABROAD
- ▶ HOW TO AVOID ERRORS  
IN VAT SETTLEMENTS



THE GLOBAL ADVISORY  
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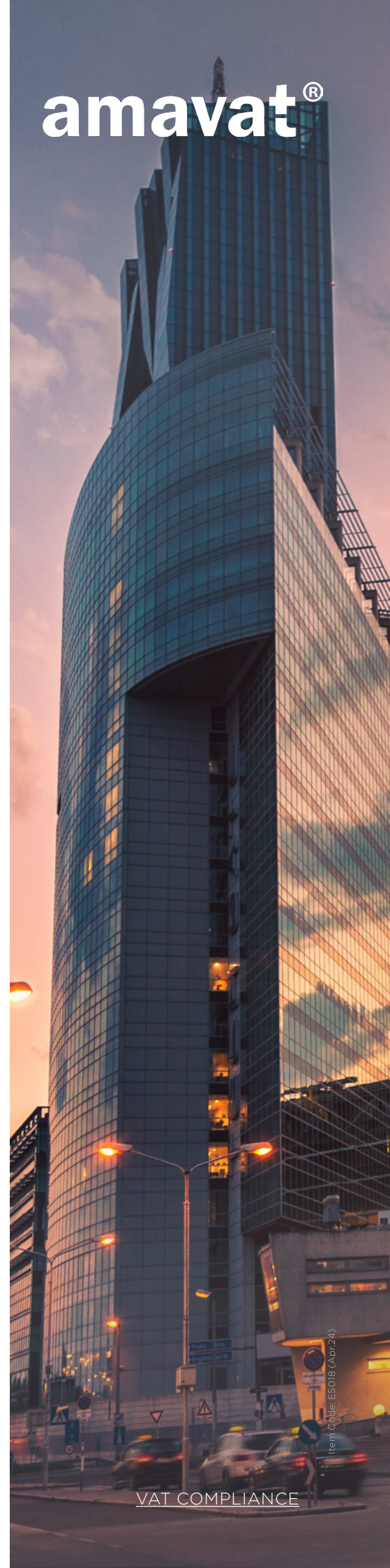
# THE KEY TO SUCCESS IN E-COMMERCE: UNDERSTANDING VAT IN EUROPE

Understanding VAT in Europe is key to success in conducting international e-commerce. As of July 1, 2021, new VAT rules for cross-border e-commerce came into effect, introducing significant changes for all entities operating in the e-commerce supply chain, including online sellers, marketplaces, postal operators, courier companies, customs and tax authorities, and consumers. These changes affect key aspects of operations, from VAT registration and declarations to detailed VAT return procedures in e-commerce, presenting new challenges for entrepreneurs.

In the face of growing e-commerce sales in the European Union, which reached 717 billion euros in 2020, and VAT-related fraud costing member states up to 50 billion euros annually, understanding the new rules and effectively managing VAT taxes becomes not only a legal obligation but also a strategic advantage in the market. In the following sections of this article, we will go through basic information on VAT in the context of e-commerce, the rules for VAT registration abroad, settlement methods, and discuss additional tools that can simplify this complicated process.

## THE ROLE OF VAT IN INTERNATIONAL E-COMMERCE

The VAT rules for e-commerce in the European Union, which came into effect on July 1, 2021, introduced significant changes for businesses engaged in electronic commerce and the import of small parcels into the EU. These changes include replacing the definition of "distance selling" with the new definition of "intra-Community cross-border supplies of goods" (ICS) and introducing new procedures and simplifications for e-commerce transactions, such as OSS, IOSS, and USZ procedures. Additionally, the new regulations impose



additional obligations on internet platforms and e-shops, requiring them to settle VAT in specific situations.

VAT-OSS (Value Added Tax One Stop Shop) is a system that facilitates VAT compliance for companies selling goods and services online within the EU. Thanks to this system, businesses can declare and pay VAT in their own country instead of registering for VAT in each EU country to which they sell goods or services.

The Import One Stop Shop (IOSS) procedure allows to settle VAT due to the country of consumption for the import of goods in shipments not exceeding 150 euros, with the option of VAT exemption for such imports. On the other hand, the "Reporting and Deferring VAT Payment Procedure for Importing Goods" (USZ) allows operators to report and pay VAT for imported goods in a monthly customs declaration. The introduction of these procedures aims to simplify VAT and customs processes, which is crucial for e-commerce companies that need to adapt to new regulations and settlement procedures as well as customs authorities.

The VAT package for e-commerce aims to tighten VAT regulations in the e-commerce and importation of small parcels to the EU sector while simplifying VAT settlements. The implementation of this package also aims to level the playing field between honest businesses and competition flooding the Polish market with cheaper shipments, which benefits especially domestic intermediaries, auction portals, and sales platforms.

However, in every business model, the VAT-OSS procedure may not be the optimal solution for an e-commerce company. Here are a few examples of when a company selling abroad will need to register and settle VAT locally outside its home country:

- Exceeding the B2C shipping sales threshold without active VAT-OSS registration.
- Storing goods outside the company's home country.
- Importing goods into a country other than the company's home country.
- Sales outside the company's home country and outside the EU.

It should be remembered that often the optimal solution for international online sales is to combine VAT-OSS registration with local VAT in countries where the entrepreneur is obliged to register for VAT.

What then is the role of local VAT in international e-commerce? Certainly, it facilitates access to the local market and reduces bureaucracy associated with tax management. Furthermore, it eliminates cultural and language barriers, which translates into greater consumer trust and increased sales. Removing tax barriers can also bring savings and speed up VAT refunds. As a result, companies can focus on developing their business rather than engaging in complex tax procedures.

## **BASIC INFORMATION ON VAT IN E-COMMERCE**

Basic information on VAT in e-commerce includes understanding how VAT (Value Added Tax) is applied to most goods and services bought and sold for use or consumption in the EU. VAT is charged on most sales and purchases of goods in the EU as well as on services at the time of their performance in each EU country. Each EU country is responsible for determining its own VAT rates, including standard, reduced,

and special rates. The minimum standard VAT rate in each EU country cannot be less than 15%.

The new regulations introduced a uniform threshold for distance selling of goods in the EU of EUR 10,000. Below this threshold, TBE services and distance selling of goods within the EU may remain subject to VAT in the member state where the taxpayer is registered. Furthermore, the VAT exemption for imports of small consignments with a value of up to EUR 22 has been removed, meaning that all goods imported into the EU are now subject to VAT. To simplify the declaration and payment of VAT for distance selling of low-value goods imported from third territories or third countries, a special Import One Stop Shop (IOSS) scheme has been created, as mentioned earlier.

Registration for VAT under the OSS procedure may allow entrepreneurs to avoid registering for VAT in individual EU countries by submitting a single consolidated declaration for sales to other EU countries. However, this is not always the case. It is always worth verifying and consulting with an expert.

## **VAT REGISTRATION ABROAD**

Registering for VAT abroad is an important step for e-commerce businesses operating outside their home country. It may seem complicated, but with the right knowledge and planning, it can be done successfully. One of its key elements is planning it well in advance, as VAT registration procedures in European countries can take from several weeks to up to 5 months.

Here are a few steps to take to register for local VAT:

- **Verification of local requirements abroad.** Each country has its own unique regulations and requirements, so it is important to understand what documents and information will be required for registration.
- **Consultation with an international VAT expert.** They will help understand the registration process and provide support and advice on difficult tax issues. Support in the native language of the country where the company wants to register is also useful, so it is worth choosing experts who provide services in the local language.
- **Preparation of documentation.** Preparing necessary documents and information is crucial for a successful registration of local VAT. During the VAT registration process abroad, e-commerce companies may be required to present documents such as:
  - For VAT registration form for foreigners.
  - Identification documents, such as a company registration certificate, copies of identity documents of decision-makers in the company.
  - Documents confirming the company's status, such as an excerpt from the commercial register.
- **Registration directly at the tax office abroad.** The registration process may vary depending on the country, but typically involves filling out a registration form and providing all required documents.



During the VAT registration process abroad, e-commerce companies may encounter pitfalls such as:

- Language and cultural barriers, which may make it difficult to understand local regulations and procedures.
- Administrative complexity, especially in countries with more complex tax systems.

The duration of the VAT registration process abroad may vary and depends on the specific country and its administrative procedures. In some countries, the registration process may take several weeks or even months.

In summary, VAT registration abroad for e-commerce businesses entails specific requirements, deadlines, and documentation. The company should carefully familiarize itself with local regulations to avoid pitfalls and confusion. Understanding these issues and possibly enlisting the help of specialists can significantly ease the process of registering for VAT abroad and minimize the risk of errors.

### VALUE ADDED TAX (VAT) SETTLEMENT IN E-COMMERCE

As mentioned earlier, companies selling their products abroad can take advantage of the VAT OSS (One Stop Shop) procedure, which significantly simplifies VAT settlements for sales to private individuals in the EU. Through this procedure, entrepreneurs can issue invoices with foreign VAT rates but report and pay VAT to the local tax office in Poland, eliminating the need to register for VAT in every EU country where they conduct sales.

However, as emphasized, not all international online sales can be settled under the VAT-OSS procedure. In situations where a company needs to register for VAT locally abroad, it also has an obligation to regularly submit VAT declarations to the local tax office in the country of VAT registration.

When settling VAT locally abroad, VAT settlement deadlines may differ between countries by several days. This is, of course, one of many differences in settlement procedures, and unfortunately, any delays or errors in declarations can result in penalties. Additionally, it is crucial to note that VAT rates within the EU vary depending on the destination country, necessitating careful monitoring of changes.

## MOVEMENT OF GOODS AND VAT

Transactions covered by new changes include various operations, such as distance selling of goods in the EU, domestic sales of goods by recognized suppliers, provision of services by sellers from the EU and outside the EU to consumers in the EU, and distance selling of goods imported from third countries or outside the EU. Concerning the movement of goods, own goods purchased in Poland and transported to another EU member state are treated as intra-community supplies, entitling the deduction of VAT.

Intra-community acquisitions of goods for consideration in Poland are recognized as acquiring the right to dispose of goods that have been dispatched or transported from the territory of another member state. However, there are exceptions to recognizing the movement of goods as taxable intra-community acquisitions in Poland, such as the movement of goods intended for work in the territory of Poland and, after the completion of such work, will be re-moved back to the member state from which they were originally exported.

The movement of goods between a Polish entrepreneur and their foreign warehouse within the EU is treated either as "Intra-Community Acquisition of Goods (ICA)" or as "Intra-Community Supply of Goods (ICS)" depending on VAT regulations. Transferring funds between different accounts of the same entrepreneur does not change the tax qualification of these movements.

## POSSIBLE PENALTIES FOR INCORRECT VAT SETTLEMENTS

Proper VAT settlement is crucial for any e-commerce entrepreneur operating in the European market. One of the most important aspects is timely submission of VAT declarations. Delays in their submission can result in financial penalties that can significantly impact the company's finances.

Another important aspect is the accuracy of VAT amounts shown on invoices. Errors in these amounts can lead to underpayments or overpayments of tax, which is also risky as tax authorities may impose additional sanctions for inaccuracies in settlements. If the tax authority finds that the entrepreneur deliberately manipulated VAT amounts, it may even result in criminal proceedings. Therefore, verifying VAT rates in countries where an e-commerce company conducts sales is essential.

Delayed VAT payments are another serious issue. If an entrepreneur fails to settle the due VAT within the specified period, they may be charged with late payment interest. These additional costs can quickly accumulate, further burdening the company's budget and potentially affecting its financial liquidity.

## HOW TO AVOID ERRORS IN VAT SETTLEMENTS

To avoid errors in VAT settlements, it is crucial to understand and adhere to the appropriate procedures. First and foremost, it is worth focusing on accurately tracking all transactions. Every sale and purchase should be thoroughly documented, and invoices should be issued in accordance with applicable regulations. This way, in the event of an audit, the entrepreneur will be able to quickly prove the correctness of their settlements.

Another important aspect is regular training of personnel responsible for accounting and VAT settlements. Tax regulations often undergo changes, so it is necessary for individuals dealing with this area to stay up-to-date with current requirements. Training can help avoid errors resulting from unfamiliarity with applicable regulations. Another solution is to use the services of VAT settlement experts. This way, the entrepreneur can be sure that their VAT declarations are submitted on time and in accordance with applicable regulations.

It is also worthwhile to use professional accounting systems designed to assist in correct VAT settlements. These systems often offer automatic features such as checking the correctness of VAT numbers or automatically calculating the tax due. Using modern technological tools can significantly reduce the risk of errors.

## **POTENTIAL PROBLEMS WITH VAT REGISTRATION AND SETTLEMENTS**

### **DIFFERENCES IN TAX REGULATIONS**

Differences in tax regulations between countries can pose serious challenges for e-commerce companies, making it necessary to understand these regulations thoroughly.

### **DIFFICULTIES IN COMMUNICATION WITH TAX AUTHORITIES**

Communicating with tax authorities in different countries can be challenging due to language barriers and administrative complexities.

### **ADMINISTRATIVE COMPLEXITY**

VAT registration and settlement in different countries can be administratively burdensome, posing a challenge especially for smaller e-commerce firms.

### **RISK OF DELAYS**

Delays in VAT declarations and payments can result in significant financial penalties, which vary depending on the country.

## **BENEFITS OF REGISTERING FOR VAT LOCALLY ABROAD FOR E-COMMERCE BUSINESSES**

### **BENEFITS OF REGISTERING FOR VAT LOCALLY ABROAD FOR E-COMMERCE BUSINESSES**

VAT registration in different countries enables e-commerce companies to access a larger market, facilitating business growth.

### **INCREASED CUSTOMER TRUST**

Having a registered tax status can increase customer trust in the company, especially in the case of international transactions.

### **ABILITY TO DEDUCT VAT ON PURCHASES**

Registered e-commerce companies have the ability to deduct VAT on purchases, which can positively impact their financial balance.

### UTILIZING EU SIMPLIFICATION MECHANISMS

VAT registration allows e-commerce companies to utilize EU simplification mechanisms, which can facilitate their international operations.

### POSSIBILITY OF RETROACTIVE SETTLEMENTS

In the case of local VAT abroad, there is the possibility of retroactive settlements, allowing for the settlement of overdue tax obligations.

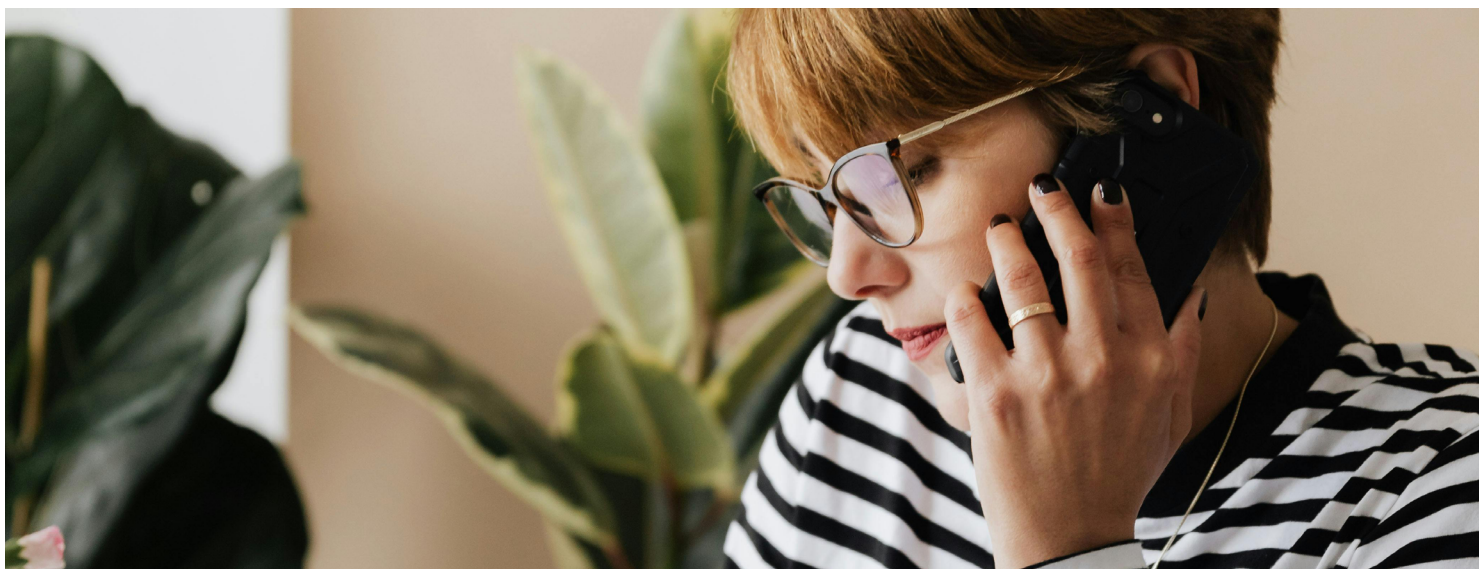
### SUPPORT AND ADDITIONAL TOOLS IN VAT SETTLEMENTS

In today's rapidly evolving e-commerce world, adequate support and additional tools in VAT settlements are crucial for effective tax compliance management. amavat<sup>®</sup> offers comprehensive VAT Compliance services tailored to the needs of both Polish and foreign e-commerce sellers. These services include the automation of complex accounting processes and integration with accounting and sales systems, greatly simplifying documentation and financial data management.

### SUMMARY AND CONCLUSIONS FOR ENTREPRENEURS

In the context of the rapidly growing e-commerce sector in Europe, proper management of VAT obligations is not only a legal requirement but also a strategic advantage. Implementing new VAT regulations, including systems such as OSS and IOSS, requires companies to understand and adapt to changing regulations. This allows not only to avoid potential penalties for errors in settlements but also to achieve better operational efficiency and competitiveness in the market.

Success in international e-commerce, therefore, requires not only understanding customer needs and market trends but also the complex world of VAT and tax regulations. With the right support, tools, and strategies, companies can not only comply with applicable regulations but also leverage them to their advantage, promoting further development and expansion into new markets in the European Union.



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## Accounting for e-commerce in 3 easy steps

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