

VAT treatment of online shopping from buyer's viewpoint 2/7/21



Manager, Tax, PwC Latvia
Matiss Auzins



Senior Associate, Tax, PwC Latvia
Kristine Skrastina

When employees are sent on business trips abroad, various online platforms are increasingly used for booking the necessary accommodation and transport services. A variety of other goods and services are also being ordered online from foreign vendors. Any documents received often fail to make it clear whether VAT has been charged on the supply and who is the other party (the platform or its customer). This article explores a few models commonly found across the EU from the buyer's point of view.

Any VAT-registered buyer needs to understand who is supplying the goods or services and to what value.

An online platform acts as agent in distributing third-party goods or services without becoming owner

For example, when booking hotels or apartments through an online platform, accommodation services are often supplied by the hotel or the apartment owner, who should issue a tax invoice to the buyer for those accommodation services (if the supplier is registered for VAT). The online platform earns commission it collects from the buyer, from the accommodation service provider, or from both.

If commission is collected also from the buyer, he should receive two invoices: one for the accommodation services and another for the agency fee. Although the online platform collects payment for its own services and for third-party goods or services, there are still two separate supplies to be covered by two invoices.

This model is widely used not only in accommodation services but also in car rental and taxi services, as well as in supplies of goods.

Goods or services received directly from an online platform

This model can exist, for instance, where a platform buys and sells goods or services but has a third party actually supply those services to the buyer. In that case the platform owner is treated as supplier within the meaning of the VAT Act and is liable to invoice the full value of the goods or services paid by the buyer.

Notifying the VAT number to the seller

The buyer needs to advise the seller that he is registered for VAT, otherwise the seller will believe that the buyer is not a company registered for VAT and consequently the seller can charge the standard rate of VAT in its country of registration (if in the EU). It is also important to give precise company details to make it clear that the seller is dealing with a company and not an individual.

How to distinguish various models

First of all we should examine the documents received, i.e. whether they contain a tax invoice or invoices. If those documents do not make it clear what model the online platform is using, then we need to read its terms of use and look for VAT or billing procedures. If that information still fails to clarify what model is being used, the next step could be asking the online platform a question.

Why is this important?

First of all, this ensures that a reverse-charge acquisition is properly reported on the VAT return to prevent discrepancies with returns filed by traders established in another member state, something the tax authorities might want to check. [Section 146\(4\) of the VAT Act](#) imposes a 10% penalty for failure to report acquisitions from abroad that are subject to reverse-charge VAT.

Secondly, the cost of goods or services could be overstated through the inclusion of another member state's VAT where those goods or services should attract Latvian reverse-charge VAT. This situation could arise where the buyer failed to notify his VAT number and so the seller treated him as the end consumer.

Thirdly, unless a proper tax invoice is received where there is an obligation to charge another member state's VAT on the supply (e.g. a short-term car rental attracting VAT in the country the car is rented), the buyer can forfeit the right to recover the VAT paid in the other member state or in Norway, Switzerland, Iceland, and Monaco. More information on how to recover foreign VAT is available [here](#).

You are welcome to find out more about the VAT treatment of cross-border e-commerce supplies at PwC's Academy online seminar "Taxes, legal issues and automated data processing aspects in e-commerce" on 9 March (more details [here](#)).