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PPA Guidance Document on Changes to EU VAT Rules from July 1 2021

PPA has taken advice on upcoming changes to VAT rules on cross-border business-to-consumer (B2C) e-commerce activities in the European Union, to determine how the new regime could impact PPA members.

Our research finds that these changes could impact publishers and we have produced this Q&A document to help you navigate what the new VAT rules mean for your company.

Note: while this document answers key questions in relation to this legislative change, it should be not interpreted as legal advice and members are encouraged to seek further clarification from a taxation expert or consultancy.

What is happening to the EU's VAT regime in July 2021?

From July 1 2021, the VAT rules on cross-border B2C e-commerce activities will change. According to the European Commission's website, the rationale for these changes is to overcome the barriers to cross-border online sales and address challenges arising from the VAT regimes for distance sales of goods and for the importation of low value consignments[1].

Main changes to regulations include:

- The VAT exemption for the importation of goods with a value of €22 or less into EU member states will be removed from July 1 2021
- Accordingly, all goods imported to the EU will be subject to VAT
- Duty will only be payable on imports into EU member states with a value of over €150

How might that impact your business?

These new VAT and Duty regulations will include the movement of magazines and periodicals into EU members states from countries outside the EU.

For UK publishers selling from the UK direct to EU consumers, with no marketplace or similar intermediary/platform, then there will be no threshold below which VAT is not payable. This is a result of the abolition of "low value consignment relief", which exempted consignments of up to €22. Instead, all such sales to EU consumers will be subject to the applicable local VAT rates.

VAT rates vary across the EU, with each member state defining its own rates for different categories of goods. If publishers and sellers do not take any positive action it is likely that subscriptions will flow into the EU after July 1 on a Delivered Duty Unpaid (DDU) basis, with the customer paying the VAT and administration fees for the purchase to be released to them.

The new regulations only apply to goods travelling to EU destinations. Rest of World destinations are not subject to the regulations and will continue to travel as they do now.

[1] VAT for e-commerce, European Commission, https://ec.europa.eu/taxation_customs/business/vat/vat-e-commerce_en, accessed Friday 4th June 2021.

Why is this important, if magazines are zero-rated in the UK?

While magazines (both print and digital), journals and periodicals are zero rated for VAT purposes in the UK, there is no universal exemption for books or printed matter. Accordingly, there are a wide variety of approaches across the EU with many opting to charge VAT on books, newspapers and periodicals. Some EU member states have a zero VAT rate on magazines and periodicals, and some charge a reduced rate, but the majority charge a full rate.

Historically, a lot of supplies of magazines, journals and periodicals have been capable of being treated as zero-rated exports, which meant that UK businesses did not have to worry about the rules of the EU destination country. This is changing for e-commerce distance sales across the EU to create a level playing field. It is not directly related to the UK's departure from the EU, although that does impact some of the procedures for UK suppliers versus EU suppliers.

Various member states have installed different rates of VAT on magazine publications. Under the new rules, magazines and periodicals will come under the scope of the new EU regulations and will attract VAT on importation into the EU.

Publishers will need to prepare for these changes, as whether it is transported as a package or letter mail makes no difference to the VAT treatment. It remains a sale of goods so businesses need to take into consideration the extra costs and variable taxation points.

What steps can publishers take to manage this change?

There are some initiatives available to assist suppliers importing into the EU. Publishers can sign up to the 'import one stop shop' (IOSS)– also called the 'non-union' one stop shop, on account of it being open to non-EU (including UK) businesses. This provides a portal to enable them to charge and account for the local VAT in different customers' jurisdictions, so that the customer pays a VAT inclusive price and has a better experience.

The Import One Stop Shop (IOSS) is a solution for goods of up to €150 in value. The consignment value in this context means the value of the package that is being imported. Hence, publishers do not need to worry about a year's subscription going over the threshold, as long as each delivery is under €150.

Sellers register for the service in one EU member state and get allocated an IOSS registration number that allows them to trade into all EU member states. The seller charges their customers the appropriate applicable VAT rate in the country of the customer at the point of purchase. The seller makes a quarterly VAT return in their EU country of registration, breaking down the VAT payable in each of the EU member states for the period and paying the balance due. IOSS is a Delivery Duty Paid (DDP) scheme in which the VAT is paid by the customer at the point of purchase.

Note that if you are a solely UK-based business registering for the IOSS then you may need to appoint a VAT agent within the EU in order to register for IOSS.

According to Royal Mail's website, IOSS is only available on international non-personal correspondence core product codes[2]. This suggests that there are limitations in terms of types of

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[2] Import One Stop Shop (IOSS) FAQs, Royal Mail, https://www.royalmail.com/business/international/guide/delivered-duties-paid/ioss-faqs, accessed 9th June 2021.

mailing (standard, couriered etc). Members are therefore encouraged to get detailed advice from a cross-border trade specialist.

The movement of goods with a value of €150 or more will be required to follow a different process, similar to a commercial clearance process with VAT (and duty) being payable upon entry of the goods into the EU and settled by the importer with the local tax authorities.

Furthermore, if publishers do not wish to use the IOSS arrangements for transactions of €150 or less, they may send goods as Delivery Duty Unpaid (DDU), which means they do not charge the appropriate VAT rate at the point of purchase and the customer must pay any VAT and administration fees prior to receiving the goods. Administration fees are charged by Post Offices and delivery companies for processing and collecting the VAT, and could be high. Publishers should note that they are liable for the VAT declaration even if this is overseen by the distributor.

What does this mean for platforms and third-party subscriptions sales on publisher-owned platforms?

Platforms (who provide a platform for the sale of subscriptions by third parties) need to be mindful of this tax change as so-called 'facilitating' platforms are subject to additional obligations under the new VAT rules and they can be required to operate VAT / enhanced record keeping or reporting requirements.

A 'facilitating' platform is one which either:

a. Sets the terms and conditions for the sale; OR
b. Authorises the charge to the customer; OR
c. Is involved, directly or indirectly, in the ordering or delivery of the goods.

Facilitating platforms are *deemed* to be both recipient of the goods from the publisher *and* the supplier of the goods to the customer for EU VAT purposes, even if as a matter of contract law there is no direct contract between the platform and the customer. These rules might be familiar as similar rules already apply for platforms selling purely digital services.

These deeming rules mean that where previously there might have been one sale for VAT purposes entered into on a platform (publisher -> customer) there are now two (publisher -> facilitating platform -> customer). Facilitating platforms will therefore need to ensure that publishers recognise and invoice for their deemed sale to the platform. The platform will need to take care of onward invoicing, and if the customer is based in the EU, they will need to look into whether they should use IOSS procedures to collect and account for local VAT.

Platforms using IOSS procedures are declaring and collecting VAT at the point of sale. As party of this, they are able to price the goods on a VAT-inclusive basis but will also be responsible for declaring how much of the price is VAT at the point of sale.

Additional Resources

Where can I find information on EU VAT rates?

Amazon has compiled a list of EU VAT rates here. Furthermore, a slightly older summary of VAT rates can be found on the EU's own website.

Royal Mail advice on Import One Stop Shop (IOSS) can be found here, and further guidance on what the July 1 VAT changes mean for Import One Stop Shop (IOSS) and Postal Delivered Duties Paid (PDDP) can be found here.

What other things should publishers consider?

Publishers are encouraged to speak to their mailing houses to ask if there will be an additional barcodes and labels on mailings. Furthermore, businesses should consider whether further costs will be charged for additional data handling and logistical processes as part of this change. The rollout of the new VAT system could also lead to longer lead times and delivery delays.

Furthermore, while the revisions to the VAT regime are focused on B2C sales, business-to-business (B2B) cross-border transactions might be subject to changes too, so members should contact their fulfilment or mailing houses for further information.

Who can I go to further information?

If publishers require detailed advice on this issue, including sales before and after July 1, they should talk to cross-border goods specialists.

The PPA would like to acknowledge our strategic partner Air Business for acting as a sounding board in our process of investigation by corroborating our findings from various client review meetings with their customers' tax experts.