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VAT EXPERT GROUP¹

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IOSS Issues and Solutions – High Level Paper

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¹ Group of experts on value added tax to advise the Commission on the preparation of legislative acts and other policy initiatives in the field of VAT and to provide insight concerning the practical implementation of legislative acts and other EU policy initiatives in that field.

1. INTRODUCTION

Directive (EU) 2017/2455 introduced the Import One Stop Shop (IOSS) into Directive 2006/112/EC (the VAT Directive), which is a specific simplification designed to reduce the VAT compliance burden associated with the importation of certain low value goods to consumers in the Union.

While the current legislative framework includes a number of tools to facilitate the control and audit of IOSS transactions, the Commission services are, nevertheless, aware that these measures need to be improved and that the verification process for IOSS VAT identification numbers also needs to be properly secured to remove the risk of IOSS number abuse. The risk of IOSS abuse manifests itself in cases where the trader is not IOSS registered, yet fraudulently uses the IOSS number of a legitimate IOSS registered trader in order to falsely benefit from the VAT exemption upon importation.

In terms of IOSS related controls, the Commission services have included a number of improvements to the IOSS process in the VAT in the Digital Age (ViDA) proposal, which are designed to help Member States improve the fight against IOSS related VAT fraud.

Furthermore, in addition to these improvements, the ViDA proposal also provides for the adoption of an Implementing Act to introduce special measures to prevent certain forms of tax evasion or avoidance by better securing the correct use and verification process of IOSS VAT identification numbers.

More recently, the Commission services have facilitated a number of discussions with key stakeholders in an effort to identify potential solutions to help secure the IOSS VAT identification number against possible fraud and abuse.

This paper outlines the core problems that currently impact the proper functioning of the IOSS and also provides some broad indicators or schema that could ultimately help to better secure the IOSS verification process at import.

2. PROBLEM STATEMENT

The three core problems are as follows:

1. Registered IOSS holders are given a registration number used in customs declarations (H7) to indicate that the imported parcel is within the scope of the IOSS. As a result, the import is exempt from VAT and the VAT paid at purchase is declared and remitted via the IOSS. The IOSS identification number, being a simple number, is in many cases shared between stakeholders. Therefore, this number gets exposed and there is potential for it to be hijacked by fraudulent actors seeking to unlawfully benefit from VAT exemption at import.
2. Often the platform is not aware of the distribution/transport chain (including customs formalities), which is often carried out by different actors who are not connected with the platforms. This makes crosschecking of data difficult.

3. Given the massive number of low value parcels, which are exponentially increasing year on year, physical checks are impractical.

To solve the above issues, the verification process should be improved in a streamlined and automated way.

3. POSSIBLE WAYS FORWARD

The Commission services are currently engaging with IT experts across different fields in order to identify potential ways to better secure the IOSS verification process at import.

Possible ways forward could include the assignment of a secured transaction number which could be added to the IOSS number to create a unique number per parcel.

Alternatively, digital signature technology could be used to create a unique digital ID for each platform/supplier, which would be more secure than the current IOSS VAT Identification number alone.

The Commission services have organised a Fiscalis workshop that will take place at the end of June to further explore the possible options.

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