

2015 EU Digital VAT

Why an exemption for micro businesses is urgently needed, below which their domestic VAT rules would apply.

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Before 2015, you knew your business's location and your domestic VAT rates and it was easy.

The new EU Digital VAT rules change everything.

“MOSS isn’t the problem. It’s what comes BEFORE the MOSS that is closing businesses down.”

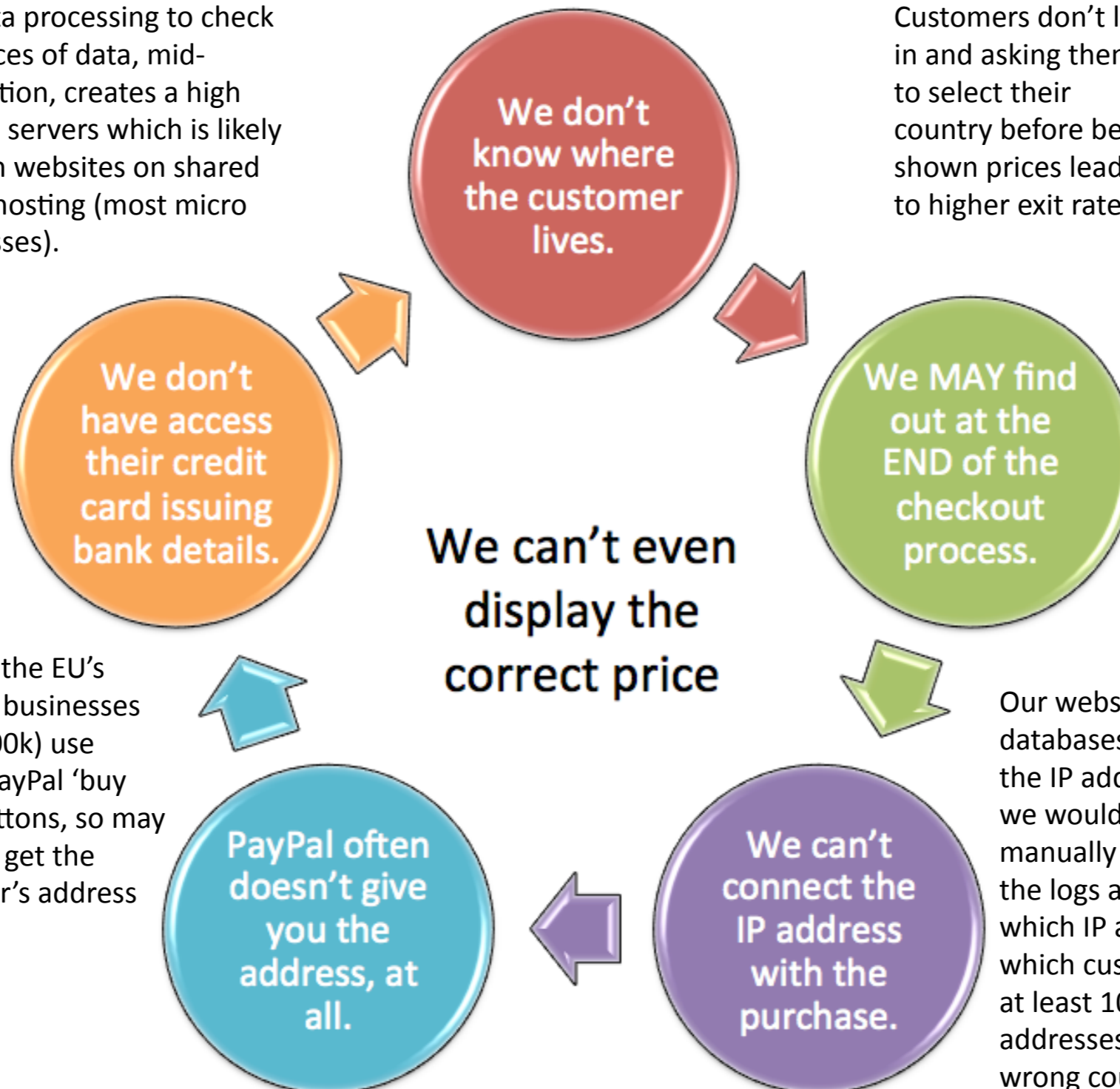
Most micro businesses (sub €2m turnover) don’t have access to the data to prove place of supply or calculate the applicable VAT rate(s).

They cannot comply with this legislation.

We don't have access to the 2-3 pieces of data to prove place of supply.

The data processing to check 2-3 pieces of data, mid-transaction, creates a high load on servers which is likely to crash websites on shared server hosting (most micro businesses).

Customers don't log in and asking them to select their country before being shown prices leads to higher exit rates.



92%+ of the EU's smallest businesses (sub-€100k) use simple PayPal 'buy now' buttons, so may not ever get the customer's address

Our website databases MAY store the IP address, but we would have to manually go through the logs and guess which IP applied to which customer. And at least 10% of IP addresses give the wrong country code.

A multinational company has accounts direct with Visa & Mastercard and has full access to all the data they need to prove place of supply. Micro businesses and sole traders don't.

We now have to deal with 81 VAT rates, instead of 1 or 2.

Choose which of the
81 VAT rates to apply

- Our websites & software systems were designed to cope with just one.
- Different MS apply different definitions to 'digitally-delivered services', so we may get it right in one country but break the rules in another, without realising.

Most shopping carts /
payment systems only
handle 1 VAT rate per
country

- You can have 2 VAT rates inside 1 transaction, e.g. if you sell a pre-recorded webinar with an ISBN e-book.
- Some transactions have two different countries as 'place of supply', e.g. if you sell a live webinar (home MS VAT) with an e-book (customer MS VAT).

Supply a correctly-
formatted VAT invoice

- Many EU states require us to issue a correctly-formatted VAT invoice, which we have to do manually, even for a €2.99 e-book sale.

But if we
can't
prove
where the
customer
is, then all
of this is
irrelevant.

The cost of compliance is disproportionate.

Costs to businesses

New software & hardware costs

Redesigning websites & other tech costs

Per-transaction compliance fees

30%-70% commission if using 3rd party platforms

Location Fraud & Piracy Rising

Cart abandonment up 25%

Costs to consumers

Big price rises to cover admin & VAT

Less choice as EU micro biz stop selling digitally (28%)

EU customers blocked (55% of USA micro biz)

Data security concerns (10 years' storage on kitchen table laptops)

There are NO fully-compliant software solutions accessible or affordable for micro businesses

- One American sole trader was charged €200 in fees by her compliance solution to calculate under €30 in VAT for her EU transactions.
- A UK micro business had to spend £100,000 on a new server to handle the data processing load required by the complex bespoke shopping cart they had to pay to have designed.
- Businesses who move to 3rd party platforms, rather than selling direct, are charged between 30% and 70% commission, plus their UK customers are charged 20% VAT, even if that firm is not registered, because the platform is. The digital market place is hugely competitive, so most businesses cannot put up their prices to cover this and are having to take the hit out of their margins.
- Asking for extra data for proof of place of supply is causing a 25% increase in shopping cart abandonment.
- Business owners are having to pay for extra plugins and applications - often well over £500 - just to try to keep trading. And that is in addition to the administrative costs.
- Micro businesses who are large enough are paying upwards of £5,000 for bespoke shopping cart solutions.
- For non-Union MOSS: bank transfer fees that far outweigh the VAT that needed to be paid. And many businesses don't have the ability to make foreign currency transfers, so physically cannot pay the VAT to the non-Union schemes.

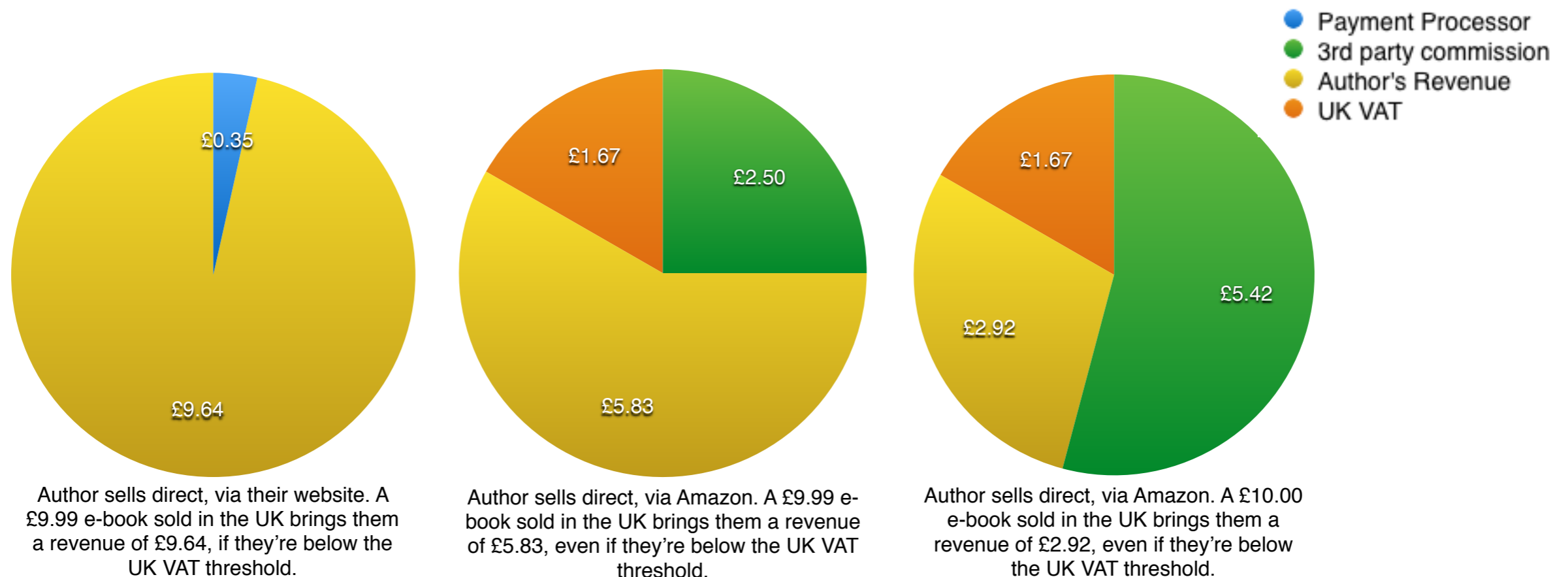
Example: Independent Authors - Cost Of Compliance

An author selling a £9.99 e-book drops from an income of £9.64 per sale to £5.83 per sale, losing 40% of the former revenue, if they have to sell via a 3rd party platform (which charges 30% commission and covers the payment processing fees). The author also effectively loses their UK VAT threshold, because the 3rd party platform IS VAT registered, so must charge UK VAT to domestic consumers.

In the case of a platform charging 65% (e.g. on Amazon at £10+ sales), they are left with just £2.92 per sale, even if they never make a single sale outside of their home Member State. So the cost of complying with the legislation, in that case, becomes a 70% cut in income.

Amazon uses this higher commission figure to try to force authors to sell at lower prices. Also Amazon restricts which countries you can sell in, so authors are no longer able to sell worldwide, which is a massive cost of implementing the new Digital VAT rules. Additionally, Amazon and Apple customers also experience persistent problems with purchasing books whilst travelling, which has a negative impact on the author's reputation.

If they don't sell via a 3rd party platform, then most cannot continue to trade, because the costs, complexity of compliance and administrative burden far outweigh anything that is reasonable on low-priced products.



3rd Party Platforms Are Not The Answer

As a comparison to the 'real world' you could say it's like making food producers sell only through large supermarkets and effectively making trade through farm shops etc illegal.

Thousands of micro businesses are being forced, against their will, to move to trading solely through 3rd party platforms who will handle the new EU VAT rules for them, but take a 30% - 70% cut in their sales.

A 3rd party platform will dictate:

- Which countries you can sell to
- Your customer's purchase experience
- What information you get about your customers
- Whether you can ever contact them again
- Your pricing strategy (e.g. Amazon e-books)
- Your marketing strategy
- Your relationship with your customer
- When & how a business gets paid
- Your refund policy
- What you can and cannot sell
- When you should run promotions

No one should be forced to change their entire business model and customer relationship strategy, just to continue trading.

And for many businesses, there is no relevant 3rd party platform available.

Awareness of the new rules is still extremely low.

January 2015 saw just 6,800 MOSS registrations across the EU, from an estimated 1 million+ micro businesses (sub-€2m) and unknown number of SMEs, who are selling digital products that fall under the legislation.

If you sell digitally, you are just as likely to sell in January as later in the year, so it is reasonable to expect that the majority of impacted firms should have registered in January 2015.

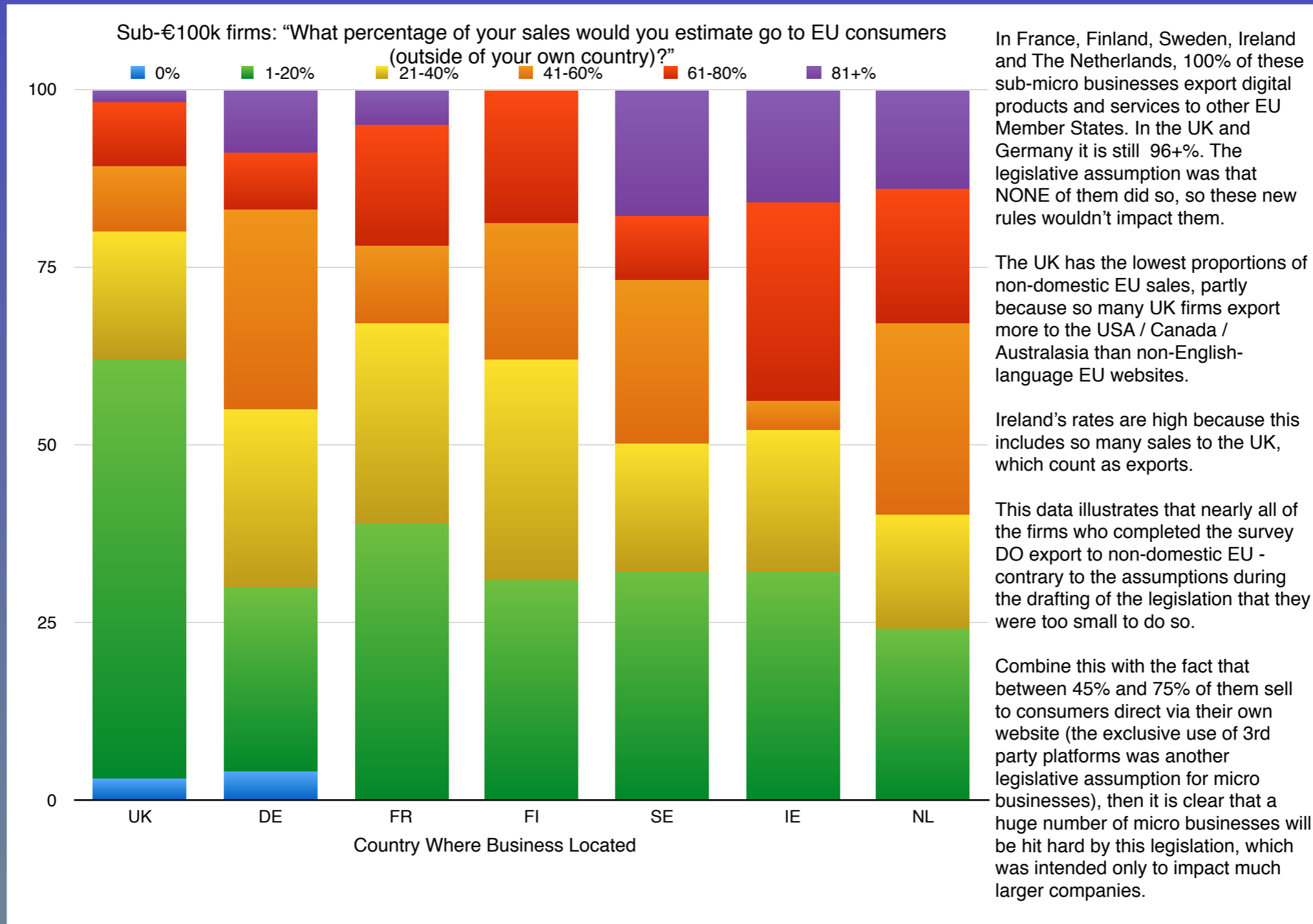
Even if the number of SMEs is only 1 million, EU-wide, then we estimate that the **current registration levels are below 1%.**

Businesses who are aware and are complying are being put at a massive competitive disadvantage, compared to those who are unaware and not making changes to their businesses.

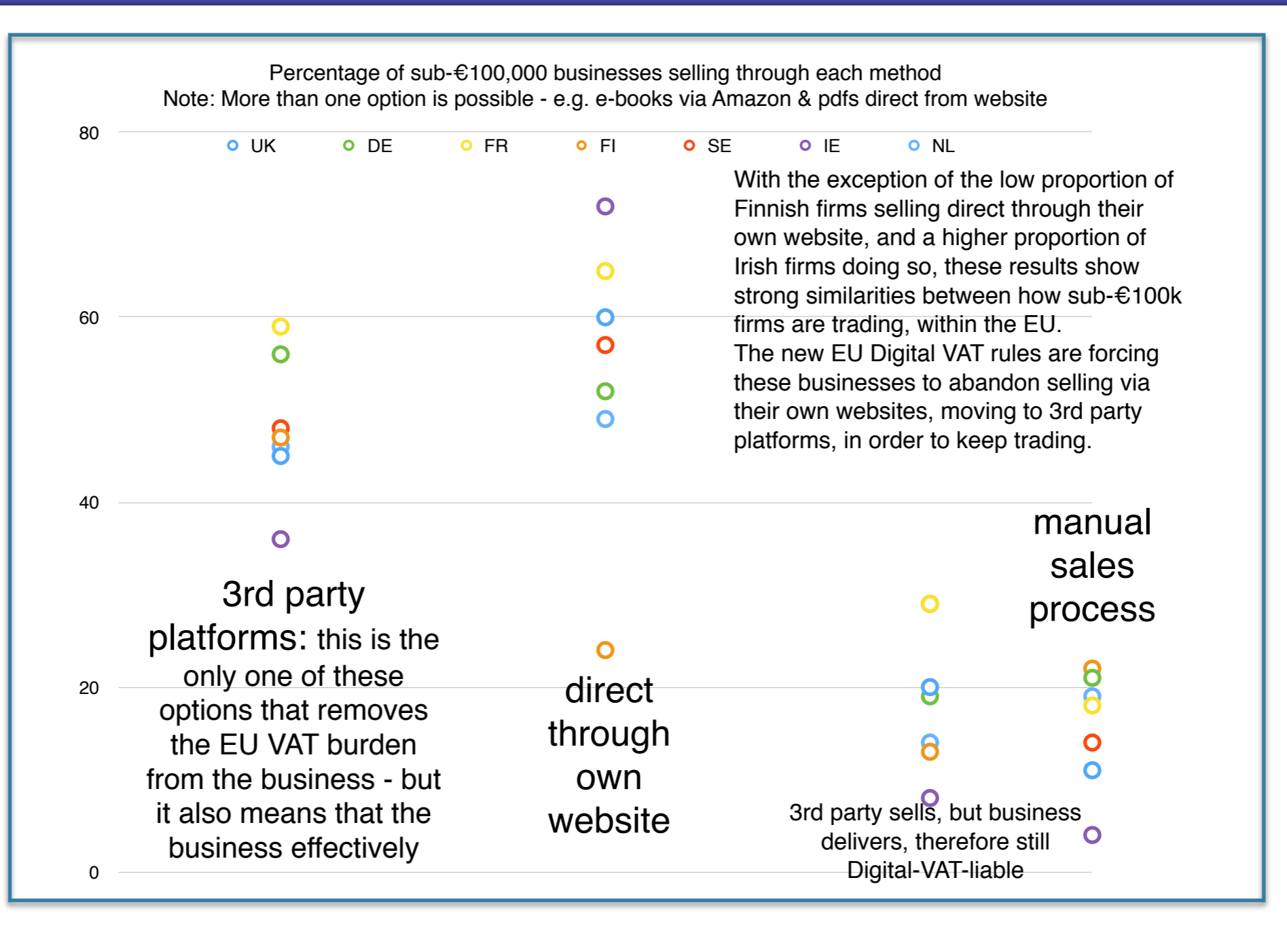
Current EU-wide awareness levels are below 1%, based on current MOSS registrations



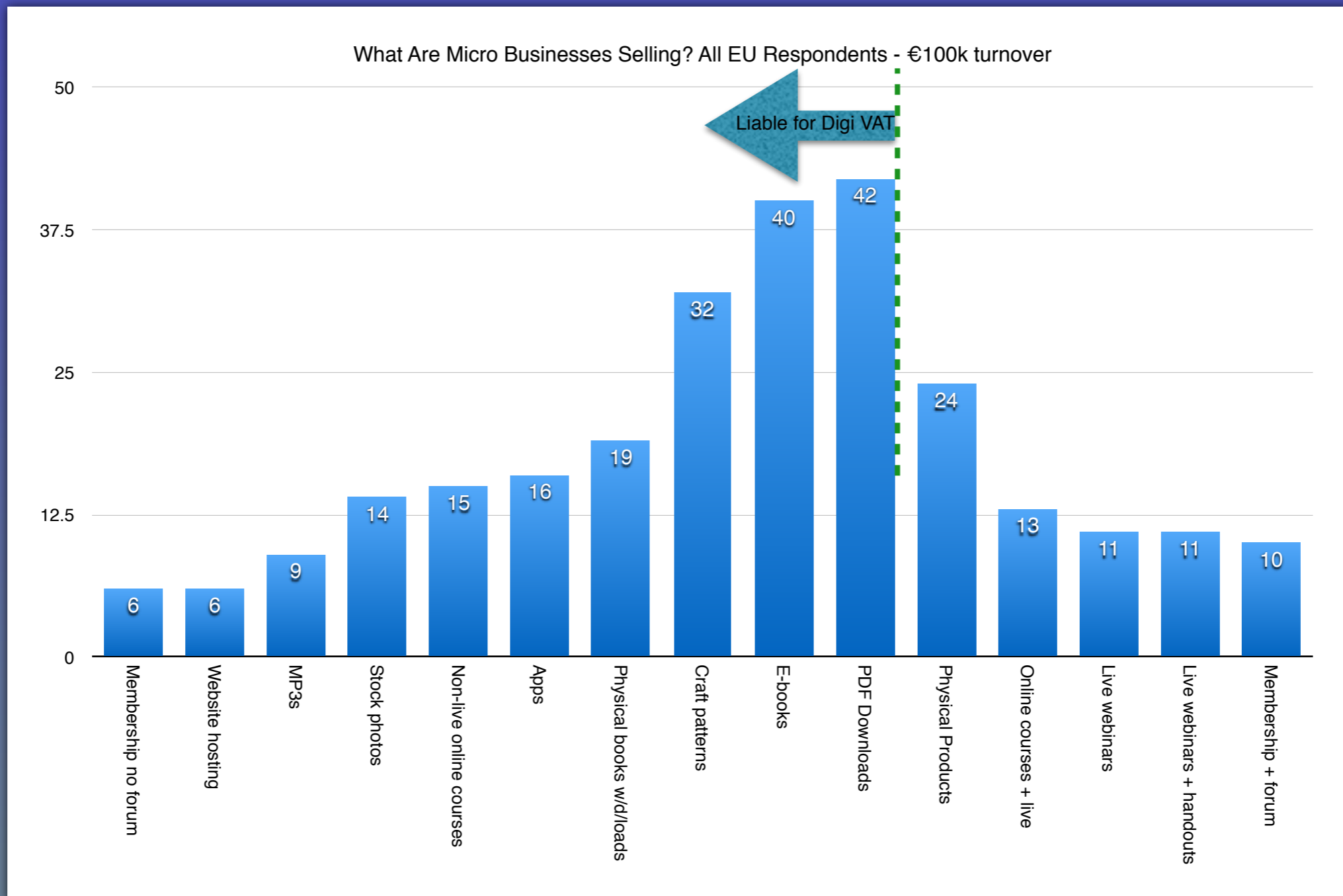
Micro businesses were never the target of this legislation. Indeed, it was assumed we wouldn't be affected, because none of us exported digital services. In fact, 96%+ do.



Micro businesses were never the target of this legislation. It was assumed that they all sold exclusively through third party platforms. Some do. But up to 77% sell direct to consumers, via their own websites.

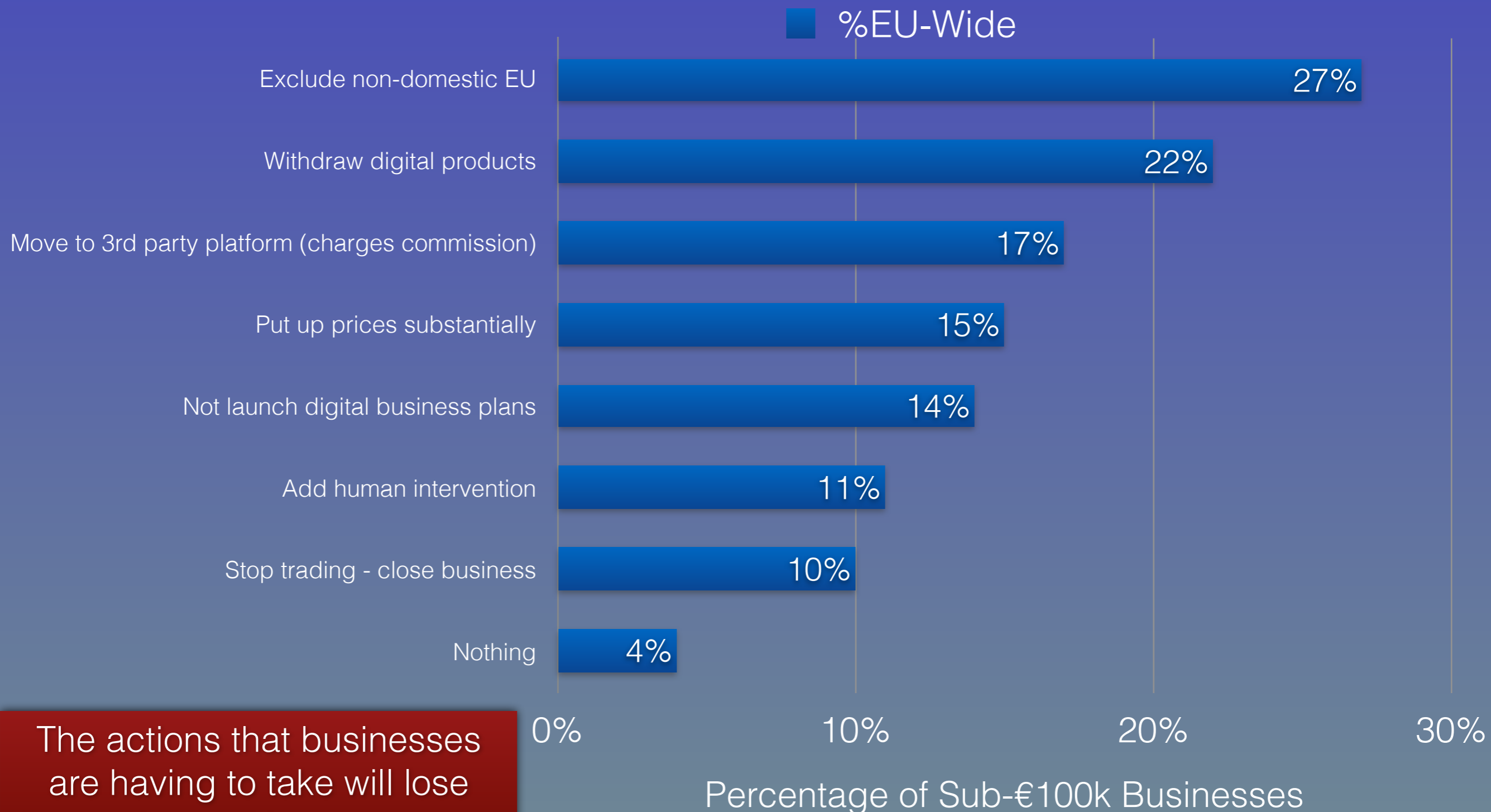


It was assumed that most micro businesses were only selling 'apps' and e-books. In fact, the range of digital services and products is wide and varied.



How The New Rules Are Hurting EU Micro Businesses

What, if anything, are you going to do as a result of these changes?



The actions that businesses are having to take will lose them sales and increase costs.

How The New Rules Are Hurting German Micro Businesses

- “It already cost me 2000 Euro in fees to my accountant to get it all understood and sorted.”
 - “Moving to a 3rd party platform will cut my profit by about 50%.”
 - “This is a showstopper. I won’t launch my digital plans now because I know I can’t comply with these new rules.”
 - “It’s threatening my whole business. I don’t think my business model is viable any more, once I have to do all of this.”
 - “I am closing my business. The costs of the new EU VAT process are astronomical for me and I can’t afford to keep going.”
- “I estimate that making all of the changes will cost over €20,000 - that is a huge chunk of our profit margin.”
 - “It will take me at least 3 month to make all the necessary changes. But I also might find out it is not worth doing it at all and stop selling services.”
 - “This is a showstopper. I won’t launch my digital plans now because I know I can’t comply with these new rules.”
 - “Selling digital products is the next step for our business. The new EU VAT legislation will slow down our grow immensely.”
 - “It’s so complicated that I don’t know where to start, to be able to do this.”

How The New Rules Are Hurting Dutch Micro Businesses

- **Software Developer - Turnover €200k (40% non-NL EU)**
“I have had to spend a month full-time on recoding my website. It has cost me €15,000 so far and I’m still not fully compliant.”
- **Craft Pattern Seller - Turnover €800 (20% non-NL EU)**
“I have spent weeks of my time and in the future also 5% of every sale, in addition to the VAT, due to the extra costs associated with sales through the 3rd party platform that will handle the VAT.”
- **Online Membership Site - Turnover €60,000 (20% non-NL EU)**
“I cannot afford to make the changes to my site, or to manage the data each months, so I am going to have to stop selling to customers outside of The Netherlands. This means I will lose 20% of my business.”
- **Software Apps - Turnover €30,000 (50% non-NL EU)**
Compliance will cost me more than I can afford. I work more than 90 hours a week and cannot spare any MORE time for admin. I will now have to rely on third party vendors. That costs me 40% of my revenue! I also need to close my current shop AND website and take the hit of an enormous image damage. People will believe my company has disappeared! I will lose so many sales!
- **MP3 Downloads - Turnover €6,000 (70% non-NL EU)**
“Ridiculous. Its squeezing out what little is left to keep life going as it is. Absolutely shameless seeing the amount of tax cuts the big corporations get, but they will profit from this new rule as more businesses are forced to sell through them, to keep trading.”
- **Software Apps Company - Turnover €400,000 (80% non-NL EU)**
“It is almost impossible to estimate the time and money this change has cost us. This will put a large dent in our profit for 2014. It might cause us to have no profit at all.”
- **Craft Pattern Seller - Turnover €10,000 (60% non-NL EU)**
“This will increase my costs by 30% because I can’t sell direct to customers any more. I can’t afford to keep running my online business, because of these rules.”
- **E-Books - Turnover €1,000 (50% non-NL EU)**
“Immeasurable. It means - assuming I'll at all be able to continue with my plans - that I'll be restricted to third party platform sales, and then only platforms that are equipped to handle the vat administration for me. I am not in any way able to tackle it myself.”

How The New Rules Are Hurting UK Micro Businesses

- **Craft Pattern Seller - €6,000 (2% non-UK EU)**

“Devastating. I don’t know how to block non-UK sales. I am seriously considering closing my business completely as I didn't even make enough to pay NI this year. It really is not worth all the hassle for a few pennies at the end of the day. “

- **Software App Developer - €22k (20% non-UK EU)**

“This has cost me 80 hours of development work at the cost of £40 an hour so £3200 - and I’m still not compliant.”

- **MP3 Downloads - €65k (not yet exporting)**

“This legislation will prevent me opening up a planned line of business as I simply can't afford the time and cost overheads of sorting out the VAT for European sales. I am scrapping the plans to expand my business outside of the UK.”

- **PDF Downloads - €11k (10% non-UK EU)**

“The financial cost alone would outstrip the revenue I get from EU digital sales, but to withdraw from selling to the EU limits my business growth. The extra time required to submit returns isn't an issue, but the time needed to research and understand (I suspect for months to come) the requirements is - especially for a one man band like me”.

- **E-books €22k (85% non-UK EU)**

“This will have a major impact on my plans for 2015. I was planning to launch 2 digital products in the training sector in Q1, 2015. I have now put this work on hold as right now I cannot gather the information required to satisfy reporting rules.”

- **Software Developer €50k (20% non-UK EU)**

The legislation imposes a severe barrier to my ability to trade freely within the EU. As a sole trader entering the second year of trading, I do not have the resources to obtain and store this information within the requirements of the Data Protection Act. So my choices are between non-compliance or losing 50% commission to a 3rd party platform.”

- **Craft Pattern Seller €20k (20% non-UK EU)**

“Life changing. I sell digital printable art work all over the world with only a small amount of sales in the EU. This will destroy a vital part of my small business which enables me to support my family / pay bills and contribute to income, while still caring for my young child. Each EU country, over the course of a year would collect under £50 in tax from me, but these changes will potentially cost me thousands of pounds in income each year. “

This legislation was never intended to hit micro businesses. It was assumed that none of us were affected, which is why no micro business impact assessments were carried out.

We are being placed under the exact same complexity of administrative burden as is being applied to multinationals like Amazon, yet most of us are incredibly small businesses who simply don't have the resources or technical skills to be able to handle this.

A Mother at a kitchen table used to be able to start a business that fitted around her family, keeping them off benefits, using a simple website and PayPal 'buy now' buttons - all free.
Not any more.

This is why a derogation for micro businesses is urgently needed, below which their domestic VAT rules would apply.

For more information on this quantitative impact study and the associated case studies, please contact Clare Josa from EU VAT Action

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