



VAT meets the retail industry

Global Indirect Tax Advisor webcast series

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Introduction



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Introduction

Agenda



- 1 Introduction
- 2 VAT rates
- 3 Vouchers
- 4 Digital package
- 5 Wrap-Up, forecast and Q&A



Administration

Polling questions

- Polling questions will appear as we proceed through the presentation.
- As mentioned, in order to receive the certificate of attendance, we require participants to take part in at least four of the five polling questions.
- If you qualify for the certificate of attendance, it will be sent to you following the webcast.



Attendee questions

- You may submit questions in the *Ask a question* button on the left. We will answer as many questions as we can during Q&A. If we are unable to answer your question during the webcast, someone from KPMG may reply via phone or email following the webcast.
- For technical issues, please use the *Question Mark* button in the upper-right hand corner of the media player.

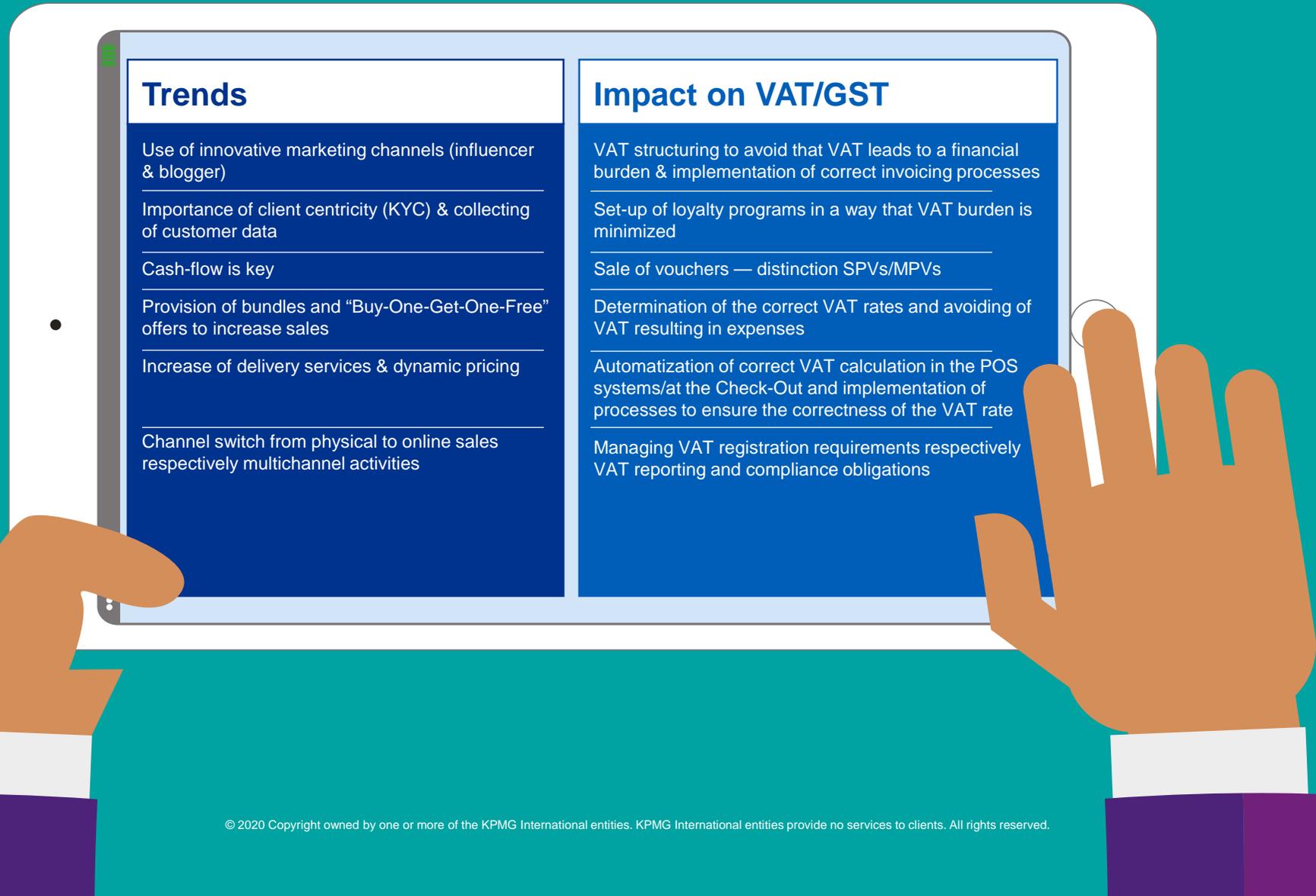


Your feedback

- When the webcast is over, the webcast player will automatically refresh to display an exit survey. Feel free to complete the survey, as your comments are very valuable to us.



Global trends and impacts



Trends

Use of innovative marketing channels (influencer & blogger)

Importance of client centricity (KYC) & collecting of customer data

Cash-flow is key

Provision of bundles and “Buy-One-Get-One-Free” offers to increase sales

Increase of delivery services & dynamic pricing

Channel switch from physical to online sales respectively multichannel activities

Impact on VAT/GST

VAT structuring to avoid that VAT leads to a financial burden & implementation of correct invoicing processes

Set-up of loyalty programs in a way that VAT burden is minimized

Sale of vouchers — distinction SPVs/MPVs

Determination of the correct VAT rates and avoiding of VAT resulting in expenses

Automatization of correct VAT calculation in the POS systems/at the Check-Out and implementation of processes to ensure the correctness of the VAT rate

Managing VAT registration requirements respectively VAT reporting and compliance obligations



VAT rates and changes due to COVID-19



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Update from the European Union



Different VAT rates and changes around the EU



France

Regular: 20%
Reduced: 10%
Super-reduced: 5,5%
Special: 2,1%
COVID-19: No



Luxembourg

Regular: 17%
Reduced: 8%
Super-reduced: 3%
Special: 14%
COVID-19: No



Spain

Regular: 21%
Reduced: 10%
Super-reduced: 4%
COVID-19: Yes



Germany

Regular: 19%
Reduced: 7%
Special: 10,7%, 5,5%
COVID-19: Yes



Czech Republic

Regular: 21%
Reduced: 15%
Super-reduced: 10%
COVID-19: Yes



Sweden

Regular: 25%
Reduced: 12%
Super-reduced: 6%
COVID-19: No



Italy

Regular: 22%
Reduced: 10%
Super-reduced: 5%
Special: 4%
COVID-19: Yes



Ireland

Regular: 23%
Reduced: 13,5%
Super-reduced: 9%
Special: 4,8%
COVID-19: Yes



UK

Regular: 20%
Reduced: 5%
COVID-19: Yes

VAT rate changes



Reduction in VAT rates

- Germany: temporary reductions in both standard rate (19 percent to 16 percent) and reduced rate (7 percent to 5 percent) from 1 July to 31 December 2020. Hospitality, restaurants and cafes will benefit from the 5 percent rate (drinks excluded) until 30 December 2020 and 7 percent (drinks excluded) from 1 January 2021 to 30 June 2021.
- Ireland: temporary reductions in both standard rate (23 percent to 21 percent) from 1 September 2020 to 28 February 2021 and reduced rate for tourism/hospitality supplies (13.5 percent to 9 percent) from 1 November 2020 until 31 December 2021.
- UK, Austria, Belgium, Bulgaria, Croatia, Greece, Lithuania, Cyprus, Czech Republic — targeted temporary VAT rate cuts in particular sectors, generally hospitality (e.g. accommodation, restaurants, transport)

What do I need to consider?

Tax Point



How do you determine the timing of the VAT rate change on your supplies?

Payments in advance/Deposits



Payments received before the goods or services are supplied may trigger VAT.

Products/Services impacted



Need to ensure all relevant items impacted by the change are identified.
Are blended rates used for mixed supplies?

Pricing



Will the rate change impact on pricing?
Is unjust enrichment a risk?

Contracts



Do existing contracts state prices on a VAT-exclusive or VAT-inclusive basis? Is engagement needed with suppliers (or customers)?

Import guarantees



If the business has an import VAT deferment account, can the level of bond or guarantee be reduced to take account of lower VAT import arising?

Systems and processes

Which systems are impacted?

- Retail/POS
- Expenses
- ERP system
- Payables
- VAT reporting software
- MS Excel work papers

How are impacted products/ services classified/taxed?

- By a product level flag?
- By a merchandise class or grouping?
- Do they link to underlying tax codes/ rates in the system?
- How does the rate change impact the sales price?
- What about bundled goods/service at multiple rates?
- How does this feature on receipts/invoicing?

Other considerations

- How will you manage cut-over and time of supply issues?
- How do you test pre go-live?
- How do you deal with supplies that bridge the period?
- What are the Interdependencies on systems and processes?

Update from LATAM and ASPAC



LATAM VAT Rate Changes

Jamaica:

Effective 1 April 2020, the General Consumption Tax (GCT) rate has decreased from 16.5 percent to 15 percent.

Paraguay:

Effective 1 August 2020 until 30 June 2021 — Paraguay will apply the standard VAT rate of 10 percent percent to 50 percent of the price charged for tourism and restaurant services provided by travel agencies, tour operators, hotels, restaurants.

Dominican Republic:

Effective 2 April 2021, VAT at 0 percent on certain medical goods (Peroxide, Surgical and medical grade gloves, Nonwoven face masks, Certain sterilization equipment and clinical thermometers).

Costa Rica:

Effective 1 July 2020 until 30 June 2021, Costa Rica introduced a temporary deferral of VAT (IVA) on certain tourism services. Effective 16 September 2020 until 31 August 2021, no VAT is due on certain engineering, architecture, topography, and civil construction services.

Uruguay:

Effective December 2020 until 4 April 2021, a VAT rate reduction will be introduced as follows; 0 percent for hotel services and 9 percent in respect of gastronomy and car rentals.



ASPAC VAT rates and changes

ASPAC trend is towards cash flow measures rather than rate changes. Many jurisdictions, such as Australia, Singapore and Japan have instead delayed timing for payment of GST/VAT amounts or anticipated rate increases



Australia

Regular: 10%
Reduced: 5%
COVID-19: No



Japan

Regular: 10%,
Reduced: 8%
COVID-19: No



Singapore

Regular: 7%
(increase to 9% delayed)
COVID-19: No



Vouchers/EU Voucher-guideline



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Key facts: EU Voucher guideline – which types are covered?

In the store



Special purpose vouchers (SPV)

No price reduction/
refund coupons

No (entrance)
tickets

Multi purpose vouchers (MPV)

No stamps

No (transportation)
tickets

Online



Vouchers: Key tax policy issues

When does a voucher qualify as SPV or MPV?

- **SPV**
 - Place of supply ✓
 - VAT due ✓
- **MPV**
 - Other than a SPV



What about unredeemed vouchers?

- SPV: taxation upon sale remains unchanged
- MPV: no VAT occurs

When is the tax point?

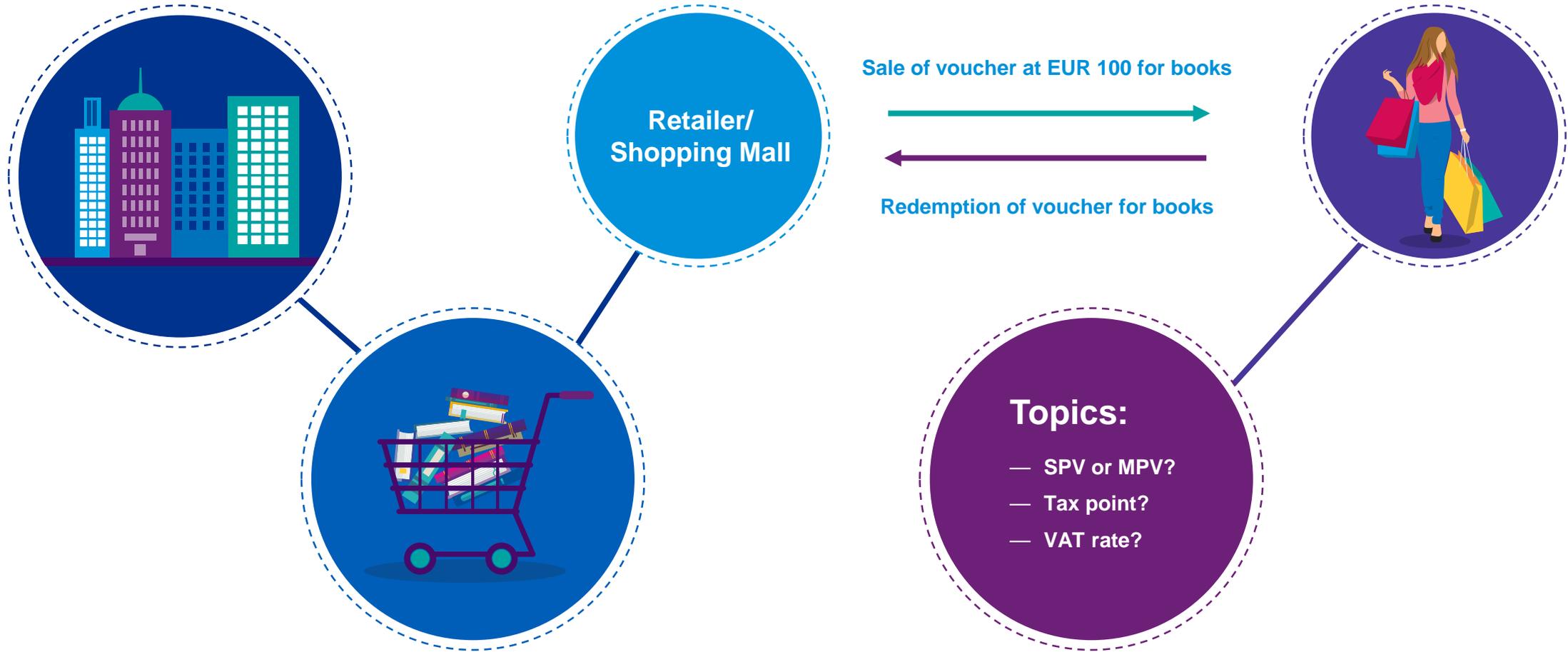
- SPV: at the point in time of sale
- MPV: at the point in time of redemption

What does that mean for your business & systems?

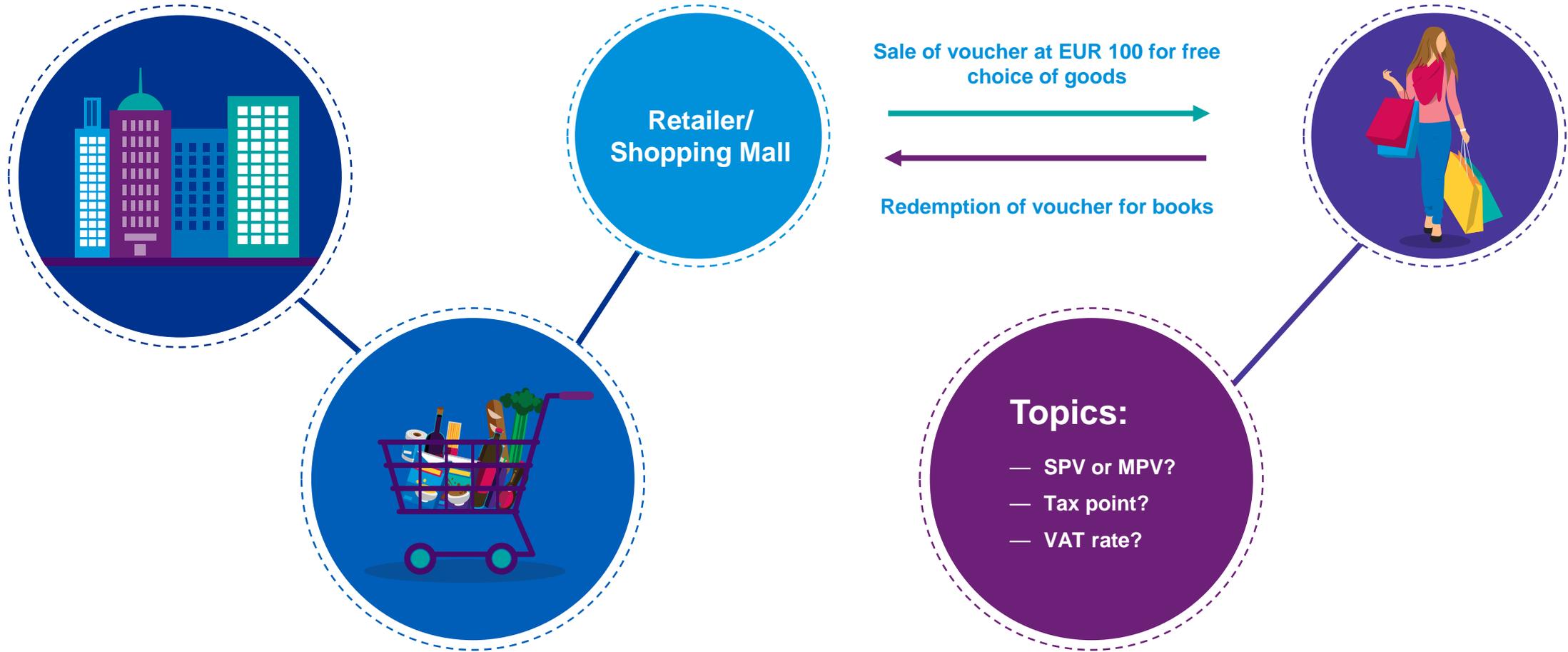
- Does your marketing department know the differences?
- Do you use these instruments of cash flow optimization respectively final cash saving?
- Are your systems (cash desk, ERP etc.) ready to reflect the correct treatment of SPVs/MPVs?
- Is your Tax CMS considering respective processes for SPVs/MPVs (e.g. do you issue correct receipts and invoices?)



Case study 1: Shopping mall



Case study 2: Shopping mall



Overview of Vouchers in LATAM and ASPAC



Vouchers in LATAM (The Details)

Lack of Harmonization



Voucher rules in LATAM are implemented at a country-by-country level (i.e. approach similar to pre-EU Directive)

VAT legislation



Rarely specific legislation or Tax Authority guidance available which governs the treatment of Vouchers. Thus, significant reliance is placed on basic VAT principles.

SPV & MPV



No formal definition of SPV is used — although in practice, some jurisdictions can potentially apply similar principles (e.g. Argentina, Chile, Costa-Rica).

Tax Point



Excluding certain exceptions, VAT typically arises on redemption.

Offshore/Digital



No specific rules governing such supplies, but need to be cognizant of new VAT on digital service rules if charging commissions.

Vouchers in ASPAC





EU E-Commerce Directive/Digital Package



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Two major changes

1

B2C sales of goods
within the EU

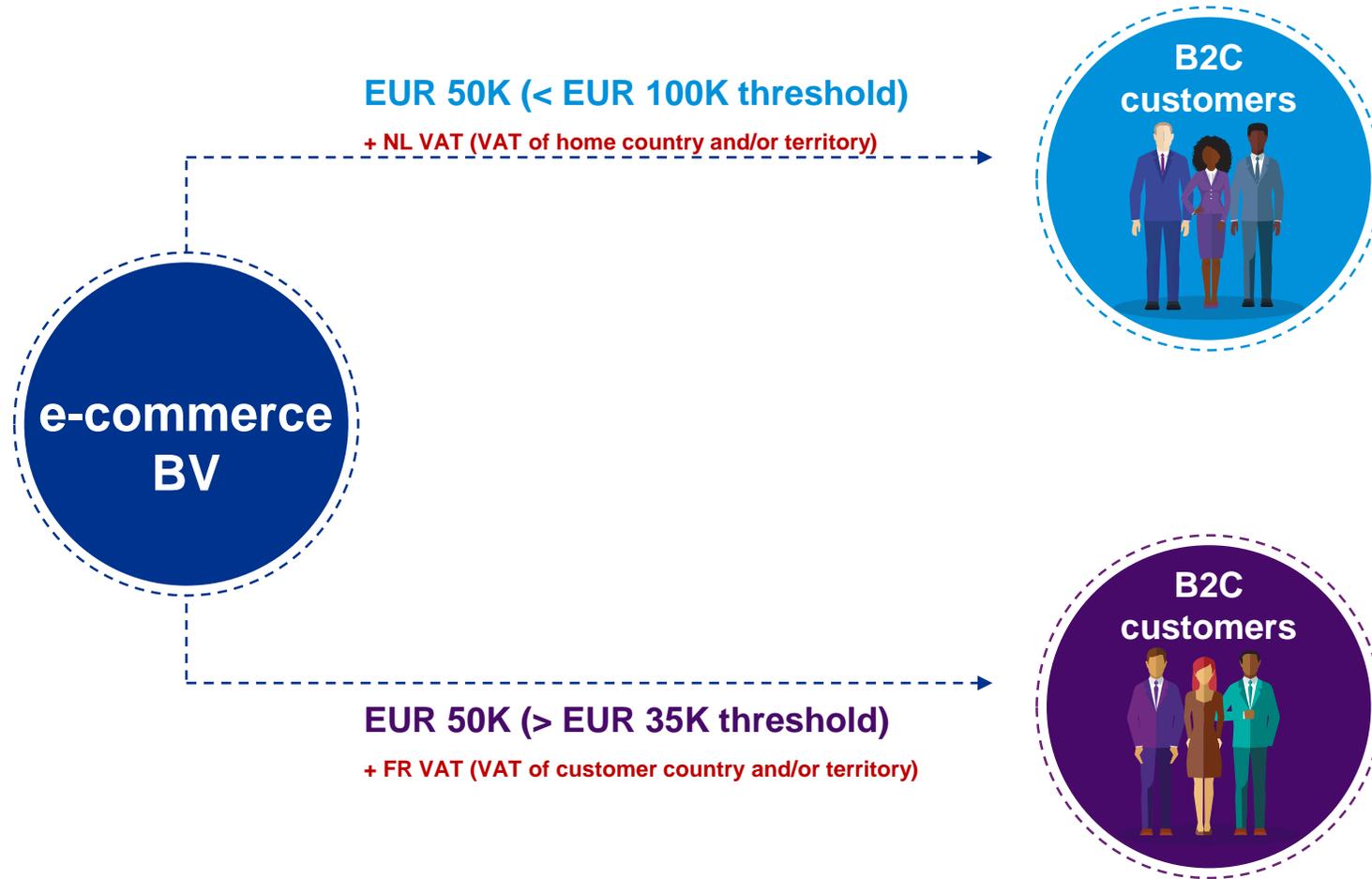
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B2C sales of goods
from non-EU

B2C sales of goods within the EU

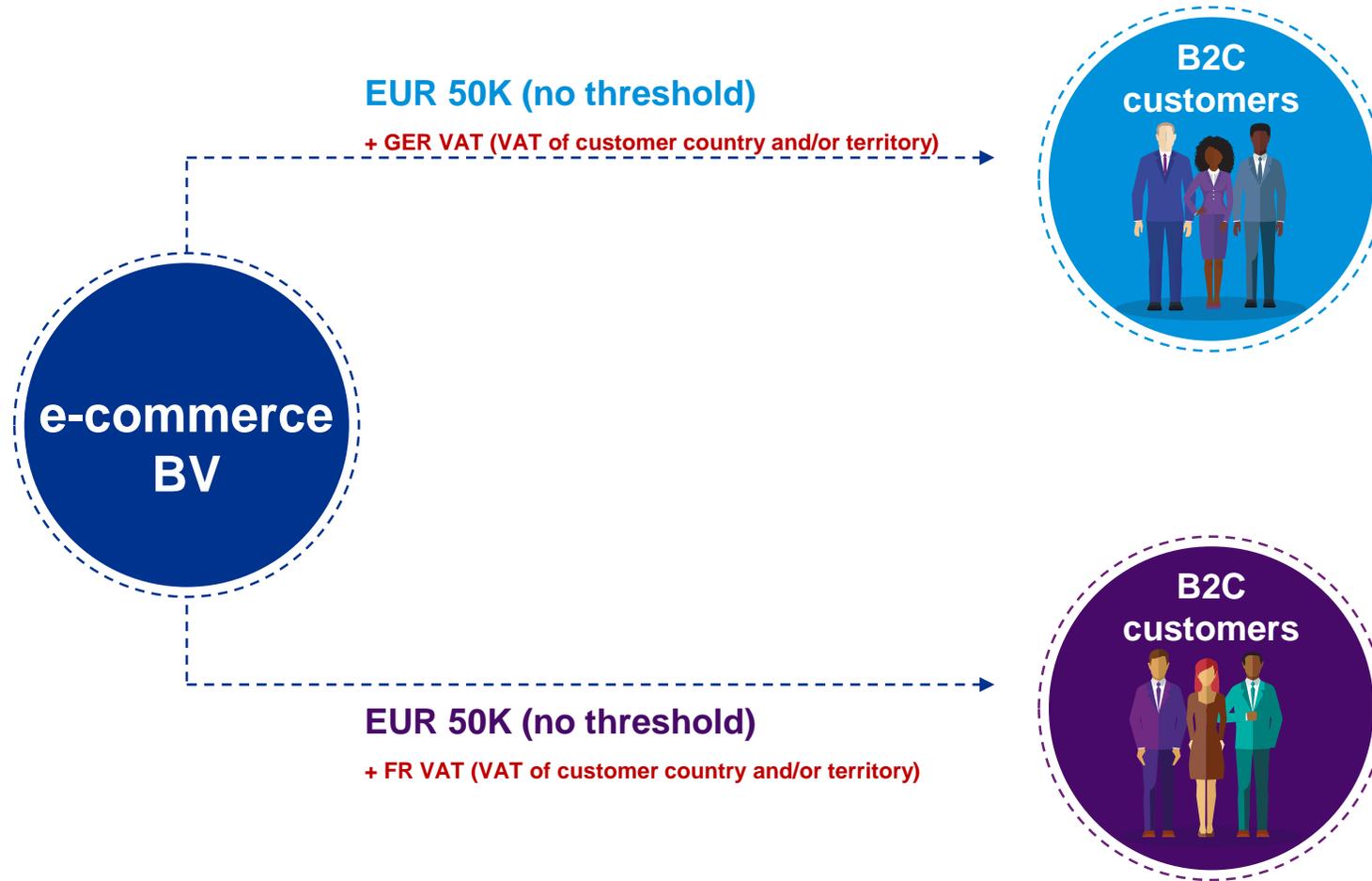


Current: distance sales thresholds (EUR 35K-EUR 100K)



- Charge home country and/or territory VAT if below threshold.
- Charge customer country and/or territory VAT if above threshold or if opted.
- VAT registration and VAT returns required in customer country and/or territory if above threshold or if opted.

Future: no distance sales thresholds anymore, but OSS

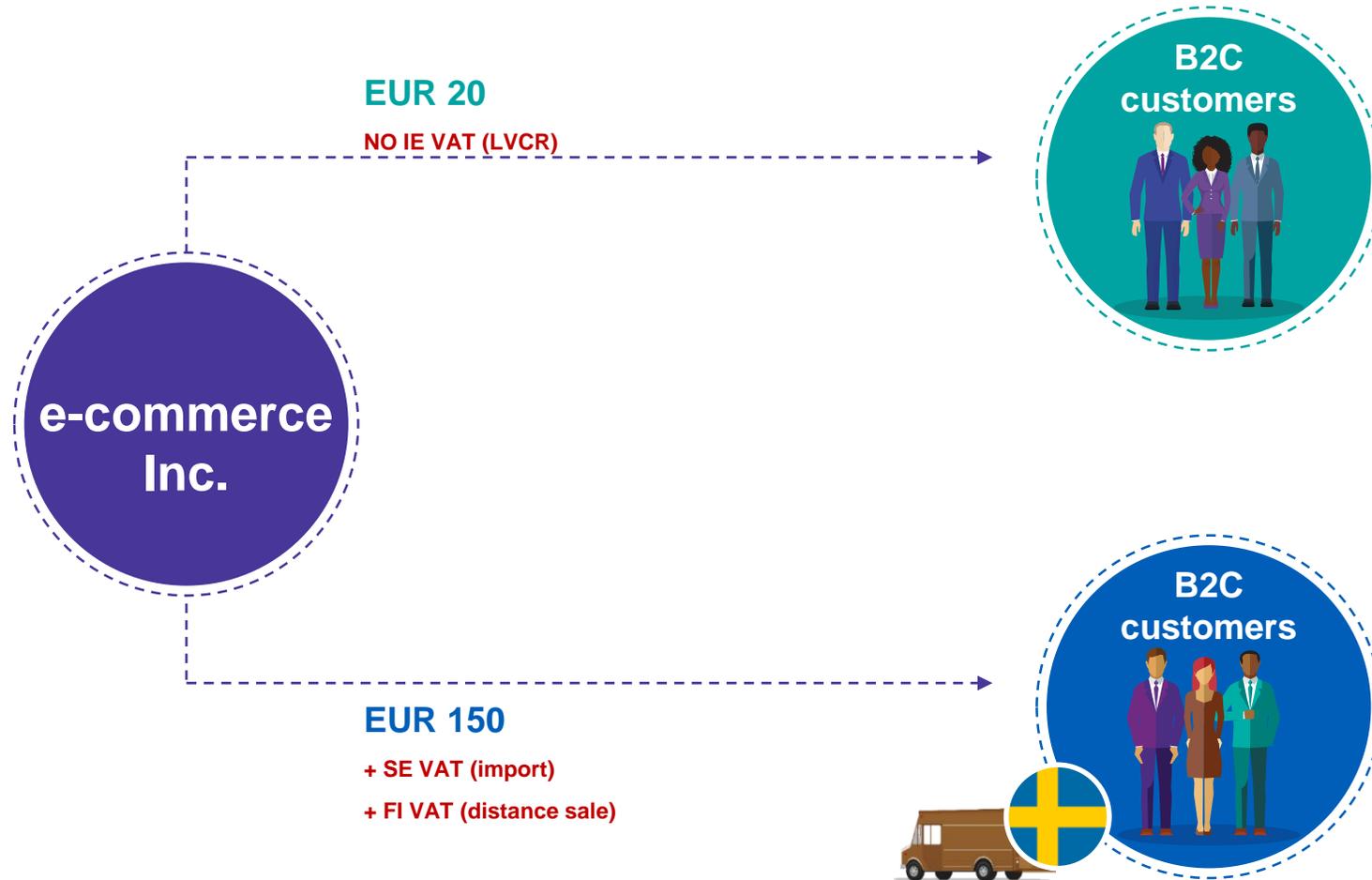


- Charge customer country and/or territory VAT.
- Remit in home country and/or territory via OSS.
- No local VAT registrations nor local VAT returns, unless (...).
- Threshold for SME's (EUR 10K).
- Extension of OSS for B2C services.
- Special "deemed seller" rules for platforms!

B2C sales of goods from non-EU

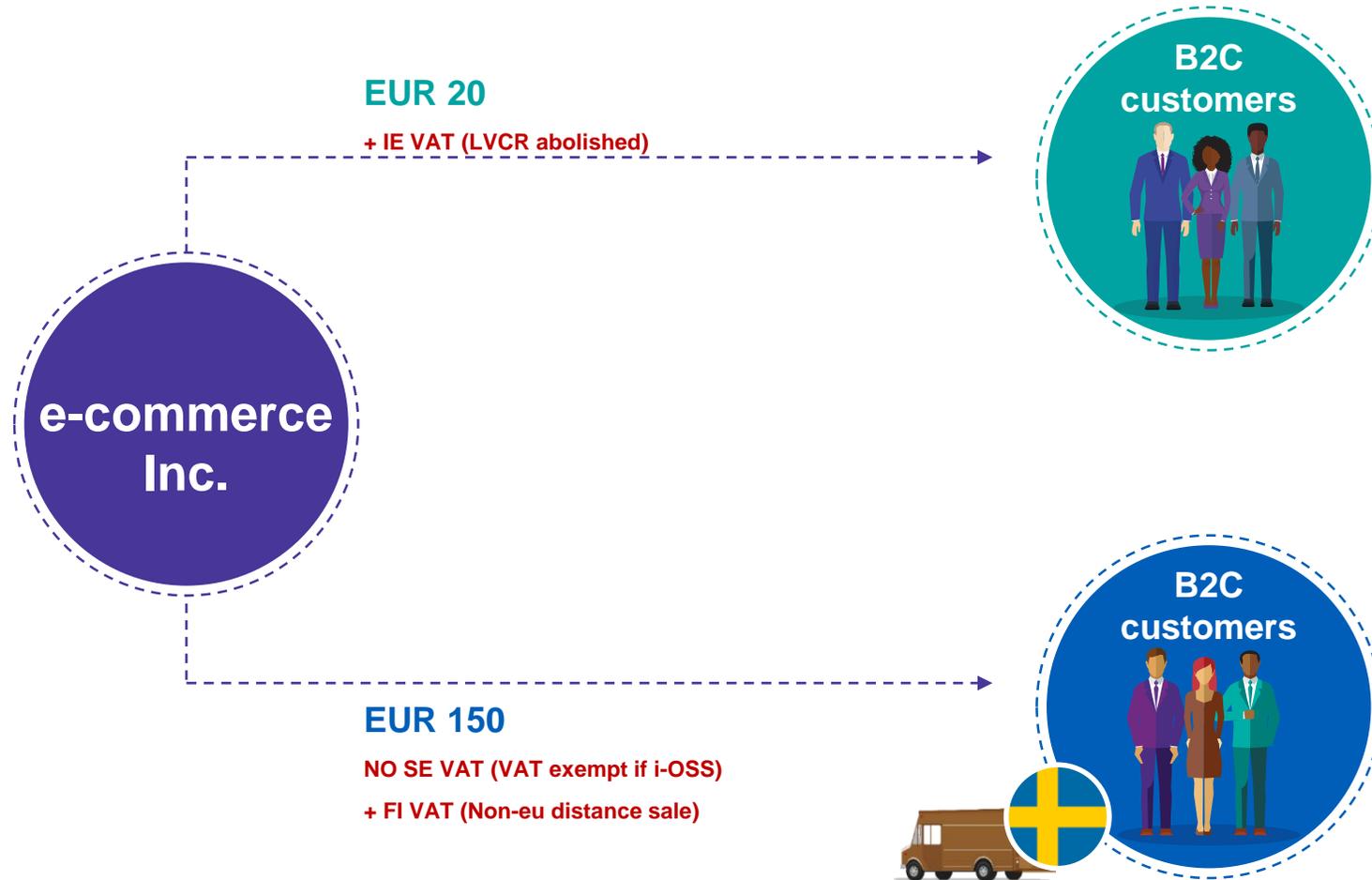


Current: low value consignment relief (LVCR) for VAT (EUR 0-EUR 22)



- Import is VAT exempt if LVCR applies (maximum of EUR 22).
- Import is otherwise a VAT taxable event by default.
- Different LVCR for customs duties (maximum of EUR 150).

Future: no LVCR for VAT anymore, but new import schemes



- LVCR abolished.
- import-OSS regime or special import arrangement for postal and logistics companies (for \leq EUR 150).
- No change and thus old rules if $>$ EUR 150, which may trigger multiple regimes in parallel.
- Special “deemed seller” rules for platforms!

Update from LATAM and ASPAC



Foreign B2C Supplies of Goods in LATAM



Country by Country Review Required



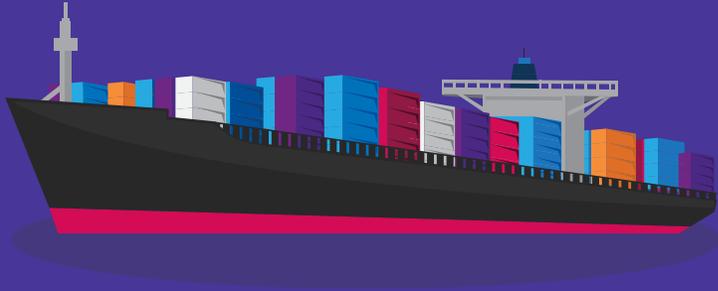
— No Regional Simplification

Foreign companies cannot generally Act as Importer of Record in LATAM — which means that:



- Customer must act as Importer of Record
 - Lag time in delivery
 - Reduced customer experience
- Local Establishment acts as Importer of Record
 - Timely delivery of goods
 - PE created for Tax purposes
 - Cost of meeting local VAT obligations (general compliance, as well as e-invoicing etc.)
 - Other operational considerations

Foreign B2C Supplies of Goods in LATAM



Local Third-Party Distributor acts as Importer of Record



- Timely Delivery
- Reduced Tax and Operational Obligations
- More flexible
- Impact on Margin

Expanding VAT Digital Service Legislation



- Automatic VAT withholding
- Potential for certain transactions to be double-taxed
- Impact of rules should be assessed at a jurisdictional level

Additional Fees can be applied to Customer Payments, for example:



- IOF — Brazil
- PAIS — Argentina

ASPAC — Goods and Platform rules



- **Currently limited application in ASPAC — Australia and New Zealand have implemented with broader B2C e-commerce rules**
- **Broad definition of marketplace**
- **Application in Australia is seen by the authorities as a significant success with revenues increasing significantly**
- **In Australia, results in a two-tier system where, depending on value, goods may be taxed at border or by marketplace**
- **Results in complexities:**
 - **Whether the recipient is a consumer or business customer;**
 - **Identify how the goods will be shipped and the customs value of each individual consignment**
 - **Ensuring GST is not charged on goods where they will be taxed at the border under the usual import rules**
 - **Ensuring delivery charges and the GST thereon is appropriately apportioned to the goods supplied**
 - **Returns and credits**



Questions?



Q&A



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