

Be prepared: online cross border purchases may drop by 80% in 2021



In 2018 online cross border purchases from Sweden dropped by 80% within a few months after the Swedish government decided to abolish the Value Added Tax (VAT) exception for cross border Low Value Consignments (parcels).

Now that the EU is going to do the same by 1 July 2021, the question will be "Will marketplaces and carriers be prepared to absorb or prevent a similar situation?"

Let's see what marketplaces and carriers can do and what role standards could play.

Experience from Sweden

When Sweden abolished the Low Value Consignment exemption from their VAT regulations in 2018, postal organisation PostNord had to collect the VAT from the customers for those consignments. PostNord adapted its delivery process and included interaction with the customer to collect the VAT and of course to charge a handling fee of all this. In Sweden, the average value of a parcel was EUR 4.60¹.

The result: A parcel worth EUR 4.60 would incur EUR 8.00² *additional* cost. 16- 22 % of the customers decided not to accept their parcel and some started to complain on the Internet. The number of parcels from China went down by almost 80% within a few months.

How to prepare?

Marketplaces can facilitate the import process for Low Value Consignments using the Import One Stop Shop (IOSS) that VAT authorities created especially for consignments up to 150 Euro value. Marketplaces have all the relevant data to do so and can collect the VAT at the moment of purchase. When using IOSS, the marketplace consignments become "free circulation within the EU" and they may be delivered immediately.

¹ <https://www.thelocal.se/20180416/sweden-forced-to-return-400000-packages-to-china-and-other-non-eu-countries>

² <https://www.postnord.se/en/receiving/collect/from-another-country/vat-information-on-import-items>

The marketplace can pay the VAT on a monthly base to the VAT authority. This is probably the most efficient way. The alternative is that a logistic service provider / delivery company (LSP) handles the VAT declaration. In this case, the LSP has to receive the relevant information from the marketplace, make the declaration and contact the customer to receive the additional VAT payment plus his handling charges.

These charges have to cover the costs for storage, the declaration, the payment and potential returns. The extra payment may affect the customer experience negatively and extend the delivery time. For example: Based on the handling charges listed on the website of PostNord³ and the 25% VAT in Sweden, a product of 4.60 euro value would now cost a total of 12.60 euro. This may explain why 16 – 22% of Swedish consumers refused/returned their Low Value Consignments⁴.

Why care about standards?

The new EU regulations for Low Value Consignments require submissions to Customs in electronic format. Submissions are required for each parcel and must contain a minimum set of data. Of course, there are solution providers or integrators who can provide software to address the problem of combining many disparate / proprietary data sets, but the idea of using standards is that you create a more efficient (and more resilient) solution that is interoperable with other solutions based on the same standards. For example: If your parcel is handed over from one carrier to another carrier, you may still want to have a delivery notification based on your own parcel number. That is why the European Harmonised Parcel label makes use of standardised parcel identifiers. One of them is the GS1 Serial Shipping Container Code (SSCC) currently used to identify pallets and roll-containers in the traditional retail delivery processes and inbound fulfilment service processes of marketplaces.

Data exchanges should be standardised also to achieve high quality integration of systems so declarants may submit the required electronic submissions to Customs in time and parcels flow smoothly across borders. That is why GS1 works together with partners in the industry to develop and maintain these standards. If you want to know more or want to get involved in this standardisation, please contact: Frits van den Bos, Project lead Last mile delivery GS1 in Europe.

³ <https://www.postnord.se/en/receiving/collect/from-another-country/vat-information-on-import-items>

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