Global Indirect Tax Headlines

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Corona: Global

Managing the impacts of COVID-19

Companies on a global level are faced with the effects of the globally spreading Coronavirus (COVID-19).

The current situation poses huge challenges regarding labor issues, personal data processing, public health, contracts, corporate governance, tax obligations and sanctions-related matters. This raises substantial questions and concerns from a tax and legal point of view.

Our experts from WTS Global have collected information and advice on managing the impact of COVID-19 in their home markets. We are pleased to offer you a bundled overview on over 35 countries here.

We remain entirely at your disposal for further advice and guidance to support you in professional challenges you might currently face.

Implementing VAT in December 2021

The Afghanistan Revenue Department (ARD) has announced that the country is moving forward with the implementation of its new VAT regime with effect from 22 December 2021. As provided in an English-language presentation published with the announcement, key points of the regime include the following:

- The standard VAT rate is 10%;
- Exempt goods and services include:
  - health services;
  - educational services;
  - financial and insurance services;
  - transfer or lease of immovable properties for residential purposes;
  - provision of religious services;
  - humanitarian aids;
  - goods and services provided to a government entity for the purposes of rehabilitation after natural disasters, industrial incidents, and catastrophes; and
  - sport services;
- Zero-rated goods and services include:
  - export of goods or services for use outside the country;
  - international land transport of goods or passengers including the supply of goods and related services;
  - transfer of part or whole of a business as a going concern by a registered person to another registered person, provided by a written agreement between parties and notified to the ministry of finance;
  - some basic foods items (wheat, flour, rice, sugar, cooking oil, tea, onions, potatoes, salt);
  - books and educational materials; and
  - basic materials used for household purposes (coal, wood, gas, soap);

Afghanistan

- Compulsory VAT registration applies where the total value of taxable supplies made in the past or upcoming 12 months is equal to or exceeds an AFN 150 million registration threshold (once registered must remain registered for at least one year);
- Optional VAT registration is allowed where turnover is at least AFN 100 million, at least 75% of supplies are made to VAT-registered persons or at least 25% of supplies are for export, tax laws are complied with, and an office for economic activity is maintained in Afghanistan (once registered must remain registered for at least two years);
- When required to register for VAT, an application for registration should be submitted with 15 days of becoming obliged, with the ARD allowed to register persons directly that do not fulfill their obligations and make estimated VAT assessment;
- Non-residents making taxable supplies exceeding the registration threshold are required to appoint a VAT representative to apply for registration on their behalf and fulfill their tax obligations;
- Registered persons can claim input VAT paid on purchases and imports and refunds can be claimed on exports, standard-rated goods used to produce zero-rated items, transportation of goods, when the selling price of goods is lower than the purchase price, and overpayments of VAT; and
- Where input VAT exceeds output VAT for a period, the excess is carried forward for offset in the following two periods, and if any balance remains a refund may be claimed.

With the implementation of VAT, the Business Receipts Tax (BRT) will be removed. It was previously provided that the BRT removal would apply for imports and supplies made by VAT- registered persons, but not for non-registered persons where standard conditions for BRT are met.

However, this continued BRT application is not included in the presentation.

Congress discusses bill to impose VAT on digital services provided from abroad

If enacted, the bill would impose a 13% value-added tax on digital services from foreign service providers. Foreign service providers could register with the Bolivian Tax Administration to pay the tax or local banks may withhold the tax from the payments.

The Bolivian Congress has initiated discussions on a bill (Bill of amendments to Act No. 843) that would impose a 13% value-added tax (VAT) on digital services from foreign service providers to Bolivian residents.

The bill would treat any company or person that provides or intermediates digital services (of any kind) from abroad for the use or provision in Bolivia as a taxpayer. The bill would impose a 13% VAT on digital services from foreign service providers, including on:

- The purchase and sale of goods
- Downloads
- The supply of software and data storage
- Streaming of music, videos, videogames, photos, magazines and data
- Advertising

The taxable base would be the price paid to the supplier located abroad. The taxable event would occur when a Bolivian resident uses, consumes or pays for the digital service. The foreign service providers must pay the VAT on a bimonthly basis. To pay the VAT, foreign service providers may register with the Bolivian Tax Administration, obtain a tax identification number, and pay the VAT by deposit or electronic transfer in US dollars. Alternatively, for foreign service providers that do not register, local banks would withhold the VAT amount from the payments made by the users of the services, regardless of the means of payment (e.g., credit cards, debit cards, bank transfers and payment processing companies, etc.).

The bill would not require foreign service providers to issue invoices.

Implications

The Bolivian tax system is based on the principles of territoriality and source (Articles 1°, 72° and 42° of Act No. 843), meaning any income generated from the transfer, use or lease of assets, intangibles or rights in Bolivia is taxed, regardless of nationality, domicile or residence of the owner or intervening parties, and where the parties entered into the contracts.

The Bolivian Government announced that it expects to collect around US$15 million annually as a result of the imposition of the VAT on digital services.

Although foreign taxpayers may elect to register with the Bolivian Tax Administration, it appears that foreign taxpayers will not be required to incorporate in Bolivia.

The bill does not indicate if there will be additional tax consequences, such as corporate income tax and turnover tax. These aspects will depend on the future regulations, which could allow the application of additional withholdings.

Introduces New Import Tax Exemptions for Integrated Circuit Production

China's Ministry of Finance, General Administration of Customs, and State Administration of Taxation have jointly issued Notice No. 4/2021 on additional preferential policies for the implementation of the policy notice issued by China's State Council on 8 August 2020 to promote the development of the Integrated circuit and software sectors. In particular, Notie no. 4/2021 provides that qualifying integrated circuit manufacturers are exempted from import duties/tariffs on imports of equipment and materials until 31 December 2030. Qualifying manufacturers include:

- Manufacturers of logic circuits and memory chips with integrated circuit line widths less than 65 nanometers and specialty processes with line widths less than 0.25 microns;
- Manufactures of compound integrated circuits and advanced packaging and testing companies for integrated circuit line widths less than 0.5 microns;
- Manufactures of key materials and parts for the integrated circuit industry; and
- Manufacturers of photoresist, reticle, and eight-inch and higher silicon wafers for integrated circuits.

In all cases, the exemptions require that the imported equipment and materials are either not produced in China or local production does not meet demand. In addition to qualifying manufacturers, key integrated circuit design companies and software companies encouraged by the state may qualify on imports of equipment.

Notice No. 4/2021 applies retroactively from 27 July 2020 to 31 December 2030. Notice No. 4/2021 also repeals several older notices regarding import exemptions effective 1 April 2021, with qualifying enterprises allowed to enjoy the relevant policies of Notice No. 4/2021 and the older notices during the period 27 July 2020 to 31 March 2021.

Intrastat Changes 2022

Upcoming changes – Intrastat declarations 2022. From 1 January 2022, there will be some changes to Intrastat declarations. The main impact on traders will be additional data elements in the Intrastat declaration for dispatches/exports.

From 1 January 2022, the below data will be mandatory as well as the data that is already reported:

- The country of origin of the goods; and
- The Identification Number allocated to the partner operator in the Member State of destination.

The partner operator VAT number is the VAT number of the customer that the goods are being shipped or delivered to.

In the case of triangulation of goods, where the invoice partner is in a different country to where the goods are delivered or shipped to, the VAT number of the entity that will receive the goods should be used.

If that information is not available, the VAT number of the invoice partner can be used. In this case, the country of destination code will be different from the country prefix of the customer's VAT number.

Goods that are produced in two or more countries are considered to have originated in the country where the last transformation or considerable processing took place. If a small amount of processing occurs, this will not affect the country of origin e.g. re-labelling goods or splitting packages.

Registration OSS-IOSS

The registration campaign at the one-stop-shop of VAT (OSS-IOSS) is open since April 22.

The one-stop-shop system makes it possible to declare VAT due within the European Union (EU) for certain “B to C” transactions from a single EU member state, without resorting to local registrations. However, no VAT can be deducted through this system.

This administrative simplification, which currently exists for a certain category of services (telecommunications, TV-radio, electronics), has been extended as part of the reform of the VAT applied to electronic commerce which will come into effect. effective from July 1st . In fact, distance sales and all types of taxable services will be integrated at the place of establishment, domicile or residence of the non-taxable customer.

VAT relief on goods imported into Northern Ireland for onward supply to the EU

Check here if you can claim VAT relief on goods imported into Northern Ireland for onward supply to the EU

Tax on digital services supplied by non-residents

Indonesia's Directorate General of Taxes (DGT) has nominated eight new digital businesses to act as VAT collectors. This brings to 65 the number of non-resident digital businesses that have been nominated as VAT collectors by Indonesia's DGT.

New nominated companies are Scribd, Inc., Hotels.com L.P., Epic Games International S.à r.l., Bertrange, Root Branch, Expedia Lodging Partner Services Sàrl, BEX Travel Asia Pte Ltd, Travelscape, LLC, TeamViewer Germany GmbH and Nexway Sasu.

Marketing support services for non-resident entities, zero-rated for VAT purposes

A tribunal decision concerning marketing support services provided to non-resident related entities. The Tax Appeals Tribunal held that marketing support services provided to non-resident related entities were consumed outside of Kenya and, as such, were exported services and zero-rated for value added tax (VAT) purposes.

The case is: 3M Kenya Ltd. v. Kenya Revenue Authority

Summary

The taxpayer (a company incorporated in Kenya) signed a service agreement to provide marketing and liaison services to non-resident related entities in the UAE and South Africa.

Under the agreements, the taxpayer was to be compensated on a cost-plus mark-up basis. The non- resident related entities executed separate agreements with distributors of their products, that they then invoiced directly for products imported directly from entities in the UAE and in South Africa.

The Kenya Revenue Authority, on auditing the taxpayer for years 2010 through 2015, determined that the taxpayer had wrongly classified the market support services that it provided as zero-rated for VAT purposes. Rather, the tax authority contended that the effect of the services was to create product awareness among the Kenyan population with the objective of enhancing domestic sales and that the companies that imported and distributed products on behalf of the non-resident entities were the ultimate beneficiaries of the marketing services. Thus, it was asserted that the services were consumed domestically and therefore were subject to VAT at a rate of 16%.

The taxpayer countered that the marketing support services enhanced brand awareness of the products sold by the non-resident entities in Kenya. On this basis, it was asserted that the services were exported because it was the non-resident entities—instead of the Kenya resident distributors—that consumed the services.

The tribunal held that the marketing support services provided by the taxpayer were consumed outside Kenya by the two non-resident related entities, hence constituting exported services that would be zero-rated for VAT purposes. The tribunal relied on the "destination principle" under OECD guidelines—that is, the jurisdiction where a customer is located has the taxing rights over internationally traded services.

The tribunal distinguished between "marketing support services" and "products" in holding that the support services were provided to the non-resident related entities while the products were provided by Kenyan distributors to Kenyan customers. As such, while the products were consumed domestically, the "marketing support services" were consumed outside Kenya. The tribunal agreed that while it was possible for a benefit to accrue to Kenyan distributors and customers from the marketing services, they were not contractual parties and accordingly any such benefits were secondary.

Tax Authority continues to accept VAT registrations even if deadline has passed

The Tax Authority continues to accept registration applications for persons (natural and legal) with supplies exceeding OMR 1,000,000 even though the deadline as stipulated in Decision no. 3/2021 has passed. This is a facilitation for taxable persons in light of Covid-19 pandemic.

Registration applications must be submitted through the electronic portal, to avoid any penalties may imposed.

Digital Service Tax in Poland

Introduction planned for 1 July 202. A few years ago, the Digital Service Tax was rarely heard of in Europe. Now many EU countries have proposed, announced or already implemented some form of this tax type. Poland joined them in July 2020, when a payment to the Polish Film Institute equal to 1.5% of the revenue of streaming platforms from delivering content or for transmitting commercial messages (whichever figure is higher) was implemented. Now, Poland has gone one step further.

In February 2021, a draft of the legal act introducing the "advertising contribution" was published. Despite its name, its construction is based on the rules specific to the Digital Service Tax. Below we summarize our general assumptions.

Traditional ads

The tax liability is imposed on revenues in the tax year in the amount of:

- PLN 1,000,000 (roughly EUR 220,000) for broadcasting adverts on television, radio, displaying adverts at the cinema, and posting adverts on external storage,
- PLN 15,000,000 (roughly EUR 3,300,000) for press advertising.

The tax rate assumed in the project varies between 2% to 15% of the tax base depending on the advertised goods and sources of income.

Online ads

The online advertisements are defined as digital services that enable the reproduction of audio or audio-visual material on recipient devices.

According to the definition, advertising may take

any form, e.g. sponsored article, audio advertisement, sponsored podcast, product suggestion on a website, tweet or post. An entity becomes a Digital Service Tax payer if it provides online advertising services in Poland, and additionally meets the following conditions:

- the service provider's revenues (or consolidated revenues of the group to which the service provider belongs) exceed EUR 750,000,000 in the tax year, regardless of where the revenue is obtained,
- the service provider's revenues (or consolidated revenues of the group to which the service provider belongs) from online advertising services in Poland exceed EUR 5,000,000 in the tax year.

The tax rate for all online advertising is to be 5% of the tax base.

Purpose of the Digital Service Tax revenue

Poland plans to use the additional revenues derived from the Digital Service Tax to support those affected by the coronavirus pandemic (national health care system, culture and free media).

The introduction of the Digital Service Tax is planned for 1 July 2021. However, work on the project is still ongoing in Poland. On 12 March 2021 a meeting of the Committee on Culture and Media was held in this regard. There were many comments and questions regarding the solutions contained in the Digital Service Tax draft, including that the project does not cover all kinds of advertisement, such as telemarketing, the tax collection mechanism is not described clearly enough, and there is a lack of awareness of the long-term effects of the act. It was also argued that the increase in the price of the advertising will affect the final price of products, and therefore consumers.

15% VAT is temporary

"Raising VAT was a painful measure and I hate to hurt any Saudi citizen, but it is my duty to build Saudis a long- term sustainable future," the prince said in an interview aired on Saudi TV to mark the fifth anniversary of Vision 2030. We are targeting it (the rate) to be between 5 to 10 percent, only till we reinstate our balance after the pandemic.

United Kingdom

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VAT Grouping in the UK – HMRC internal manual on VAT Groups

This guidance provides information on VAT group treatment, allowing two or more corporate bodies to account for VAT under a single registration number with one of the corporate bodies in the group acting as the representative member.

Please find more information here

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How to claim VAT relief on goods imported for onward supply to an EU country

Please find the guidelines here

Brexit killed dropshipping?

Are the new VAT and customs obligations of Brexit choking the dropshipping e-commerce model? The complexity of import VAT, customs duties, product checks and customs declarations are not eating into the already razor-fine margins of the model, which had been looking dated in recent times.

The demise of dropshipping has been called out on numerous occasions – citing shrinking profitability and poor customer experience. But has Brexit added costs killed it on UK to EU trade?

What is dropping shipping?

Dropshipping is an online retail fulfilment model that allows merchants to promote and sell online third parties' (the 'dropshipper' or 'dropship supplier') goods as their own. When the merchant then sells a product, it purchases the item from the third party who delivers it to the customer on the merchant's behalf.

The model enables merchants to follow a low-cash start- up to go global model quickly, and has been an explosive growth sector in the past five years around the world on the back of platforms such as Etsy and AliExpress.

Brexit import frictions hit dropshipper merchants

The UK leaving the EU VAT regime and its Customs Union has imposed a range burdens on sellers supplying goods between the EU and UK. These include:

Brexit killed dropshipping?

- Import VAT – is now payable on all sales to UK consumers if the goods are imported from overseas and the consignment does not exceed £135. This is part of the UK e-commerce VAT reforms introduced on 1 January 2021. This will require overseas merchants to be VAT registered in the UK if the dropshipment delivery start from outside of the UK. The EU will introduce the same reforms, with a €150 threshold, from 1 July 2021.
- Customs declarations – all online shopping shipments between the UK and EU must be accompanied by a CN22 or CN23 customs declarations. Since the merchant is not responsible for the fulfilment, they are reliant on the dropship supplier doing this properly to avoid delays and unfulfilled orders. It will also add the dropshipper's fees to the merchant.
- Goods checks – as the UK also left the EU Single Market, a range of goods checks are being phased in by the UK between now and 2022. The EU has already implemented these from 1 January 2021. Again, the merchant is dependent on the dropshipper following these, and will have to pay the additional charged.
- Tariffs – the UK-EU Trade and Cooperation Agreement on 24 December 2020 set a preferential tariff regime on goods flowing between the two countries. However, this requires close observance of the Rules of Origin checks. This adds further compliance requirements to the shipper, who will pass associated costs through to the merchant.

Registration obligation in 2022 for electronic services

From a turnover of one million Ukrainian hryvnia (approx. 30’000 euros) in 2021, foreign entrepreneurs providing electronic services to consumers in Ukraine are expected to have to register and pay tax at a rate of currently 20 per cent by 31 March 2022.

The electronic services provided for in the draft law so far include the provision of texts, images, e-books, magazines, audio-visual works, videos and games, access to information and to economic and other resources, the provision of cloud technology for storing data, the provision of software and updates, and advertising services on the internet.

World

U.N. Approves new tax treaty article for taxation of automated digital service

On April 20, 2021, the U.N. Committee of Experts on International Cooperation in Tax Matters agreed to the text of a new article – 12B, and commentary in the U.N. model tax treaty, which would grant additional taxing rights to countries where an automated digital services provider's customers are located.

Article 12B would allow a contracting state to tax gross automated digital services income earned by a beneficial owner that is resident in the other contracting state and has no local permanent establishment. Article 12B does not specify any quantitative or qualitative nexus thresholds and leaves specific tax rates to be negotiated bilaterally, but it does suggest a "modest rate" of 3 or 4 percent to address concerns about double or excessive taxation, according to the commentary. The next U.N. model tax convention update will be released in late June 2021.

Various

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Bolivia Proposes Value-Added Tax on Offshore Digital Providers

US threatens tariffs on UK exports over digital services tax | International trade | The Guardian

Indonesia Says Govt to Bear VAT on Home Sales to Push Growth

Netflix hikes rates in Kenya on inclusion of VAT tax charge

Parliament passes 12% tax on internet data

China to grant 70% VAT refund for pre-2014 long-term

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Contact us

WTS Taxise
8 Shenton Way
#36-03 AXA Tower
Singapore 068811
T: +65 63047972
E: info@TaxiseAsia.com

Atlas Tax Lawyers
Weteringschans 24
1017 SG, Amsterdam,
The Netherlands
T: +31 20 535 4567
E: info@atlas.tax

Eugene Lim
Co-Founder, Principal, WTS Taxise
eugene.lim@TaxiseAsia.com
DID: +65 6304 7978

Irving Aw
Co-Founder, Principal,
WTS Taxise
irving.aw@TaxiseAsia.com
DID: +65 6304 5367

Johan Visser
Counsel Global Indirect Tax
jv@atlas.tax
DID: + 31 (0) 20 237 62 99

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