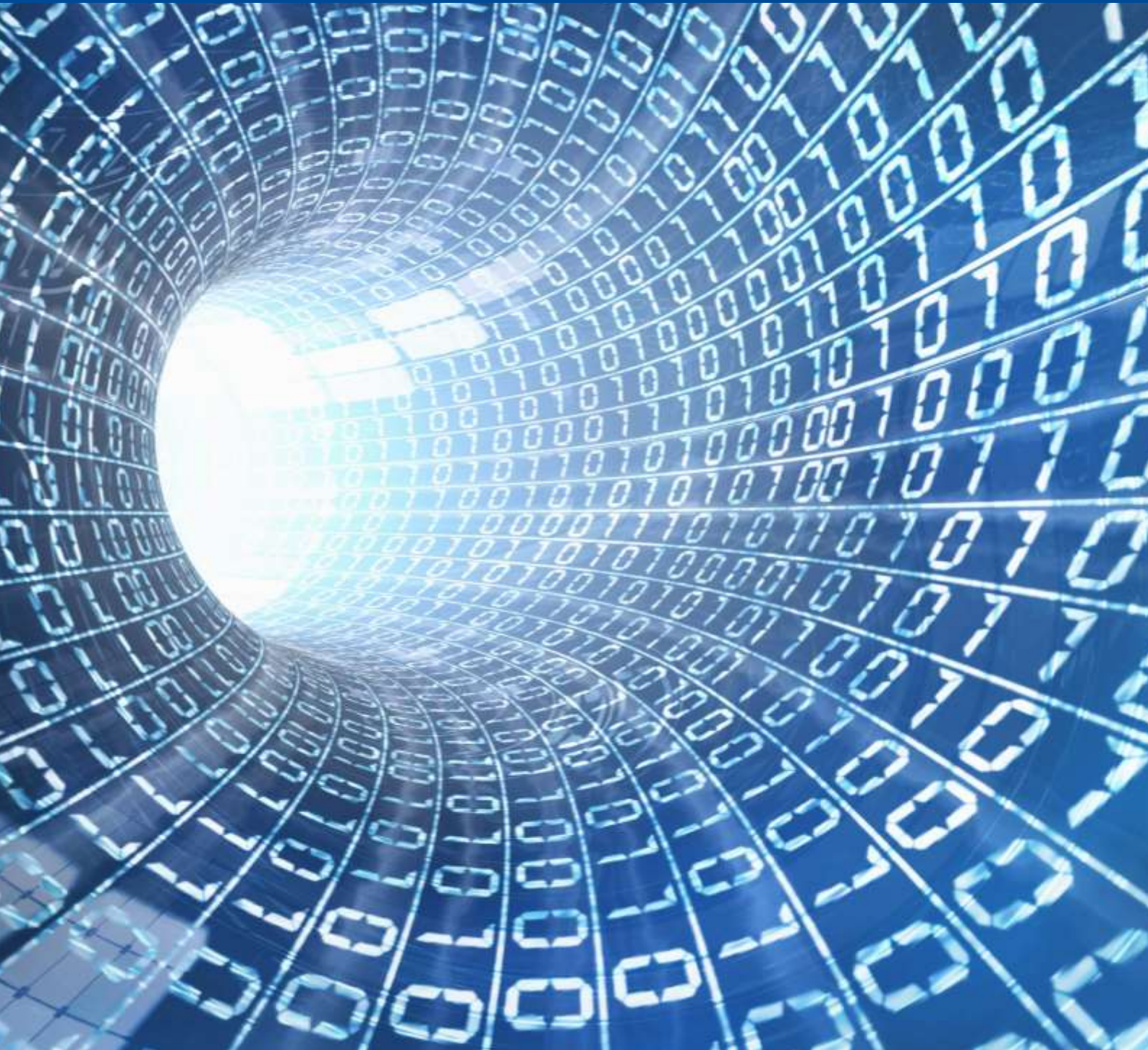


# Position on the European Commission's initiative "VAT in the digital age"



**PostEurop**

Published by **POSTEUROP**  
Brussels, April 12, 2022  
Transparency register ID: 092682012915-24



## ABOUT POSTEUROP

POSTEUROP is the association which represents European public postal operators. It is committed to supporting and developing a sustainable and competitive European postal communication market accessible to all customers and ensuring a modern and affordable universal service. Our Members represent **2 million employees** across Europe and deliver to **800 million customers daily** through over 175,000 counters.

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## CONTEXT

The postal sector is a major contributor to, and facilitator of trade within the European Union and globally. The postal network is an open-access channel and a vital facilitator of trade linking public administrations, businesses and consumers as well as enabling small business enterprises and social customers to access efficient communications and e-commerce services on a global scale.

Efficient and effective postal services are essential to the social fabric and economic life of the European Union, and as a Service of General Economic Interest (SGEI), plays an important social function: postal operators are there to provide a quality, accessible and affordable universal postal service to all, as defined not only in the European Postal Services Directive, but also as signatories to the Universal Postal Union Treaty to which all countries, including EU Member States, are members.

The members of PostEurop appreciate the opportunity to contribute to the thinking on, and the development of a modernised VAT mechanism which is designed to implement changes in the way customers and business apply the rules within the European Union. We welcome the drive to make the application of VAT simpler, and at the same time reduce the administrative burden on businesses and suppliers, which, according to our view, should not be done at the expense of consumers and / or intermediaries.

Therefore, we support the **Commission's consultation process on "VAT in the digital age"**<sup>1</sup>: PostEurop is prepared to play an active role in this reform, not only by replying to the public consultation, but also as an active contributor to the subsequent stages.

### 1. INTRODUCTION

The members of PostEurop supported from the beginning the initiative of the Commission to establish new rules in particular in the e-commerce sector, submitting a specific position paper in response to the previous EC public consultation on modernising VAT for cross-border e-commerce and taking part in several workshops and technical meetings organised by the Commission during last years.

Despite the huge work done together with European Commission to find the better solutions in order to minimise the operational impacts deriving from the application of the new VAT e-commerce rules, after the deadline of 1 July 2021 some issues were found in postal operators' daily activities.

PostEurop members believe that the current public consultation on "VAT in the digital age" will help to reduce the difficulties which operators acting in the e-commerce arena are encountering in their daily activity.

### 2. SPECIFICITIES OF THE POSTAL SECTOR

We would like to highlight some of the specificities of the postal sector and the challenges related to the new rules we encounter daily:

- The challenges of the postal sector are unique as designated postal operators normally do not handle end-to-end flows. In principle they process and deliver postal items that are transferred to them by the postal operator of the country of the sender. Designated postal operators have an obligation to process and deliver these postal items under the terms of the UPU Convention signed by their Governments, in contrast to other operators who do not have such an obligation.
- Designated postal operators in the country of destination do not have a contract or any other form of contact with the sender. As a consequence, the destination designated postal operators have no or very limited information on the identity and status of the sender and the recipient (i.e. whether the shipments are B2B, B2C or C2C) and on the nature, content or value of the postal item. It is the sender's responsibility to complete Postal Customs Declaration, often resulting in limited or poor quality data.
- As underlined before, postal operator in the country of destination fully depends on data received from the designated operator in the country of origin: the higher the data quality indicated in the ITMATT<sup>2</sup> flows are, the faster the customs clearance operations will be. On this aspect there is a challenge of getting – from the postal operator in the country of origin – the data requested the EU legislation, considered the discrepancy existing with UPU legal framework: for this reason, at the moment, the quality of data

<sup>1</sup> [https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13186-VAT-in-the-digital-age\\_en](https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13186-VAT-in-the-digital-age_en)

<sup>2</sup> ITMATT (ITeM ATtributes) electronic data interchange (EDI) messages are used to communicate attribute information about postal items. An origin postal operator collects postal item data and transmits the data in an ITMATT message to the destination postal operator, to be used for transport security and customs clearance purposes. The ITMATT message contains the data corresponding to the content of the paper postal form

CN 22 or CN 23 customs declaration, including critical data elements such as: sender and recipient's full name, address and contact details, and tax code/VAT number; category, total value, and total weight of the item; the complete contents of the item including for each article contained within the item the description, quantity, weight, value, harmonised system (HS) tariff number, origin country; postal charges including insurance; information about associated documents such as a licence, certificate, or invoice.

included in the ITMATT flows from postal operators in the country of origin is very poor. This will be the challenge for the next few years.

- The global postal network (through the UPU) enables easy and relatively inexpensive access to a trusted network of designated postal operators. The current customs processes for postal items enable customers easy access through standard WCO approved documents (the CN22 and CN23). Most remuneration agreements do not include the cost of handling items through a customs clearance process. Service or operational delays in the processing of the postal items could therefore have a direct negative impact on the cost of the service for both the supplier and the consumer. Moreover, the delivery remuneration for this service is regulated, for quite all postal operators, at UPU level (terminal dues) and depends on the quality of the service (i.e. speed of delivery including time in customs). For these reasons, for postal sector it's crucial to establish a system which work at its full potential and, most important thing, in the fastest way without setbacks.

### 3. GUIDING PRINCIPLES FOR "VAT IN THE DIGITAL AGE"

#### 3.1. Making the IOSS system mandatory

According to the VAT Directive in place from last 1 July 2021, the possibility for operators acting in the e-commerce sector to opt for the new IOSS system is optional. Since this new system is optional (and not mandatory) for economic operators and electronic interfaces, the benefits for opting in depends on the correct and efficient functioning of the system itself. As a consequence, the more the system works and is free of issues, the more profitable it will be for the economic operators and marketplaces concerned.

Making the registration to the IOSS system mandatory would speed up and simplify the handling of consignments and thus significantly contribute to a successful implementation of the new rules.

In particular, an IOSS system mandatory could have a positive effect:

- for consumers, who would have the certainty of paying the VAT due on goods bought online at the time of purchase, thus avoiding unexpected costs at the time of delivery deriving, for example, from the application of VAT at importation (where there is the possibility – according to national law – to apply a single VAT rate for all goods also in case a reduced VAT rate could be applied on the specific good imported) or fees applied by the importer to cover the costs of customs clearance incurred;

- for postal operators, who would see their activity considerably simplified at the time of customs clearance with a compulsory IOSS regime. In this way, for goods purchased online there would be a sort of green line in the customs clearance phase, with positive effects – at the end – on final consumers in terms of delivery (shorter time needed) for goods purchased online;
- in general, for the entire e-commerce sector, since an IOSS system mandatory would avoid pathological situations deriving from the non-mandatory use of the regime or from the presence of thresholds to access the system, as will be better explained in the following paragraphs.

According to PostEurop's perspective, a mandatory IOSS regime would be sustainable only with the overcoming of all those operational issues that the operators acting in the e-commerce sector encountered in the first months following its introduction: in some cases, a mandatory use of the IOSS regime together with the abolishment of the actual threshold for applying the system would remove some of the critical issues identified.

#### 3.2. Abolishment of Euro 150 threshold for applying the IOSS system

The operators which will decide to opt in the IOSS system should have the possibility to declare all the transactions they carried on under the simplified system, so that they can use the IOSS system to declare VAT for distance sales of goods of any value. For this reason, PostEurop is in favour of the abolishment of the current Euro 150 threshold for the access to the IOSS system. In this case, PostEurop would like to point out how more customs related simplifications should be provided, such as extension of H7 declaration for goods up to 1,000 EUR and a simplified collection mechanism for customs duties.

#### 3.3. Data quality for ITMATT flows

PostEurop in cooperation with UPU has been monitoring the quality/lack of ITMATT data for shipments sent to the EU from different parts of the world. On the global level, a solution for handling shipments without appropriate ITMATT data has to be found. EU posts face a substantial problem due to the lack of recourse in case of shipments without ITMATT data received from non-EU countries (returning those shipments, charging non-EU posts for missing ITMATT data needs a change in the remuneration model, stop accepting shipments from non-EU posts that systematically do not provide ITMATT data is not a feasible solution either). Posts as any other businesses should have recourse in case their business partners do not fulfil their obligations.

The main issues encountered was:

- non-valid VAT IOSS identification numbers;
- VAT IOSS identification numbers included in wrong data field in the ITMATT message or not included in ITMATT message but only in the paper declaration (CN22/CN23);
- poor quality of consignee addresses, in particular wrong or invalid postcodes;
- missing ITMATT message.

PostEurop would like to underline how, in order to have a system which works at its full speed and capacity, it's crucial that the data quality included in the ITMATT messages are completed and of high quality.

### 3.4. Avoid double taxation phenomena

In the IOSS system currently in place, there are some cases which can generate phenomena of double taxation, once at the time of purchasing and another one at time of importation. For example, based on the provisions contained in the VAT Directive, in case of purchasing goods online, a distinction must be made between the concept of "order" – when purchasing several goods in a single transaction – and the concept of "consignment" – goods packed together and dispatched simultaneously by the same consignor to the same consignee and covered by the same transport contract.

Since – very often – the shipment of orders is entrusted by the seller/marketplace to third parties who deal with the logistical aspects, it may happen that several orders – which individually have an amount less than Euro 150 and, as such, fall within the scope of the IOSS – are included in a single shipment for an amount exceeding Euro 150. In this situation, at the time of customs clearance, the shipment – the total amount of which would be greater than Euro 150 – would be subject again to VAT.

In addition, as we previously said, if VAT IOSS identification numbers are included in the wrong data field in the ITMATT message or are not included in ITMATT message but only in the paper declaration (CN22/CN23), the IT systems of EU Postal Operator in destination country will not be able to "read" it in the recommended field of the ITMATT (sender.customs.reference) and, at importation, the EU Post will apply again VAT, using the Special Arrangement regime or standard procedure.

We expected that the future system of VAT will fix clearer rules for similar phenomena – which have as unique consequence the refusal of goods from the recipient (due to double taxation phenomena) and additional costs to send back or destroy (where possible) the refused goods – or, as said before, it

will be able to eliminate the situation (i.e. the VAT threshold for applying the IOSS system) which can generate a similar situation.

### 3.5. Discrepancies between VAT and Customs legislation

The VAT and customs legislation currently in place are not aligned on some aspects, i.e. on the topic related to the exchange rate. The exchange rate issue for IOSS shipments springs from the fact that – from a VAT perspective – the assessment of the threshold of Euro 150 is shifted from the moment of import to that of the online sale/payment. In the current solution, where the IOSS shipment exceeds the Euro 150 threshold at importation (due to different exchange rate used) the burden to collect and pay VAT will be on the postal operators. A practical approach to bypass this issue is required.

PostEurop members believe the best way this could be achieved is by shifting the enforcement (both of VAT and possible customs debt collection) away from the border (ex-ante control). VAT and customs authorities should join forces in sharing the necessary information to come to effective enforcement measures to collect any missing VAT and/or duties.

### 3.6. Possibility to extend the use of IOSS to collect also customs duties

A possible solution to make the IOSS system profitable for the actors playing in the e-commerce arena could be the possibility to collect at the moment of purchase not only VAT due on the specific transaction, but also customs duties. Subject to further legal changes, which provide additional simplifications to postal operations and customers' access, this solution will speed up as much as possible the operational process at the time of importation, with significant positive effect in the consumers' satisfaction.

## CONCLUSIONS

PostEurop and its members appreciate the opportunity to discuss these issues and we would like to play a constructive role, along with the EC, in improving the efficiency of the VAT processes.

We would welcome the opportunity to meet with DG TAXUD to discuss the issues and shape a way forward.

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