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tax evasion**

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Marius Frunza • IntelBlitz • 4 mins read • Jul 14 2021

COVID-19 propelled the growth of e-commerce platforms and online marketplaces. Amazon, eBay, Alibaba are the big winners of trade digitalisation. Nevertheless, the taxation systems are not ready for this major shift. Are tax offices able to assess and collect sales and value added taxes for trades operated on e-commerce platforms? Are such marketplaces enablers of tax evasion?

There is little doubt about governmental agencies' incapacity to correctly assess the unforeseen volumes of goods and services traded over online markets.

The first concerns in the UK appeared in 2017 when representatives of the British government pointed the finger at online marketplaces like Amazon and eBay. They were accused of facilitating VAT evasion for their online sellers based outside of the European Union. The sellers used the online marketplaces to sell mainly goods at a more advantageous price because they did not charge VAT. In April 2017, the British Audit Office published a report estimating that failure to declare and pay VAT from online retailers outside the European Union inflicted a loss of 1.7 billion euros to HM Revenue & Customs.

Such online marketplaces are "de facto" enablers for tax frauds including missing trader frauds under its different versions (Missing Trader Intracommunity and Missing Trader Extra-Community)

VAT fraud is very lucrative for items with small physical volume and high market value, like electronic devices, gold, diamonds, etc...

Thus, the costs of freight and storage are negligible compared to the amount of pocketed VAT. VAT fraud became lucrative with the development of e-commerce and online marketplaces, even for

Evading sales and value added taxes

small value goods sold in high volumes.

With massive volumes of e-commerce transactions, suspicions of tax evasion or avoidance surfaced in 2015. An investigation article from the British newspaper “The Guardian” indicated that Amazon and eBay might allegedly have taken profit from online VAT fraud.

The facts showed that during Christmas Europe’s warehouses and delivery services were overwhelmed with a big number of parcels from overseas ordered through online marketplaces. Many Chinese sellers were declaring goods shipped to the United Kingdom and the European Union as low-value packages to avoid VAT charges.

Online sellers from outside the European Union sold goods in the United Kingdom to final clients or local retailers. The goods were delivered directly to the last client, or in the case of high volumes orders, the items arrived at warehouses operated by the online marketplace. From that point, the items were redirected using the local postal services to the final customers. The final retail client pays the price agreed on in the marketplace but without VAT. The amount was transferred to the seller by the online store. Therefore, HMRC was completely bypassed in the process.

The European legislation at that time did not require VAT payment for the importation from outside of the Union of low-value items (below a threshold of 22 Euros). Additionally, the shipments with goods of a total intrinsic value higher than 150 euros were subject to import duty. The legislation dealing with importing items of small value was called the Low-Value Consignment Relief (LVCR). This measure was designed in 1983 as a simplification measure to optimise the workload of customs administrations and economic operators in the customs clearance of low-value goods.

European Union’s regulatory bodies became aware of the LVCR issue in the early 2010s concerning the Channel Islands’ situation. Guernsey and Jersey were the central locations for channelling goods without VAT from outside the EU into the United Kingdom by mail order.

The pandemic outbreak bolstered the volume of trades on

marketplaces, while most loopholes for tax fraud were still open. For example, collecting tax on a product manufactured in China, sold on Alibaba by a Hongkongese seller to a British retailer for a final client based in Ireland is probably impossible under the current conditions.

*“The avoidance of taxes is the only intellectual pursuit that carries any reward.”*

John Maynard Keynes, English economist

## Focus: New VAT rules for online sales in the EU

The Low-Value Consignment Relief is over.

The European Union (EU) has changed since the 1st of July the way VAT is applied to online sales from overseas businesses selling to end customers based in Member countries.

The new rules introduce a One-Stop-Shop, an online platform where non-domestic VAT can be reported and paid for sales of services and goods supplied online to European clients.

VAT exemptions for goods imported in the UE carrying a value below 22 EUR are not anymore valid. This was a significant loophole in the taxation of goods sold from overseas in the EU through platforms like Alibaba and Amazon.

According to these new rules, online marketplaces like Amazon, eBay and Alibaba are deemed suppliers for VAT purposes. As a result, the leading e-commerce platforms will be liable for accounting, reporting and paying VAT according to EU's laws. It also aims to tackle the rampant VAT evasion taking place on such platforms.

The United Kingdom took similar actions earlier this year. Import VAT on goods with a total value of 135 GBP or less has been replaced by supply VAT which is charged and accounted for by the

seller at the time of the sale. This measure moved the point at which VAT is collected from the point of importation to the point of sale. It aims to tackle a potential surge in VAT fraud after Britain's exit from the European Union.

## Word on the street: Florida is the place to be



A new Marbella

Packed restaurants, sunny beaches and trendy people... While most people were under some kind of lockdown, social media was flooded with images from Florida depicting a pre-pandemic reality. Ron DeSantis, Florida's Republican governor, had an original approach for facing the pandemic outbreak. Thus, the Sunshine State remained open and attracted people from other American states and other countries. Florida seems to be the new palace to be.

This new social dynamic is attractive not only for honest citizens but also for organised crime. Seemingly, criminal syndicates from all over the world are pumping their operations in Florida.

A first signal came in March when Homeland Security Investigations agents arrested Peter G. Gerace Jr., 53, a nephew of reputed Buffalo mob boss Joseph A. Todaro Jr. The Federal prosecutors that targeted Gerace along with six other men labelled the group the "Italian Organized Crime" family of Western New York.

# Know Your Network, AI meets KYC

More insights at [schwarzthal.tech](https://schwarzthal.tech)



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